FDI and Human Capital Enhancement

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What do we want to know, and why?

- **What** impact does FDI have on Human Capital Enhancement?
- **Why?** Because useful:
  1. To evaluate potential benefits from FDI
  2. To design policies to:
     i. attract FDI
     ii. maximise benefits from FDI
Comments:

1. ‘Human Capital Enhancement’
2. The evidence
3. Policy implications
4. Future research
‘Human Capital Enhancement’

- From ‘education and training’, to ‘High Commitment Work Systems’
- HCWS improve outcomes, if:
  1. Competencies (training)
  2. Opportunities: work organisation
  3. Motivation and commitment
- Positive evidence for OECD countries
The evidence

- Little evidence on the impact of FDI on Human Capital Enhancement for non-OECD countries
- What little there is was reported yesterday
- None on HCWS - ie beyond just training
Human Capital Enhancement by MNEs

- The theory:
  1. Increase productivity within the MNE
  2. Increase productivity in other firms via linkages
  3. Employees move to other firms
  4. Employees start up own firms
Human Capital Enhancement by MNEs

- The Theory (2)
  1. Employees may move abroad
  2. Labour turnover may inhibit investment in human capital
- Little evidence on the extent of any of these factors
Government investment in Human Capital Enhancement:

1. To attract FDI

2. To maximise benefits:
   (i) encourage higher-VA activities
   (ii) encourage stronger linkages
   (iii) enhance absorptive capacity of local economy

3. Causation between investment in Human Capital Enhancement, and FDI, therefore complex
Policy Implications:

1. To encourage more Human Capital Enhancement by MNEs:
   (i) Disseminate evidence on HRM-performance links
   (ii) Carrot and sticks (grants/levies)
Policy Implications:

2. For Government Human Capital Enhancement:
   (i) Beyond ‘education’, to HCWS
   (ii) Focus/target efforts:
        (a) desired FDI
        (b) linkages:
             - systems of innovation
             - innovation strategies
Further evidence needed on:

1. How much Human Capital Enhancement undertaken by MNEs, and the determinants of this (and blockages)?

2. How useful Government investment in HCE is in attracting FDI, and/or maximising benefits?

3. HRM-performance links in non-OECD countries?