

Education, foreign direct investment and socio-economic development-A review

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Abstract

This study intends shed lights on the importance sundry factors influences socio-economic development of developing countries in particular. Traditionally, capital, human capital are the most important factors affects economic development, where, the role of technology is equally vital in this process. After reviewing the existing relevant literature, it is found that apart from the significance of foreign direct investment, trade, foreign remittances, the role has been played by human capital measured by school cannot be ignored in the process of socio-economic development.

Keywords: Human capital/education, socio-economic development, social welfare

The stock of human capital contains education and skill of labour. Human capital can be treated as crucial input in the production process and used to model technological progress, which is vital to economic growth (Romer, 1990; Mankiw, *et al.*, 1992; Nelson and Phelps, 1996). Therefore, human capital is over and over again suggested as a conceivable source of growth and development which is commonly measured in terms of levels of education and health. A well-educated and healthier labour might produce out put more from a given resources comparing to less or unskilled labours. It has also advocated by Mankiw (2009) that like physical capital, human capital enlarges our ability to produce more goods and services. It has been observed that investment in human capital is not a new phenomenon. The study of Becker (1962) who

unequivocally elucidates that there are several ways to make investment in human capital such as schooling, on-the-job training, medical care, vitamin consumption and acquiring information about the economic systems. These all increase the physical and mental abilities of people and thereby raise real income prospect. Becker (1992) shown that some prior studies for example Denison, (1962) and Schultz (1963) have also highlighted that investments in human capital were a main contributor to economic growth. The endogenous growth model has brought human capital once again to the forefront of the discussions (Romer, 1986; Lucas, 1988; Barro & Sala-i-Martin, 1992; Becker et al., 1990). Consequently, in the macroeconomic theory, human capital is well-thought-out 4th equal key source of economic growth like capital formation, natural resources and technology. Obviously, output and production can be increased largely through capital goods with the help of improved and more efficient utilization of educated and skilled workforce.

Indeed, education helps in the satisfaction of basic needs and basic needs themselves comprise the education availability, hence provision of education and satisfaction of basic needs both reinforce each other (UNESCO-PROAP, 1998). Education is narrowly associated to the social wellbeing and living standard of the society. It is clear that education perform a vital role in upgrading social welfare of the advanced societies, where poor countries left behind due to the deficiency of proper education. A number of studies showed regarding the link between education and living standard of the people, for example, Lochner and Moretti (2004) shown that education is a basic right of all individuals and it connected with many of benefits contains minimum crime levels. Education also provides higher levels of civic engagement and participation (Brehm and Rahn 1997; Bynner and Egerton 2001).

Riley (2011) discloses that the idea of human capital as being a measure of the inclusive quality of the human input existing to produce goods and services in an economy. The study further reveals that human capital is “*the knowledge, skills, competencies*

embodied in individuals that facilitate the creation of personal, social and economic well-being.” The contribution of human capital includes are a positive spillover effects on labor productivity or output per person which contributes to higher level of economic growth, higher skilled will be better able to adjust to changing technologies and changing patterns of demand leading to lower levels of structural employment, better human capital have to lead to higher wages and higher expected lifetime earnings and enhanced incentives to find work and mitigate dependence on the welfare system, better knowledge and skills will encourage invention and innovation and when more people have high skills, qualifications and competencies to remain active in an ever-changing economy condition, consequently it should support progress in in reduction in poverty. In a study Hanushek (2013) shows that the attention on human capital as a driver of economic growth for developing countries has led to undue attention on school attainment. Developing countries have made extensive development in closing the gap with developed countries in terms of school achievement, but recent research has underlined the prominence of cognitive skills for economic growth.

This study is an attempt to accumulate relevant materials on various factors encouraging or discouraging national economic development. We assume that this study will contribute to the literature by providing extensive materials on the factors influencing socio-economic development. This study is structured as part 1 shed lights on the introduction of the study. Part 2 presents prior studies on the research topic. Finally, part 3 deals with findings and conclusion of the study.

Literature Review

Numerous studies priors studies empirical and theoretically explained the various factors impact of economic development. For instance, several previous studies found that there are many factors like foreign direct investment, human capital measured by school, local investment, saving, trade openness, infrastructure, and workers remittances etc which are positively and directly affecting economic development (Azam, & Khattak, 2008; Muhammad, 2011;

Muhammad & Asmatullah 2011; Nadeem *et al.*, 2012; Azam *et al.*, 2013; Haseeb *et al.*, 2014), while other variables such as foreign aid, external debt, military spending, corruption, and inflation etc. are negatively influencing economic development (Azam *et al.*, 2013, Haseeb *et al.*, 2014; Azam, 2014). Though, many other variables affecting FDI inflows and FDI have a strong positive impact on the process the national economic development (Azam, 2010, Azam & Lukman, 2010; Azam, 2011; Azam & Ahmad, 2013).

The study of Rahman (2006) examines that there is no doubt in the contribution of education to the social and economic development of societies. Further, in poverty reduction the role of education and literacy has been given more important and considered that these factors are significant instruments for improving the conditions of the poors. Education helps poverty alleviation through its impact on productivity of labour and through other channels of social benefit and therefore education is an important development goal of nations. Leeuwen (2007), shown that human capital is unconditionally refers to as formal and informal education, yet it can also contain factors such as the costs of raising children, health costs, and ability. Mohammad and Neeam (2009) examined the effects of local investment, foreign direct investment (FDI), human capital and trade liberalization on economic growth of Pakistan during 1971 to 2005. The study finds that local investment, FDI, and trade liberalization have positive impacts on economic growth for Pakistan, while, the human capital found significant with unexpected sign. Azam *et al.* (2010) highlighted that investment and saving are undeniably imperative for the socio-economic development through capital formation. The study of Azam and Ather (2010) investigated the effects of human capital and health as human capital on economic development in the context of Pakistan. The study maintains human capital is usually well-thought-out a crucial factor in the process of economic growth and development, while it significance for economic development has long been recognized in the development economics literature. For empirical investigation, linear multiple regression model and annual

data for period from 1960 to 2009 were used. The findings of the study indicate that the influence of both health human capital and education human capital on economic development found positive and statistically significant at 1 percent level of significance. The results of the study advocate that both education and health are vital for the national economic development.

The findings of Asghar and Awan (2012) indicates that a strong positive impact of human capital on economic growth has been found despite the fact that Pakistan has been spending less percentage of GDP on education and health facilities to create human capital. Azam et al., (2013) evaluated the effects of corruption, FDI and foreign remittances on economic growth in five South and South East Asian countries during 1985-2011. The study found of the positive and statistically significant influences of FDI and workers remittances on economic growth. Khalafalla and Suliman (2013) reported that while human capital can directly contribute in the process of production as a productive factor and as a result output growth. Similarly, human capital may contribute to rising technical progress and education that positively influences productivity growth. The study revealed that the quality of the education has played a crucial role as determinant in the economic growth for Sudan period 1982 - 2009. Campbell and Agbiokoro (2013) showed that in Nigeria during the period from 1980 - 2010 human capital alongside with technological development has a positive relationship with growth. Likewise, Banerjee and Roy (2014) highlighted the significance of human capital and technological progress in determining India's long run growth. In a recent study, Mgadmi and Rachdi (2014) showed that human capital is one of the most essential drivers for economic growth and development. The finding of the study demonstrates that in Tunisia during 1974 -2012 human capital exerts a significant influence on economic growth.

Findings and conclusion

Undeniably, enhanced level of socio-economic development is always desirable and it is one of the utmost goals of the every state to ensure it. Consequently, it can provide more happiness and can improve living standard of the people. Though, mostly developing face sundry problems comparing to the developed and advanced countries. What are required to promote socio-economic development of a country? Whereas, it is not depend only on the abundance of natural resource availability but equally their efficient utilization is also highly important. The available literature reveals that there are many factors like FDI, human capital, foreign remittances, and trade which are influencing socio-economic development and consequently social welfare of the people. Among these all factors the importance of human capital measured by education (school) is of highly importance due to it marvelous role. Education is strongly associated to the social wellbeing and living standard of the society. It is clear that education perform a vital role in upgrading social welfare of the advanced societies, where poor countries left behind due to the deficiency of proper education. Based on the importance of education, it is now responsibility of the Sates and policy makers that formulate such a prudent and an effective policy which are favourable to the encouragement of education. As a result, earning of the people will increase, productivity will increase, living standard will improve and therefore overall social welfare will be improved largely.

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