Foreign direct investment is undertaken for a number of reasons. Graham Vickery[14] has set out five major objectives motivating FDI. These are: to facilitate the penetration of foreign markets, to take advantage of the opportunities provided by technological change, to secure a presence in all major centres of production and consumption, to keep costs down, and to increase global flexibility in production and distribution. In deciding where to locate new investment, these motivating objectives, as well as a number of related factors such as the reliability of transportation and communications networks, political stability and social considerations, are taken into account by firms. For the purpose of this Paper, it is worth noting that labour, or access to low cost labour, is but one of a number of factors influencing a firm's decision to undertake FDI in any particular location.

While the benefits of foreign direct investment for host countries, such as employment, enhanced access to technology, and intensified competition, are widely recognized, it is less often recognized that foreign direct investment by domestic firms, i.e., outward direct investment, may also have positive effects on domestic employment. Foreign investment by domestic firms can create employment by raising exports of capital goods, and, in the long run, by influencing demand for domestic produced intermediate components, replacement parts, and associated goods and services.[15] Economic growth in the recipient country may also increase the demand for products from the FDI source country.

3. TRADE LIBERALIZATION

3.1 The Economic Benefits of Trade Liberalization

The economic benefits of trade liberalization are widely recognized, whether carried out unilaterally, bilaterally or multilaterally. By allowing the optimal allocation of factors of production, trade is an important contributor to economic growth. Trade allows countries to move beyond their national production possibility frontiers, and in so doing to enjoy a higher standard of living than would otherwise have been the case.

The benefits derived from trade liberalization arise from several sources. The reduction or elimination of barriers to trade encourages countries to produce and trade

[14] Graham Vickery, "Global Industries and National Policies", in the OECD Observer 179, December 1992/January 1993.

[15] Gary Clyde Hufbauer and Jeffrey Schott, NAFTA An Assessment, Institute for International Economics, 1993, p.19.