"FDI & HUMAN RESOURCE DEVELOPMENT: RESEARCH ISSUE IN THE EMERGING CONTEXT

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Abstract: The paper deals with the concept of and the potential benefits of FDI for host countries with reference to human capital development and higher wages (Maher, 2001, p. 2) as one of the few elements which will lead to the development of the Nation.FDI will also lead to economic development of the country as a end result of human capital development.

In addition, what is generally seen as a more important potential benefit, namely the dissemination of technology from developed to developing countries, FDI may itself depend in part on the extent to which the FDI has promoted human capital development (or at least is associated with its promotion).

The purpose of the current paper is to consider these links between FDI and Human Capital Development. The research paper will also throw light on the issue, of what is the best way of inducing training and skill transfer for the human capital development of the host country? Do strict rules on the use of expatriate experts constrain FDI and skill development? How can expatriates co-operate with host country firms and institutions in training? Whether the relocation of expatriates to the host country for FDI management will lead to overall development and enhancement of human capital.

Keywords: FDI, Human capital development, MNE's, expatriates, Human Development Index.

Introduction: FDI can be defined as a cross border investment, where foreign assets are invested into the organizations of the domestic market excluding the investment in stock. It brings private funds from overseas into products or services. The domestic company in which foreign currency is invested is usually being controlled by the investing foreign company. Eg. An American company taking major stake in a company in India. The ROI on the entire project is based on the performance of the project.

In the past decades, FDI was concerned only with highly industrialized countries. US was the world's largest recipient of FDI during 2006 with an investment of 184 million from OECD (Organization for Economic Co-operation and Development) countries. France, Greece, Iceland, Poland, Slovak Republic, Switzerland and Turkey also have a positive record in FDI investments.Norway is one of the country with highest rate of Human Development Index. Now, during the course of time, FDI has become a vital part in every country more particularly with the developing countries. This is because of the following reasons:

- Availability of cheap labor.
- Uninterrupted availability of raw material.
- Less production cost compared with other developed countries.
- Quick and easy market penetration.
- Availability of new technology
- Cheaper production facilities
- Long Term cash liquidity

The potentially positive effects of FDI include inducing incumbent firms to upgrade their technology, and spill-over benefits so that local competitors can learn from MNCs' technological and managerial practices.

The potentially negative effects include the possibility of MNCs deliberately raising concentration levels, forcing competitors out of business by predatory pricing, taking away skilled labour and R&D staff from local firms, or engaging in restrictive business practices which, among other things, may deter technological development.

A well educated and trained workforce is one of the location advantages that host countries
can provide to attract and retain inward FDI.

The wider economic benefit derives not just from the direct contribution of increased output to national income, but also through vertical linkages with suppliers and others. Labour turnover, on the other hand, may have rather different implications for the individual firm on the one hand, and the wider economy on the other. For the individual firm, some degree of labour stability will be required to ensure that the benefits from training flow back to the firm rather than moving on to rival firms.

FDI and HRD: Human Resource Development (HRD) and Foreign Direct Investment (FDI) are generally considered among the key drivers of economic growth in developed and developing countries. While HRD and FDI individually affect growth, they also reinforce each other through complementary effects. In general, enhanced HRD increases incoming FDI by making the investment climate attractive for foreign investors. This is done through a direct effect of upgraded skill level of the workforce, as well as via indirect effects such as improved socio-political stability and health. On the other hand, FDI contributes to HRD since multinational enterprises (MNEs) themselves can be active providers of education and training, bringing new skills, information and technology to host developing countries. Ultimately this complementary effect leads to a virtuous circle of HRD and FDI over time by increasingly attracting higher value-added MNEs, while at the same time upgrading the skill contents of pre-existing MNEs and domestic enterprises.

FDI contributes to economic growth when an interaction term, i.e. the product of FDI and a measure of human capital (secondary school attainment), enters the regression. This suggests that FDI contributes to economic growth only when a sufficient absorptive capability of advanced technologies is available in the host country: the higher the level of education of the labour force, the greater the gain in growth from a given FDI inflow.

Foreign direct investment has long generated controversy

To the sophisticated members, the challenge may seem a silly one, whether we benefit when foreigners invest in our countries: they almost always bring additional investment and capital, almost always bring access to superior and new technology and different ways of doing things, and often bring access to new markets and new customers as well. That most governments and countries now believe this is surely shown by the fact that most countries now have a relatively open door towards foreign investment, with many countries providing generous tax and other incentives to encourage it.

FDI Inflows in last few years:

Opening up of the path, policies adopted by the Government of India through its new economic policies has attracted more investments in to the country. Indian Industries have gone global and in the same direction the inflow of FDI in to the country has increased at a faster rate leading to a overall growth and development.

The Inflow of FDI into the country over various years is as follows:

Year (April-March)	Amount of FDI inflows (In US$ million)
2005-2006	47493 crore
2006-2007	120977 crore
2007-2008	184625 crore
2008-2009	200541 crore
2009-2010	200143 crore
2010-2011 (upto nov)	100710 crore

Recent discussions in the media has focussed on whether South Africa belongs in the exclusive BRICS (Brazil, Russia, India, China and South Africa) group of countries. Over the last year we have increasingly been looking to Brazil and India as examples of what might be possible. The improvements in the Human Development Index (HDI) of these countries suggests we can learn a great deal from them. Of course, in Brazil and India there are disputes on the numbers, however the take home is this – South Africa's HDI has fallen primarily due to poor health outcomes, which are associated with the impact of HIV/Aids. Our educational performance has also been weak. The silver lining is that current initiatives by government in the health and education sectors have better prospects for success, than our first policy choices after 1994.

Human Development Index – Brazil, South Africa, China, Russia and India: India is ranked at 134 out of 187 countries in terms of HDI (Human Development Index). The top countries were Norway, Australia, Netherlands, US, New Zealand (in order of rank). The HDI is an effective measure of Education, health and income parameters and lists the countries according to their rank.

The HDI value for India was 0.547 which makes it fall in the medium human development category. On the positive side, the life expectancy for India has increased by 10.1 years between 1980 and 2011. Also for the same period, the HDI value for India has increased by 59% or at the rate of 1.5% annually.

The HDI is a composite index measuring average achievement in three basic dimensions of human development—

1. a long and healthy life,
2. knowledge
3. and a decent standard of living.

Effects of FDI

Increases status and dignity level of labour: The status of the human resources in a country is also instrumental in attracting direct investment from overseas. The general attitude of the human resource of the country will also affect the penetration of the FDI concept in that country. Countries like China that have taken an active interest in increasing the quality of their workers and have made compulsory for every Chinese citizen to receive at least nine years of education. This has helped in enhancing the standards of the laborers in China.Ofcourse this is one of the reasons that the absorption capacity of the laborers in China for learning newer technology and processes is higher.

Skills and management: TNCs possess advanced skills and can transfer these to host countries by bringing in experts / expatriates and by setting up training facilities (the need for training is often not recognized by local firms). They also possess new, presumably among the best, management techniques, whose transfer to host countries offers enormous competitive benefits. Where affiliates are integrated into TNC networks, they can develop capabilities to service the regional or global system in specific tasks or products.Without training the host country human resource it is practically impossible to bring in skill development and skill enhancement in the human resource.

Effects of Human Capital Enhancement: Developing countries need to have reached a certain threshold of development to be able to fully absorb new technologies. Enhancing human capital can therefore have a number of beneficial effects, both direct and indirect, for the companies concerned and also for the wider economy.

Firstly, human capital enhancement can be expected to lead to higher productivity and profitability as a direct result of the increased capacity of the employees to perform their tasks.

Secondly, there is the indirect effect of companies getting a greater payback than would otherwise be the case from investment in new technologies and process innovations, as the employees are better equipped to absorb and utilise both the codified and tacit knowledge through which the benefits of such investment are largely delivered.

Thirdly, human capital enhancement may improve not just the ability of employees to deliver greater productivity, but also their willingness, commitment and motivation so to do.

The question arises as to how the human capital enhancement will be achieved through the entry of FDI

Training & Development: Research into training in MNEs has largely focused on the training of expatriates in particular cultural and language training, and not on the training of host country nationals (Zheng, Hyland & Soosay, 2007; Vo, 2009) and generally, there is little clear evidence regarding training systems in MNEs (OECD, 2009a).The pattern of skill development across developed and developing countries is also of concern, as there is some evidence that MNEs locate low skilled operations in countries that have large numbers of low-skilled workers, and consequently do not invest in skill development for these workers.

In a study of MNEs operating in Asia (both Asian and non-Asian), it was found that they invested significantly in training, although this was predominantly in service based industries and targeted at managerial and professional employees (Zheng et al., 2007). While more money was spent on managerial training there was evidence of a large number of apprenticeships and traineeships for employees in the manufacturing sector. There was also some evidence, statistically small, that non-Asian owned MNEs invested more in training than Asian owned MNEs which has been found in previous studies. The size of the MNE impacted significantly on investment in training with small MNEs spending minimal amounts on training.

A study of technology based firms in Portugal found that foreign ownership directly impacted on education intensity in the firms, but in terms of skills had an indirect impact through research and development investment. (Tavares & Teixeira, 2005).

On a macro level research has indicated that FDI will only enhance skill development in countries that have a relatively high level of skills to begin with. The implications of this are that developing countries with low skill 'endowments' who open up to FDI and trade will attract investors who want low, and cheap, skills and will therefore not develop the existing skill base. This situation potentially leads to international skills inequalities (Te Velde & Xenogiani, 2007).

Human Capital Enhancement through Training: One of the resources of an industrialized nation that contributes to its national competitiveness is the skill and ability of its human resources, particularly with regard to productivity and technological and managerial expertise. As the labor force within a nation becomes more technologically and managerially skilled, it becomes more valuable to the employing firms within the nation. The workers are able to command a higher wage rate, thus bettering their standard of living.

The best way of inducing training and transferring skill to the host country are:

Formal and informal training programs: Knowledge and skills can be transferred from the foreign-owned firm to the host nation through both formal and informal training.These two categories of knowledge are transmitted through different types of training. Information can be transferred more efficiently through formal training programs, but the transfer of know-how is facilitated through less formal means.Training at the foreign subsidiary can be just as effective for transferring know-how in the form of skills and expertise from the parent corporation to the local employees. However, the transfer of this type of knowledge is likely to occur through informal rather than formal training.

Deputation of expatriates to the host country for imparting training and transfer of expertise and knowledge: Sending an expatriate the multinational expands the set of strategies to transmit information to the subsidiary, because the expatriate can use his effort in the subsidiary as a signal. Expatriates who are familiar with the technology and knowledge can lead the human capital of the host country and train them to absorb the new technology and knowledge through training.

Impact Of FDI And MNES On Employment:

a) **Employment promotion:** In terms of national employment there is significant variance between countries and the percentage employed in outward foreign affiliates. Theoretically, and dependent on the structure of the MNE's production, increased FDI will decrease employment and raise the relative demand for skilled labour in the country of origin. Subsequent to this, employment will increase and the cost of skilled labour is likely to increase compared to the cost of unskilled labour.Hence human capital development will be an important aspect for survival in the competitive market. People will have to upgrade themselves and organizations will take steps towards necessary training and development of their human capital in order to stay competitive world of FDI.

b) **Equality of opportunity and treatment:** Equality of opportunity is increasingly recognised by MNEs which want to avoid damaged reputation and possible legal repercussions of discriminatory practices. Increased diversity is also viewed as one way of expanding the talent pool for employers and boosting employees' motivation and commitment In terms of equal treatment, some studies have shown that in MNEs in the UK that employ predominantly women, they are less likely to pay above the median, whereas MNEs in the UK otherwise often pay above the median rate (Edwards, Edwards, Ferner, Marginson & Tregaskis, 2007). However, there is scant research in this area.

c) **Conditions of Work and Life (Wages, benefits and conditions of work):** Evidence points to FDI as an important factor in improving living standards for workers mainly trhough wages (OECD, 2009a). Whilst the evidence suggests that inward FDI has a positive impact on wages, it seems to have little effect on other working conditions (OECD, 2008). There are also clear differences between developed and developing nations in the effect of FDI on wages, benefits and conditions of work. Studies show that foreign firms tend to have a younger, more educated workforce than average and also pay higher average wages.The results from the research done by various researchers confirm that foreign direct investment exerts a positive effect on human development in the low and middle-income category of countries. It appears that FDI through positive effect on economic growth and infrastructure creations in host countries contributes towards the enhancement of human development. Hence, they should be welcomed by countries aspiring to achieve a higher level of progress in human development.

Secondly, Trans National Companies (TNCs) also intend to capitalize on the quality of human capital in host countries. Countries with higher levels of achievements in human development attract FDI. The low-income country case shows that it is in fact the achievements in human development that are significantly important to foreign investors. Thus, host countries should continue to invest more in improving the elements of human development (skills, education, health status and overall worker productivity) of their populations at large.

d) **Effects on farmers:** The recent decision of the government to allow FDI in multi-brand retail trade has attracted heated debate and emotive reactions. Though the main consideration for allowing FDI in retail is not its benefit for farm sector, the debate has predominantly focused on threats and benefits to the country's farmers and the farm sector.

- A few farmers' organisations have come openly in support of this move. The majority view, as appearing in media, is that FDI in retail will have adverse effect on farmers.
- Studies by reputed researchers have found that (a) in some cases, private firms favour large-sized farms rather than small farms, (b) in some cases, the firm leaves the field after a few years, and (c) sometimes, terms and conditions are not honoured by either party. None of these indicate harm done to farmers; in fact, benefits denied to farmers are quoted as adverse effects

1) **Direct benefit to Farmers**: The biggest beneficiary of FDI in retail will be directly the farmers in India. Across the world the big retail giants buy the produce directly from the farmers, thereby eliminating the middle men. Thus farmers will get much better price which can be atleast 15-20% higher than the existing price they get.
   Thus farmers will directly benefit from direct purchase.

2) **Huge Employment Benefits**: The international model suggests that all those countries which opened up multi brand retail to FDI added huge amount of employment. In India the government expects it to generate atleast 1 million employment over the next few years.

It is very critical to note that the government is allowing Foreign retailers to open retail stores in India in joint venture with Indian partners only in top 53 cities with a population of 1 million and above.

In 1990, the UNDP introduced the concept of human development as "a process of enlarging people's choices". While recognizing the unlimited character of possible life choices, the report established that broader scope of choice was only available to people who could lead long and healthy lives, acquire knowledge and have "access to resources needed for a decent standard of living". Income was seen as an important option that people must have in order to realize their full potential but has not to be seen as an end in itself.

Anuwar Ali (1992) and Capanelli (1999) produced empirical evidence to show that foreign firms only sourced low value added and low technology related inputs from local firms, thereby exposing personnel to low levels of technology diffusion in Malaysia.

Similarly, Katz (1987), Lastres and Cassiolato (2000) and Cimoli and Katz (2003) argued that local firms have not benefited significantly from the operations of foreign firms in Brazil. Costa (2001) argued that foreign firms were not engaged in technology-intensive activities in Brazil, while Ariffin and Figueiredo's (2003) showed no obvious technological differences between foreign and local consumer electronics firms in Manaus.

Conclusion: The research paper has thrown light on the positive effects of FDI on Human capital development and also given an insight on the various ways and methods for enhancing Human Capital. In countries like the BRIC nations the entry of FDI have shown a positive impact in terms of the Human Development Index.The research has also shown the effect of FDI on farmers and also the overall development and general well being of the human resource of countries who have welcomed the concept of FDI.

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