

I. Introduction

The objective of this paper is to provide an overview of inward Foreign Direct Investment (FDI) in Canada, the US and Mexico over the 1985-1994 period. The analysis has been undertaken to highlight trends in inward FDI. The paper addresses two key issues. First, it considers the theoretical role FDI plays in a country's economy. Secondly, data is presented on FDI trends in the North American region over the study period.

The next section briefly reviews the theoretical aspects of trade and FDI linkages, and the impact of FDI on a country's economy. Section III discusses the role of FDI in the Canadian economy. Section IV presents data on FDI in Canada, the US and Mexico. Section V summarizes the paper.¹

II. Trade and FDI Linkages

It is widely recognized that FDI can have a range of effects, such as employment creation², physical capital formation³ and domestic investment⁴, human capital development⁵, transfer of technology⁶ and increased productivity⁷ (especially in the manufacturing sector)⁸ and finally, economic growth⁹. Trade and FDI are also interrelated activities. Two sets of links are highlighted in the literature. The first is the impact of trade policies on FDI. The pattern of trade and trade policies may influence the size, direction and composition of the FDI flows¹⁰. Trade policies, such as tariff barriers, can for example serve as incentives to FDI inflows, either

¹The definitions of Foreign Direct Investment (FDI) and related terms are provided in Annex 1.

²WTO (1996); Messerlin (1996); McCulloch in Froot (1993); McCharles (1985); Mohnen (1992); Baldwin (1995); Schwanen (1997).

³UNCTAD (1996).

⁴WTO (1996).

⁵Lipsey, Blomstrom & Kravis (1990); Messerlin (1995); WTO (1996).

⁶Aitkin, Hanson & Harrison (1994); Lipsey, Blomstrom & Kravis (1990); Mansfield & Romeo (1980); Findley in *Quarterly Journal of Economics* (1978).

⁷Blomstrom (1986); Blomstrom & Wolff (1994); Caves (1974).

⁸Graham (1996).

⁹Globerman (1979); Blomstrom, Lipsey & Zejan (1992).

¹⁰McCulloch in Froot (1993); Fujimora (1994).