

production facilities and structures are created (not purchased) entirely in the host economy. In this case, there are obvious benefits for the host economy: increased investment brings new construction activity, employment opportunities, additional taxes, and perhaps even increased exports if the goods or services produced are exported. Over time (and particularly if the new entity sources its production inputs locally), the foreign investment may generate a considerable number of secondary benefits in the form of increased economic activity and employment from local suppliers, for example.²

Studies conducted in the United States and the United Kingdom have explored the extent to which investment brings benefits to the host economy. While complex, these studies concluded that the impact of foreign direct investment tends to be positive to neutral for the host economy.³ A study entitled *Foreign Direct Investment, Trade and Employment in the United States* by Sumike McGuire (1994) found that a small positive effect existed between large foreign direct investment inflows and employment.

As for the effect of foreign direct investment on employment in the originating economy, studies suggest that there are also "increases in employment as a result of enhanced competitiveness of the parent company at home and the growth of exports to their affiliate abroad."⁴ These findings therefore suggest that direct Canadian investment abroad is beneficial for Canada.

The literature also cites other positive impacts of investment on the host and originating economy, such as increased profitability (for the originator) and

² Please see Box IV.3 Japanese foreign direct investment in the United States automobile industry: An illustration of the complexity of the employment effects, *World Investment Report 1994*

³ Two specific studies were found during the literature review, *Multinational Enterprises and the Global Economy* (John Dunning, 1993), and an OECD study entitled *Foreign Direct Investment and Employment* (1994).

⁴ World Investment Report (1994) UNCTAD, p 169.