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Human capital as antecedent to foreign direct investment and globalization

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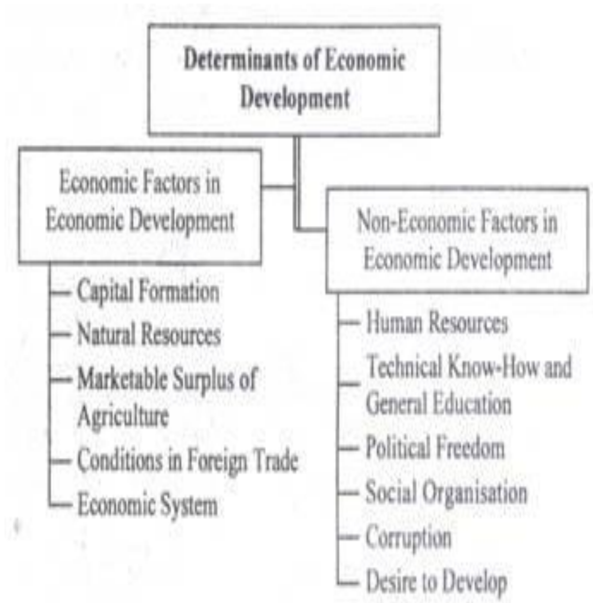
ABSTRACT: *Objective of this study was to discuss that how the non-economic factor of economic development particularly Human Capital contributes in economic development of a country. Technological advancements are the major ingredients of economic growth, and to manage these modern technological advancements we need labor force that is skill full, that skill full labor is known as Human Capital. Accumulation of human capital has also being considered as important as the financial and physical capitals are. This is a major reason that lacks of these resources particularly human resources put behind the poor countries in the race of economic development. This can also be explaining in other words, for sustainable growth and for the adoption & absorption of the foreign technology we need educated and skilled labor (Human Capital).*

Keywords: Human Capital, Economic Development, Non Economic Factors, Globalization, Foreign Direct Investment.

Notion of Economic Growth(development) is emerging with the emergence of time in both the aspects quantitatively as well as qualitatively, as in the last decades literature regarding economic development was only related and considering only economic factors of developments like

- Capital Formulation,
- Natural Resources,
- Marketable Surplus of commodities,
- Foreign Trade conditions, and
- Economic Systems
- But with the passage of time research bring the non-economic factors into account as well like
- Human Resource (Capital)
- Technical Know-How
- Political Freedom
- Social Organizations
- Anti-Corruption
- Desire to Develop



Above mentioned are the factors (economic as well as non-economic) discussed by many of the scholars in their studies but (Todaro, 1994) combine these entire factor in single article. Allot has been written on growth and economic growth in past decade, everyone has define these terms it its own perspective. Most commonly used definitions are as below,
Growth is being determine by the incremental change in current state of anything, commodity, etc.
Economic Growth is being measured as the increase in Gross Domestic Product (GDP)

A country can increase its GDP in many ways, but best options are export, foreign direct investment and foreign remittances. Much has been written on the role of GDP and other economic factors in the economic development of a nation. Economic factors of development school of thought put its total focus on the financial capital, and technological advancement through financial capital management. Financial capital was the centre point of all the economic growth capitalist theories. "Post Keynesian capitalist growth theory for the mature economy generically has insisted on placing capital accumulation at centre stage and focusing on the resultant secular increases in labor productivity" (G Ranis, 1965)

Non-economic are also as important as the economic one's. Last four decade's research tells that economic growth is all about quantitative growth and includes all the processes of economic development, process of accumulating the capital, at that point of time only financial capital was considered as the capital. But recent addition in the field of research tells that Human has also to be considered as capital, as all the technological advancement has been designed and made by the humans. Most important is to manage and to run these technologies we need humans having skill and knowledge. "The various aspects to be touched upon include the orientation of the individual in his society, family, class, race, and religion, rural-urban differences, national character, size of social unit, effect of culture on institutions, and interaction of cultural values and economic change" (Kindle Berger, 1965)

Objective of this study

Objective of this study was to discuss that how the non-economic factor of economic development particularly Human Capital contributes in economic development of a country. Technological advancements are the major ingredients of economic growth, and to manage these modern technological advancements we need labor force that is skill full, that skill full labor is known as Human Capital. Accumulation of human capital has also being considered as important as the financial and physical capitals are. This is a major reason that lacks of these resources particularly human resources put behind the poor countries in the race of economic development. This can also be explaining in other words, for sustainable growth and for the adoption & absorption of the foreign technology we need educated and skilled labor (Human Capital).

Significance of this study

This paper implies its total focus on the non-economic factors of economic development and particularly its emphasis on contribution of Human Capital in economic growth in globalization perspective, through attracting foreign direct investment in a country. This paper is targeting a niche area, although the researches are available on the relationship of globalization, foreign direct investment, and human capital, but most of the researchers took human capital or development of the human capital as the outcome of the globalization and FDI. This paper took Human capital as an antecedent to the FDI and Globalization. We believe so that it will contribute value in the existing body of knowledge.

Literature Review

Human Capital

Human resource (capital) has become a more important factor of economic development of any country, because living in a modern era it's all about efficient and skilled labor force that enhances the capacity of a country to produce more. Increase in production means increase in trade; increase in trade means increase in exports that will lead a country to have greater foreign reserves. Production may be of any kind, may be goods, services, knowledge, skills, abilities, greater production off all above mentioned things would leads towards developed economy. Effective management of unutilized manpower will leads a country towards more development. Human capital management is all about utilizing the unutilized potential skills of the individuals for the greater participation towards a country growth.

Human Capital is about Knowledge, skills, and abilities, (KSA's) of individuals or we can call them the skilled labor or white and blue collar labor. These KSA's if effectively utilized it will defiantly contribute in a country's growth. KSA's can be utilized in several ways; one of the best utilization of these KSA's is to put these individuals in such activities that will help a country to get foreign direct investment. As (mincer, 1984) also argues that human capital is not only involve in transmission of knowledge in people, it also help to produce new knowledge. Creation of new knowledge will be considered as the source of innovativeness and technological changes which thrusts other factors of production as well. This innovativeness and new idea creation is possible only and only due to the human capital, and creation of new ideas is a very prominent source through which a country can attract foreign direct investment.

(Lucas, 1990) has also argued that human capital is one of the major determinants for attracting foreign direct investment (FDI) to a country. Under developed and developing countries are having less FDI only because of having lesser human capital. Inflows of foreign direct investment are directly linked with number skilled worker available in a country, education, especially technical education and skills has been identified as the major ingredients or determinants for foreign direct investments inflow. In many of the cases although Human Capital is not only the determinant, but institutions and legislative authorities also plays very important role. It has also been identified by the scholars that Human Capital has two way relationships with FDI. Human capital and foreign direct investment have highly non-linear relationship and multiple equilibrium are possible for instance, host economics with relatively high level of human capital may be able to attract a large amount of technology intensive FDI that contributes significantly to the further development of labor.

Foreign Direct Investment

"What is the impact of foreign direct investment (FDI) on development? The answer is important for the lives of millions – if not billions of workers, families and communities in the developing world" (Moran, Graham and Blame storm: 2005)

FDI is progressively more flattering a substantial source of capital inflow for developing countries. Comprehending the prominence of inflows of foreign direct investment developing countries are responding quickly to the situation as since 1990's the figure of contribution of foreign direct investment in total growth is increasing. IMF sources has endorse that inflow of foreign direct investment in developing countries is second last decade 1990-2000 has increase by 28 percent on average that is a huge figure. Policy makers of the developing countries always try to articulate the ways through which a country can attract more FDI. Foreign direct investment (FDI) has become even more important than trade, argument has also supported by (Coyne and Boettke, 2006).

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Average
FDI Inflow	22.3	27.4	29.5	35.2	32.3	34.9	36.5	25.9	18.9	15.9	27.88

Source: World Bank 2001, table 2.3 pages 37, adapted.

We are living in the era of globalization in 21st century; the importance of FDI has increases substantially. Although the rate of foreign direct investment inflows in developing countries has increased, but talking in absolute numbers, some of the countries attract more FDI as compared to the others, some countries even attract FDI more that their expectations and some attract very low amount. This situation attracts the researcher to figure out the causes, one of the major causes that were figure out by the scholars is the availability of skilled labor and Human Capital in a country. FDI inflows, among other things, are driven by human capital (HC).

The significance of human capital in economic growth was apprehended in the 1960s and 1970s from the ground-breaking work of (Schultz, 1961). Human capital has been stressed as a primary factor of production throughout the 1980s and 1990s in development economic literature.

The literature of FDI began in 1960s and 1970s with (Hymer, 1960), (Kindleberger, 1969), and (Caves, 1971). (Dunning, 1981) with the eclectic theory of FDI, suggested that internalization could be explained the movements of multinational enterprises (MNEs). Mobilization of MNE’s causes trade between the countries and nations openly. Literature also shows that trade openness is also an imperative element of FDI, as trade attract the foreign direct investment in the developing countries. Although the trade is not attract FDI directly but when MNE’s trades with a country, when they attract with the available resources, especially human resources, they invest in that country so that they can develop more resource for their usage. The Multinational Enterprises invests in countries for their own sake, but somehow it provides benefits to the host country. Foreign direct investment causes infrastructure development, reduces the number of uneducated people, limit the unemployment, and develop the skilled labor/Human Capital. (Carkovic and Levine, 2002) also found the positive two side relationship between FDI and Human Capital. The recent literature as in (Naudé and Krugell, 2007) considers that foreign direct investment is a dynamic phenomenon. As three of the variables have two directional relationship with each other, this relationship can be presented in form of image.

Foreign direct investment is a concept that is being studies for so many times by the researchers on two major dimensions, one of them is the direct flow of capital across the boundaries of the nations. Researchers and scholars just considered the financial capital flows, but our stance is that, these capital flows are also including the human capital as well. When the organization moves the capital across the boundaries on the nations they transfer both type of capital, financial as well as human capital. These flows automatically raise the particular kind of assets in the host country. Second dimension of direct investment is about economic activities and other operations that a firm of other country controls in the host country. These activities might be sale, purchase, intermediate goods, production, reducing unemployment, and investing capital (financial as well as human).

Globalization

Globalization most of the times defined as amalgamation of four different phenomenons, International Trade, Financial flows (FDI as a major source of financial inflow), global communication, and mobilization of human.

Globalization is being acknowledged as a foremost inclination for last two, three decades, not unlike a snow ball. Although the notion of globalization is emerging from last decades and increasingly gaining support from developed as well as developing countries but it has equally robust antagonism amid its critics. Why such divergent understandings? Is it possible to prove that globalization is benefitting in such unambiguous way that its adversaries can be rehabilitated. Some argued that the opponents of the globalization are irrational and they are listening to the arguments given by the theoretical as well as by the empiricists. But the opponents have their own stance that process of globalization affects the different countries and regions in different manners, not equally. Also within the country some sectors are benefiting more from the phenomenon of globalization and some are just getting nothing. Many researches are supporting these arguments, and the stance of this paper is also the same as the opponents have. We argue that countries having different human capital would be affected differently by the phenomenon of globalization.

Globalization is a mega tendency which significantly shapes modern economy. As such, globalization is subject to rigorous theoretical debate in contemporary socio-economic theory. Skeptics challenge effects, ubiquity and sustainability of globalization. The impacts of economic globalization are reflecting in the assimilation of world economy Registered flows of globalization apparently give maintain to neoclassical picture of atomistic economy, based on the principles of individualism and maximizing performance. Ideal mobility of factors of production and a powerful information-communication impending of present technology, as well as the increasing weight of individualistic ideology construct the impression of eligibility of neoclassical approach to economy.

However, such a conclusion is premature. In spite of evident association impact s of globalization, modern economy continues to be an attractive secure and evolutionary system of hierarchy, in which variability prevails at every level, as an essential condition for the survival of the system as such. The variability of the world economy is represented through the existence of various models of economic system. Among them, the most influential are the Anglo-American, German and Japanese model of organizing economic activity. Their institutional flexibility ensures that evolutionary processes in the world economy oppose the inclination towards homogenization as a crucial feature of the process of globalization. Transformation of the obtainable successful models of capitalism in situation of globalization has gradualist character.

Modification of successful models takes place through a combination of various forms of institutional changes, which ensure the coherence of the existing institutional order. These all theoretical frame work tends towards globalization and there is huge chance of increasing trade which is term as internationalization.

As we establish in earlier paragraphs that different human capital/skills set a country have will attract the foreign direct investment in different manners. A growing "respectable" literature on the subject is developing, and the empirical evidence from different countries is gradually being shifted to learn the lessons from the process so far. This relation has also established that FDI is directly related to the Globalization, so we can argued that countries producing different skills/human capital would defiantly be effected by globalization in a distinguished manner.

To introduce globalization in a country foreign direct investment acts as an extraordinary actor, as it provides the firms with the new business opportunities in new markets, and also provide the marketing channels as well, provide MNE's with inexpensive manufacturing facilities, provide access to new technologies, products and particularly the skills\ human capital. FDI facilitates MNE's in internationalizing their business. It also played imperative part for economic growth of the countries in process of globalization. (S Sharma, 2013) also support this argument his article. Responding to vicissitudes in technology, rising liberalization of the national regulatory framework governing investment in organizations and changes in capital markets changes the latitude and means of FDI.

New systems of information Technology (IT) reduces the cost of communicating globally, and it help the managers to manage the direct investment is easy manners. FDI also allows the organizations to avoid legal pressures on producing goods locally, make the domestic export easier, and also helps organizations to enhance their capacity of production. Foreign direct investment provides Host County with opportunities to augment economic development, also provides the countries with the opportunities to augment a country's earning by utilizing their best resources. It also helps the small and medium organizations to participate more actively in international business. Foreign direct investment has expanded it circle in last decades, as it plays vital role in changing the countries' policies of trade, investment, liberalization, deregulation, and privatization.

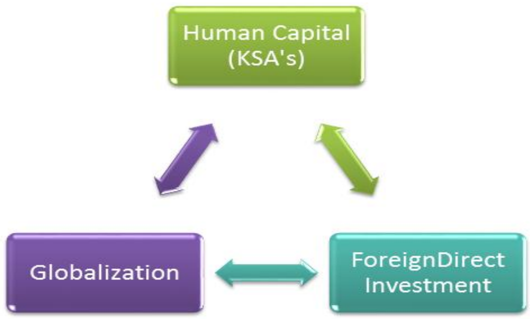
We can argue on the basis of above mentioned literature that foreign direct investment causes Globalization. As mentioned above that FDI changes the policies of a country, by changing the policies of the country it help MNE's to invest more in that country. Entering a MNE's in a country means that country is entering into the domain of phenomenon of Globalization. In contemporary competitive scenario, FDI has become a prominent source of Globalization in developing countries.

Foreign direct investment inflows in a country through two ways, one is the MNE's other is the NGO's. In both of the cases, it is promoting Globalization in a country. With the introduction of globalization in a country, it needs more refined skills to cope with the challenges of Globalization. Stance of this paper is this continuous never ending self-reproducing kind of thing, as presented in image shape.

Figure 1: Theoretical framework

Conclusion

Globalization and Foreign direct investment are dynamic phenomenon, and studying the role of human capital as precedent to the FDI and Globalization in a country clarifies that the dynamic phenomenon can cannot be observed and studied in isolation. There are evidences in literature that all of three phenomenons can impact each other at a single point in time. This entire phenomenon is antecedent and outcome of each other, at the same time one phenomenon can be observed as antecedent of the other, and can also be studied as the outcome of the other. We tried to explain these situations in a graphical shape as well



But this paper doesn't focus on the dynamic perspective of this phenomenon; scope of this paper is limited to study only the Human Capital as antecedent of Foreign Direct Investment and Globalization in any country in the perspective of Economic Development of a country.

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