

THE ROLE OF HUMAN CAPITAL IN THE HOST ECONOMY ON INWARD FDI IN DEVELOPING COUNTRIES

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Abstract

In this study an attempt is made to gauge the importance of Human Capital of the host economy in the location choice decision of foreign direct investors. Moreover, infrastructure availability, market size, trade liberalization and economic development are also considered, for a set of ninety developing countries using annual data from 1980-2007. The results shows that better infrastructure, availability of skilled human capital, liberalized investment and trade regimes, in addition to prudent management of macro-economy and healthy policies have plausible significant effects on FDI inflows on the ability of the sample member developing countries to receive additional Foreign Direct Investment. Conjectured with the host market size theory hypothesis, the size of the host market positively affects FDI inflows.

Using different proxy measures of human capital existence such as primary and secondary school enrolment from World Bank development indicators, primary, secondary and tertiary educational attainment levels as well as literacy rate from Barro and Lee educational data set (2010). These findings are found to be insensitive to the use of different proxies used for the control variables as well as alternate estimation techniques.

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