

Outward Direct Investment: Implications for Domestic Employment

The effects outward direct investment (ODI) has on domestic employment are complex and not well-defined. Work by the OECD, academics and others illustrates the considerable controversy surrounding the issue and the difficulty in determining direct and indirect linkages. The OECD has concluded that, "there is a lack of systematic theoretical and empirical analysis on the inter-linkages of foreign direct investment (FDI) and employment to provide guidance to policy makers, reflecting both methodological shortcomings and data paucity."¹

This said, the present Commentary attempts to provide an overview of the theoretical, empirical and popular views concerning the subject, and to clarify some policy issues involving the employment effects of ODI. The aggregate employment effects of ODI depend on the relative magnitudes and directions of short-term and long-term effects. Much of the existing analysis points to only a negligible aggregate effect of ODI on domestic jobs, whether positive or negative, while the direction of the aggregate effect can be country-, industry- and even case-specific. ODI can also affect the composition of the labour force, shifting employment to higher wage, white collar jobs from lower wage, blue collar jobs. The public fear of domestic job loss due to ODI will be more prevalent when there is high domestic unemployment, but less so as labour markets tighten. Therefore, policy makers should take into account the cyclical component of unemployment and be sensitive to possible future labour market conditions.

Trends and Motives of ODI

Direct investment, inward or outward, is a dynamic element in the global economy. Direct investment flows increased dramatically in the 1980s, stimulated by regulatory liberalization and firms' international production and marketing strategies. Growth in the stock of FDI was exceptionally strong in the 1985-1990 period, increasing at an average annual rate of 19.4 per cent. This slowed in 1991 to 11.2 per cent.² From 1985 to 1991, the world stock of FDI increased from U.S. \$733 billion to \$1,882 billion.

¹OECD, *FDI and Employment*, DAFPE/IME(93)25, November 1993, p. 5.

²John Rutter, "Recent Trends in International Direct Investment: The Boom Years Fade", U.S. Department of Commerce, August 1993.