

International Journal of Scientific Research and Reviews

Importance of Investing Human Capital in the Economic Growth of Developing Nations

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ABSTRACT

Human capital has been known as a key factor in economic development. This paper mainly evaluates the efficacy of human capital development practices which are adopted in the developing world. The main aim of the study is to analyze the importance of investing human capital in the economic growth of the developing nations. In addition to this, the study also examines the macroeconomic effects of human capital and also analysis the human capital investment and total factor of productivity in an effective manner. In addition to this, the study also presents the relationship between human capital and success of the organization in the form of training, pay scale, benefit level, and their organizational performance in an effective manner.

KEYWORDS: Human Resource management, Human Capital, Investment, Economic Growth

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INTRODUCTION

There is a strong correlation between human capital and economic growth. Human capital affects the growth of the economy and helps to develop the economy by expanding the knowledge and skill of the people. Human capital also refers to the knowledge, skills sets and experience of the workers while working in the economy. All these kinds of skills provide the value of the economy and increase the productivity level by the help of the workforce skill. In order to determine the concept of human capital, it can be said that while working in a workplace, every worker does not have the same skill and knowledge. As a result, the quality of work can be improved by investing in the field of education of the people.

In order to determine the drivers of the economic growth, it can be said that economic growth is defined as the increase the ability of economy and also compared to the past period to produce the goods and services effectively. In addition to this, to measure economic growth, Gross domestic products, and their changes is to be used in any country. Hence, it can be said that GDP mainly represents the total output of goods and services for an economy. For example: If a country has a GDP rate of 2.5% for the years, it denotes that the economic growth rate of the country rose by 2.5% from a year earlier.

Human capital positive is related to economic growth because they boost the productivity level at a great level. In respect to this, the government also plays an important role in expanding the skills sets and education level of the country's population. There are many cases which found that the government is actively involved in the human capital improvement programs by proving higher education to people at no cost. In addition to this companies also invest in human capital so that they will be able to boost up the profit and level of productivity in a positive manner. In addition to this, companies also provide a portion of the tuition for higher education, training and develop new ideas and new products effectively.

Investing in workers has tracked the record for creating better employment conditions in the economies. If employment is improving, consumer spending raises and also leading to increased revenue for the companies. As a result, employment is known as a key indicator in determining GDP growth. According to OECD "The organization for Economic Co-operation and development examined that more than 30 members of the countries help to shape and develop the economic and social policies at a global level. It was also analyzed that the impact of education level on employment also affects the growth of the economy. In 2018, the OECD found that for countries with people that had grammar and high school educations experienced an employment rate of 68% for men and 47% for women. However, for those who had college or graduate education levels experienced an employment rate of 89% for men and 81% for women. Hence, it can be said that

there is a positive relationship between human capital investment and growth of the economy of developing nations in an effective manner.¹

LITERATURE REVIEW

Macroeconomic Effects of Human Capital

According to Solow², Romer³ and Lucas⁴, there is a central role between Foreign Direct Investment and Human capital development because it is known as important driving forces in the prices of economic growth. However, due to increasing economic reforms, trade and financial liberalization in the 1980s and 1990s, there is the great influence of FDI and Human capital development on economic growth.

Johansen et al.⁵, and Gregory and Hansen⁶ stated that in order to define the relationship between FDI inflows, HCD, and economic growth, it mainly includes the correct estimation of long-run relationship between n FDI, HCD and economic growth within a framework that account for the presence of structural breaks. Noorbakhsh et al.⁷ examined that FDI and economic growth at the expense of HCD, or on the level of human capital development that mainly motivate the growth while ignoring the FDI. The impact of human capital as a resource that attracts FDI to a panel of developing countries. Their results provide strong evidence that suggests human capital is a statistically significant determinant of FDI inflows, and that level of human capital is one of the most important determinants that may affect geographical distribution of FDI inflows. The study also revealed that the importance of human capital would increasingly become greater over time.

Reiter and Steensma⁸ used panel data set for determining the 49 developing countries and examined the relationship between FDI, human capital deployment and economic growth. It was suggested that the inflow of GDII are more strongly and positively related to the improvement of HCD especially when FDI Policy restricts foreign investors from investing in some economic sectors. Kottaridiand Stengos⁹ applied non-parametric methods on a panel of Organization for Economic Co-operation and Development (OECD) and in-OECD countries to explore the relationship between FDI, human capital and non-linearity's in economic growth and examined that nonlinear effect of human capital in the presence of FDI inflows but suggests that FDI inflow is growth-enhancing in the middle-income countries, while there are `two regimes` FDI effect for high-income countries.

Adefabi¹⁰ examined that in sub-Saharan Africa (SSA), the effect of FDI and human capital on economic growth was recorded over the period of 1970-2006. It was examined that there is a weak complementary system between FDI and human capital and economic growth. Yildirim and Tosuner¹¹ investigated the level of contribution of FDI on the human capital stock in central Asian

Turkish Republics for the period of 1999 to 2011 and it was examined that there was a non-significant relationship between FDI stock and human capital investment. Cleeve et al¹² also examined the role of human capital on FDI inflows to sub-Saharan Africa and revealed that there is no evidence which defines the increasing importance of human capital on FDI over time.

Human Capital Investment and Total Factor Productivity

According to Maudos, Pastor & Serrano¹³, total factor productivity is estimating the average production function or by non-parametric index number approach, it is known as usual practices which have included the estimating Everest production function by assuming in consequences that all the unit of the production is efficient. Färe et al.¹⁴ analyzed the growth of total factor productivity in the countries of the OECD and analyzing the importance of efficiency gain which is known as a source of labor productivity convergence in OECD countries during the period of 1975 to 1990. In addition to this, it was also examined that there is a relationship between investments in human capital which mainly include one of the main explanatory element of economic growth. It is responsible because it mainly focuses on the divergence on the large extent which is observed between the growth of product and the quality of adaptive factor used which giving rise to a qualitative improvement of the labor factor that increases its productive capacity by generating the economic growth.

Mankiw, Romer, and Weil¹⁵; Solow² examined that economic growth is known as a primary objective of the economic policy. There are various studies who define Economic growth with respect to the various countries to attend the economic development income redistribution, reduction, and full employment. According to the Exogenous growth model, it mainly outlines the theoretical growth model that suggests that the accumulation of the factors of production and technological changes are the main driver of economic growth. In the long term, all the factors of production cannot sustain economic growth. However, the technological changes or total factor productivity which does not relate to the diminishing marginal returns characteristics are generally considered as the main and sustained driver of the long-term economic growth. As per Romer³ point of view, total factor productivity is determined economic system and human capital which is an important determinant. In order to make focused on human capital, today's refers to the stock of knowledge creativity and experience that include in labor and entrepreneurs. In order to make focus on, it determined in the driver of total factor production it was an examined that total factor production is fact endogenously or exogenously. For example, Paquet and Robidoux¹⁶ use an ordinary least squares (OLS) regression technique to conclude the heterogeneity of TFP in Canada. On the other hand, an endogeneity test in Liu and Wang¹⁷ concluded that TFP is in fact endogenously determined

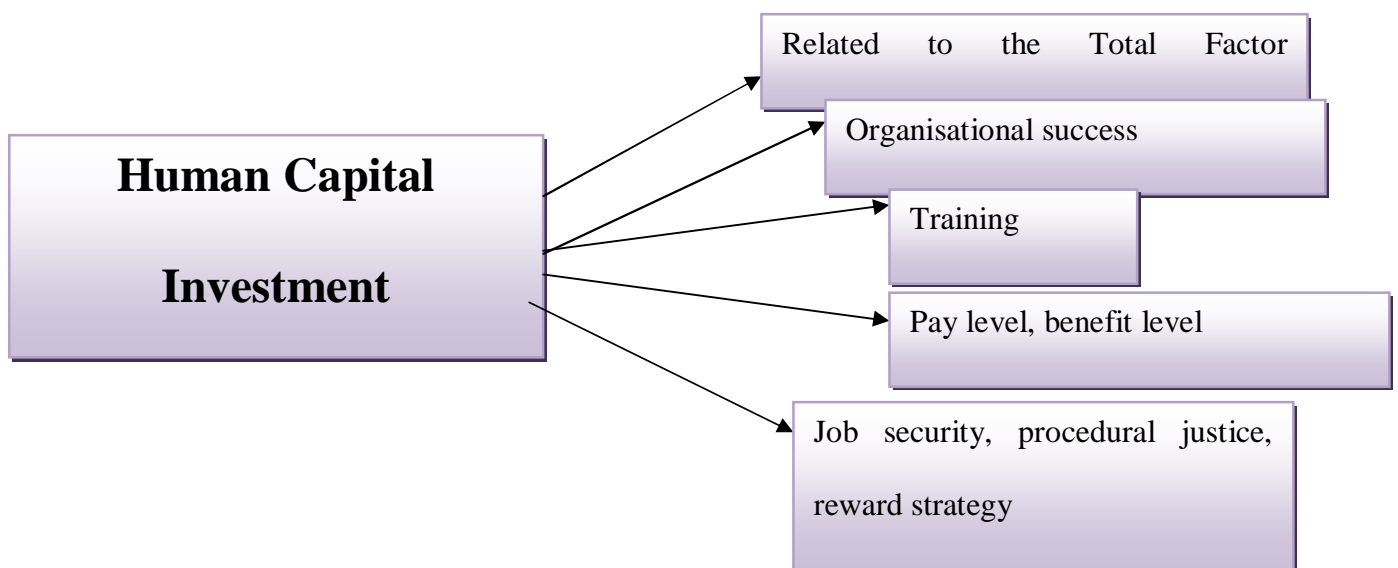
in the Chinese economic system. On balance, most studies support the endogeneity of TFP. There is a significant relationship between the availability of skilled labor or human capital in the economy which plays an important role to determine how the foreign direct investment affect the total factor productivity. For example, Blomström and Kokko¹⁸ show that spillover effects FDI into host countries are constrained by the stock of human capital. Liu¹⁹ makes use of the endogenous growth framework to show how FDI generates externalities in the form of technology transfer necessary for economic growth. Liu¹⁹ shows that the spillover effect can work in the opposite direction and depends on the number of resources devoted to human capital development in a specific economy.

Relation between Human Capital and Organisational Success

According to Davidsson & Honig²⁰, there is a positive relationship between the variable of human capital and the success of the organization. As a result, human capital is known and depending on the choice of success indicator which mainly includes industry age of the business and the country human capital help to increase the ability of employee so that they will be able to perform the day-to-day task by discovering and exploring the business opportunity effectively. Human capital also positively related to the planning strategy which made a positive impact on the success of the organization. In addition to this, good work which is related to the knowledge is helpful for gaining other need for resources such as financial and physical capital of the firm. It can be said that human capital is helpful to compensate for a lack of financial capital which is constant for the many interfere in the firm. At last, human capital is also helpful for getting for learning. It also has to collect the new knowledge training and skills by increasing the stock file of the knowledge and skill of an organization. It held existence and finally intern positively impact success owner with higher human capital in an efficient manner. Human capital also results in the success of business only if applied successfully and transfer the specific task in the organization as per the need. If the human capital is related to the current task of the business then the transfer process would be easier. It is also useful to make a different situation between the task-related human capital and non-task-related human capital. As a result, human capital relates to the current after the business which is known as task-related Human Capital. For example, industry experiences start of experienced entrepreneur and knowledge also the organization which is important in the high-technological Industry. Industry those having high technologies are using sophisticated Technologies for their day to day activity and typically requires specific knowledge and Research to handle the on certain environment in respect to this high technology which is related to the industry are more dynamic and changing app for the time then the lower Technology industries have continued adapt because they have no option to switch their technology in the fastest manner.

According to Alnachef & Alhajjar²¹, human capital is defined as a key element which improves the effectiveness of a firm and employees by increasing the productive as well as sustains the competitive advantage. In order to sustain the competitiveness in the organization, human capital is used as an instrument which increases the productivity human capital is a way which mainly includes education training and another professional initiative so that it will help to enhance the level of knowledge skill ability and social aspect of the employees. As a result, it can be said that it is basically significant for long-term sustainability because human capital and its implication on the form performance will result in Greater competitiveness and performance. There is a relationship between the human capital and form success which mainly focuses on two components which are individual and Organisation. In order to examine the attributes of human capital is mainly include flexibility and adaptability, enhancement of individual competency, development of organizational competency and individual employability. All these attributes generate and add the value to the individual and the outcome of the organization. As a result, it can be said that human capital with higher performance and sustainable competitive advantage organizational commitment and in has organizational retention it highly focuses on the performance of individual and organization. By making a significant relationship which depends on the degree to which it contributes to the formation of the firm performance human capital theory also undergone in a rapid manner which mainly focuses on development creator attention which has been paid to the training related aspect. As a result, human capital investment is known as the activity which improves the quality of the worker there for training is known as an important factor of human capital investment which refers to the knowledge and training which are required undergone by a person that increase their capability level in performing the activity of the economic value.

CONCEPTUAL FRAMEWORK



As per the above conceptual framework, it shows the variables which are highly related to human capital investment. In order to make focus on the total factors which mainly include capital, land, labor, equipment that highly related to the growth and development of human capital. In addition to this, the success of any organization also depends upon the effective management of human capital development which may be in the form of retention, training, compensation and many more. In addition to this, training, pa level, and benefit level including with job security rewarding system highly affect the effective human capital development in an organization.²²

FINDINGS AND DISCUSSION

As per the above-detailed information, it can be said that the current study mainly focuses on the rate of return on human capital that continues to increase productivity. The study also analyzed the increased stock of human capital that raises investments in developing new technologies by expanding the education-intensive research and development industry. It also focuses on facilitating all the technological innovations leading to economic development. The study also reviews the intensive use of human capital accounts for increased productivity and technological growth that further stimulates economic growth in developing countries. In addition to this, the study also examined human capital investment is a statistically significant determinant of FDI inflows. Furthermore, the studies also review the positive relationship between human capital investment and total factor productivity, which affects exports and ultimately the GDP. At last, the current study also examined how organizational value and success created by human capital creates organizational success.

CONCLUSION

As per the detailed information, it can be concluded that the study mainly focused on macroeconomic effects of human capital and also examined the human capital and total factor productivity in an effective manner. In addition to this, the study also focuses and analysis of skills reveals that developing countries must take into consideration the current level of skill, economic and technological development in designing HCD policy. To this end, the country-specific approach must be taken to determine practices that train for the right kinds of skill-mix given technological limitations. Empirical evidence is required to determine the effects of these policy decisions on HCD efficacy, emphasizing the importance of quantitative measures in determining policy effects on HCD practice. In practice, developing countries should continuously strive to establish linkages between skills, productivity, and employment in their quest to foster economic development.

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