

## **ECONOMIC COMPETITIVENESS AND HUMAN RESOURCE DEVELOPMENT An FDI Perspective**

TALAT AFZA and MIAN SAJID NAZIR\*

**Abstract.** Integration of global markets has highlighted the issue of economic competitiveness, the base line to attract the foreign direct investment. In this increasingly globalized and interdependent world economy, knowledge and skills of workforce will be the key competitive weapons of nations and thus should be focused for enhancement of the economic competitiveness (Thurow, 1994). The current study focuses on the role of human resource management as a tool to improve the economic competitiveness of South Asian region in general and Pakistan in particular and hence attracting the foreign capital inflow to boost the economic growth.

### **I. INTRODUCTION**

Globalization has posed serious challenges to the developing countries, lacking in knowledge and skills, which undoubtedly form the basis of productivity and competitiveness in the ever-increasing integrated world economy. The integration of global markets and emergence of international trade bodies like World Trade Organization (WTO) has channelized Foreign Direct Investment (FDI) from developed to developing and underdeveloped countries. This paper argues that the key to improve the economic competitiveness of South Asian region, particularly Pakistan, lies in enhancing the human resource capabilities by making appropriate capital investment in education and professional training which could further improve their ability to innovate and adapt to the new technologies. Moreover, the study suggests some policy implications for creating economic competitiveness by managing and developing human resources of Pakistan.

---

\*The authors are Professor and Lecturer, respectively, at Department of Management Sciences, COMSATS Institute of Information Technology, Lahore (Pakistan).  
E-mail: talatafza@ciitlahore.edu.pk and snazir@ciitlahore.edu.pk.

Development of the dynamic economies and the enhancement of economic competitiveness are at the forefront of global discussion at the moment. A majority of nations of the world are striving to improve the international economic competitiveness of their countries rather than trying to avoid global competition behind protective walls. Presently, the economic competition between the countries is not on the basis of nuclear power or large army base rather developing the competitive economies. According to the World Competitiveness Report of International Institute for Management Development (1995), competitiveness of companies and nations is influenced by eight major factors:

- “A competitive domestic economy that brings higher value-added productivity and prosperity to the country.
- Outward-looking economic policies that increase economic activities and improve the country’s economic performance; higher integration with the international economy, more productive resource allocation and higher living standards.
- Less government intervention; government policies concentrating on creating a competitive environment for enterprises and providing macroeconomic and social conditions to minimize external risks.
- Internationally integrated financial sector that supports competitiveness.
- A well-developed infrastructure with availability of natural resources; a functional business system, information technology, transport, communication and an educated skilled labour force that promotes competitive business environment in a country.
- Managerial ability that provides long-term orientation to adapt to changes in the competitive environment; a level of entrepreneurship and skills for integration of business activities.
- Capability for efficient and innovative application of existing technologies that bring competitive advantage. Investment in research and innovative activities for acquiring new knowledge.
- A knowledge-based society and skilled labour force that increases a country’s productivity and competitiveness.”

Exploiting the trade opportunities for the country and attracting foreign capital inflow eventually create globally competitive economy. However, the researchers have different opinions on the role of government in the creation of economic competitiveness. One group argues for complete elimination of barriers to trade since they believe that economic growth is inversely related with excessive rules and regulations (Dollar, 1992; Sachs and Warner, 1996). Whereas, the other school of thought favors the government involvement on the pretext that the state support improves the country’s competitive position and inflow of capital. According to Rodrik (2002), creating economic competitiveness may be a function of the degree

to which governments are engaged in market supporting activities including the infrastructure and human resource development.

## II. ECONOMIC COMPETITIVENESS AND HUMAN RESOURCE DEVELOPMENT

Economic competitiveness of selected countries is reported in Table 1, which reflects that Pakistan lies among the poor performers based on the competitiveness ranking indices by World Economic Forum. In contrast, India has somewhat better ranking at different indices of economic competitiveness even superceding China at the technology, business competitiveness and global competitiveness fronts.

TABLE 1  
Economic Competitiveness Rankings

Country	Tech- nology Index	Macro- economic Environ- ment Index	Business Competi- tiveness Index	Global Competi- tiveness Index	Growth Competi- tiveness Index
Finland	2	4	2	2	1
USA	1	23	1	1	2
Israel	12	48	22	23	27
Korea	7	25	24	19	17
Ireland	31	7	19	21	26
Malaysia	25	19	23	25	24
China	64	33	57	48	49
India	55	50	31	45	50
Turkey	53	87	51	71	66
Pakistan	80	69	66	91	83

Source: World Economic Forum, *Global Competitive Index* (2006)

Human resource development of economy general and professionals in particular has not grasped much intention of researchers in literature; however, creating economic development and competitiveness, the role of competent professionals is of strategic importance (Debrah and Ofori, 2006). Human resource development is the essential precondition for developing a knowledge-based economy, reducing skills mis-matches in the labour market, and creating a country's international competitiveness by promoting social and economic development as well being of the people (Khan, 2005). Health care, nutrition, population welfare

and employment and reducing poverty are important ingredients of human resource development (Muqtada and Hildeman, 1993). Improved and better quality education at various levels from basic literacy to advanced science and technology is the essential precondition for raising the industrial and agricultural productivity, sustaining the substantial growth of manufactured and service exports, better health and nutrition facilities, peaceful law and order situation, political stability, quality of governance and elimination of poverty. The focus of human resource development policies of developed countries has been on promoting knowledge and skills through quality education and proper training, and thus enhancing the employability; improving access and equality for all to live and work in a knowledge and information based society (Yussif and Ismail, 2002; ILO, 2001). Cho and McLean (2004) explored recently developed concept of National Human Resource Development (NHRD) at government level and looked into various emerging models of NHRD, *i.e.* centralized NHRD, transitional NHRD, government-initiated NHRD, decentralized or free market NHRD, and small-nation NHRD. India was the first country in history to rename its Ministry of Education to Ministry of Human Resource Development (HRD) in 1985 to focus on the development of skilled workforce through quality education and training (Rao, 2004).

In this increasingly globalized and interdependent world economy, the knowledge and skills of workforce will be the key competitive weapons of nations (Thurrow, 1994). Low cost of production and level of value addition to goods and services would be the main factors that would decide the capacity of a country to compete in the global markets (Reich, 1991). The competition among corporations will be intense on the basis of quality of their human systems and the process of their products and services (Meister, 1994). Therefore, countries with relevant knowledge and skills acquired through increased and effective investment in human resource development, learning and training would benefit more from the emerging environment.

### III. FOREIGN DIRECT INVESTMENT

The positive role of FDI is well documented in literature. The economic growth of the country is positively associated with the level of FDI inflows and FDI tends to be directed to those countries and sectors that enjoy actual and potential comparative advantage. Pakistan has witnessed a steady growth in FDI during past few years. This growth in FDI may be attributed mainly to political stability and macroeconomic reforms by the government (Khan, 2005). The most attractive sectors for foreign investors have been oil and gas exploration, telecommunication and financial services (BOI, 2006). The deregulation policy regarding telecom sector attracted huge foreign investment accounting for 55% of total FDI in the year 2005-2006 (Table 2).

However, as the recipients of FDI, Pakistan's position, in comparison with other countries of the world, is weak. Pakistan has performed better in last few years

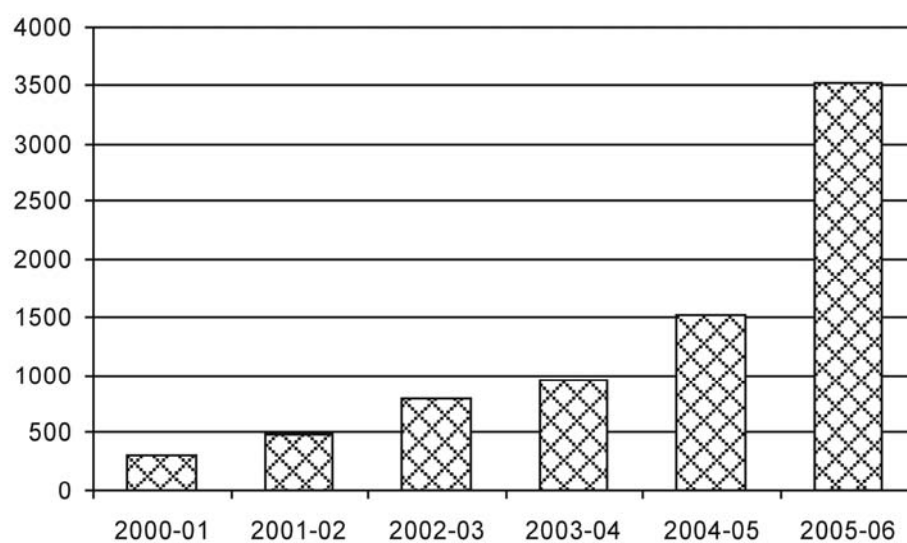
and received more than double inward FDI flows in 2005 as compared to 2000, however, this performance is much lower than the other developing and developed countries of the world.

TABLE 2  
Sector-Wise FDI in Pakistan

Sector	2005	%age	2004	%age	2003	%age	2002	%age
IT & Telecom	1937.7	55	518	34	222	23.4	208	18
Financial Business	329.2	9.3	269	17.7	242	25.5	208	26
Oil and Gas	312.7	8.9	218	14.3	273	28.8	187	23.41
Trade	118	3.4	52.1	3.4	35.6	3.7	39.1	4.9
Power	320.6	9.1	73.3	4.8	35.4	3.7	32.8	4.11
Construction	89.5	2.5	51	3.3	32	3.4	32.8	4.11
Others	413.3	11.1	343	22.5	109	11.5	158	19.47
Total	3,521.0	100	1524	100	949	100	798	100

Source: Board of Investment Pakistan, 2006.

FIGURE 1  
FDI Growth for the Period 2000-2006



Source: Board of Investment Pakistan, 2006

Although the ranking of Pakistan on FDI performance ranking index in year 1990 was 78 for the inward FDI performance (Table 3), yet, this ranking is continuously declining, as growth in FDI inflows is low. India, during 2000, with 119<sup>th</sup> ranking in the performance index, however, showed a steady growth in FDI inward flows from US \$ 1705 millions in 2000 to US \$ 6958 millions in 2006 (Table 4). The growing technological capabilities of Indian firms, particularly in information technology services and pharmaceuticals, are driving the FDI growth (UNCTAD, 2006). Access to marketing, distribution networks, foreign technology and strategic assets such as brand names, are the main motivators.

TABLE 3  
Inward FDI Performance Index Rankings, 1990-2005

Countries	1990	2000	2004	2005
Bangladesh	109	110	119	116
Bhutan	–	–	–	–
India	101	119	112	119
Maldives	–	–	–	–
Nepal	100	131	136	135
Pakistan	78	118	109	102
Sri Lanka	72	108	96	106

Source: UNCTAD, *World Investment Report 2006*

TABLE 4  
FDI Flows for Selected Countries and Regions in Millions of US \$

Countries	1990	2000	2002	2003	2004	2005
Bangladesh	190	328	350	460	692	
Bhutan	2	–	1	1	1	
India	1705	5627	4585	5474	6598	
Maldives	9	12	14	15	14	
Nepal	11	6	15	–	5	
Pakistan	463	823	534	1118	2183	
Sri Lanka	159	197	229	233	272	
China	30104	52743	53505	60830	72408	
South Asia	2533	8982	5729	7301	9765	

Source: UNCTAD, *World Investment Report 2006*

#### **IV. HUMAN RESOURCE COMPETITIVENESS AND FDI INFLOWS**

Researchers have discussed free flow of capital, goods, resources, technology and services through the new communication and transport technologies as driving forces of economic globalization (Beynon and Dunkerley, 2002) and capitalist economic system as catalyst to economic activity (Ghai, 1997; Walters, 1995). The two-pronged effects of globalization process would, at one hand create new opportunities for developing nations, and on the other hand, expose them to new global competition. With the wide spread adoption of new technologies, improved production capabilities and economies of scale, we can predict greater global competition and surplus for countries and companies. Specifically, this competition and commercialization will create new opportunities for value added products and services. These opportunities can be exploited by improving quality standards of value added production facilities. Improved living standard is expected to boost up the demand for competitive services in commercial and social sectors such as information technology, telecommunication, energy, financial, entertainment and tourism.

The emerging economies would be facing labour shortages due to major shifts in labour markets and millions of new immigrants which would further induce skilled manpower and outsourcing services from the developing countries to the countries with better infrastructure, ease of doing business and better production facilities. This process would also promote free flow of capital and investment in all forms, helping capital rich countries in making optimal investment decisions.

Increased demand of qualified and trained professionals for managing the technical, managerial and professional positions is the requirements of a skilled and knowledge based society. Human resource development is necessary but not the sufficient condition to ensure the sustainable social and economic development or solve the general unemployment problem in the country. Supply side policies like science and technology, education and training and development and industrial policies should be coalesced with the policies that expand aggregate demand in the economy such as macroeconomic and other measures. Although, there are various factors that may affect the Foreign Direct Investment (FDI) inflows to a country, yet our focus here will only be on the factors related to human resource development.

#### **HUMAN RESOURCE DEVELOPMENT**

South Asia is the largest developing as well as the poorest and the most illiterate region in the world. The region remained a backward area in spite of its natural and human resources and has not fully provided materialistic benefits to more than 1.4 billion inhabitants. The South Asian region is amongst the low quality of life on the human development index scale and remained a region where the infant mortality rate is one of the highest and the number of poor people is more than 500 million. The total population of the region represents 23 percent of the world population but

shares only 2 percent of the total GNP of the world whereas the average per capita income of the region is US \$ 450, as compared to the world average of US \$ 5,080 (Khan, 2005).

From the human development indicators perspective, the South Asian region is still the second worst region although some progress in education, healthcare and gender equality has been witnessed from the last few years. The regional ranking for the Human Development Index (HDI), Human Poverty Index (HPI), Gender Development Index (GDI) and Gender Empowerment Measures (GEM) are low as a whole. Table 5 shows that the rankings are above 100 in the Human Development Index for all South Asian countries except Sri Lanka and Maldives.

TABLE 5  
Human Development in South Asia

Countries	Human Development Index		Human Poverty Index		Gender Development Index		Gender Empowerment Measures	
	Rank	Index	Rank	Index	Rank	Index	Rank	Index
Bangladesh	139	0.520	86	44.1	105	0.514	79	0.218
Bhutan	134	0.536	–	–	–	–	–	–
India	127	0.602	58	31.3	98	0.586	–	–
Maldives	96	0.745	37	16.6	–	–	–	–
Nepal	136	0.526	74	38.7	106	0.511	–	–
Pakistan	135	0.527	68	37.1	107	0.508	71	0.379
Sri Lanka	93	0.751	42	18.0	66	0.747	72	0.370

Source: UNDP, *Human Development Report 2006*

The major obstacle in the human resource development of Pakistan remains the existence of disparities in access to the quality education and relevant training and development. There is a considerable gap and mismatch between available skills and existing education and training programs (Planning Commission, 2005). The basic education has been more relevant to local development and labour market needs since the devolution of power to the grassroots level in 2000. The basic education includes the work orientation elements to meet the needs of young people to work in the industry whereas the contributions by the communities and parents remain low, although the basic education and training is the responsibility of the local government.



**EDUCATIONAL ACHIEVEMENT**

Human resource development and government's investment in country's education system are critical in dealing with the developmental challenges of globalization (Scotland, 2004). The basic education level is of crucial importance to ensure the supply of skilled manpower to be a globally competitive economy. The data in Table 6 shows some important indicators, which reveal the basic educational achievements of South Asian countries including Pakistan. In terms of government educational expenditures as percentage of its respective GDP on education of people, only Maldives and Sri Lanka are spending a sufficient percentage of their total GDP on basic education of the people. The rest of the countries are spending relatively less amount on general education of people. Pakistan has a provision of only 2% of gross domestic product on education, which is the minimum percentage in all of the South Asian countries. Keeping in view the expenditure on education, Maldives has highest adult literacy rate in the region of 96.3% followed by Sri Lanka, *i.e.* 90.7%. Pakistan is second last in the region terms of literacy rate. Moreover, in terms of the combined tertiary enrollment ratios, Pakistan is at the lowest position in comparison to the other countries of the region. It is evident from table 6 that sufficient allocation of financial resources is required to achieve adequate quality of education at different levels and to gain economic competitiveness through human resource development.

TABLE 6

## Government Expenditures on Education and Performance

Countries	Public Expenditure on Education (%age of GDP)	Adult Literacy Rate	Gross enrolment ratio for primary, secondary and tertiary schools	Tertiary students in science and engineering etc. (% of tertiary students)
Bangladesh	2.2	39.2	57	13
Bhutan	–	–	–	–
India	3.3	61.0	62	22
Maldives	8.1	96.3	69	–
Nepal	3.4	48.6	57	–
Pakistan	2.0	49.9	38	–
Sri Lanka	6.2	90.7	64	–

Source: UNDP, *Human Development Report 2006*

**SKILLED AND KNOWLEDGE-BASED PROFESSIONALS**

The segregation of skilled and knowledge-based professionals in Pakistan and other countries of South Asian region are reported in Table 7. It is evident from the data that Pakistan is utilizing a very low percentage of its workforce on the professional, technical and managerial position, *i.e.* less than 20% of the total employed workforce. Majority of the people are working in agriculture and industrial labour force at front line. The ratio of labour force to total employed persons is quite higher in the South Asian countries, *i.e.* more than half or even two-third of the total employment which seems to reflect a characteristics of relatively labour-intensive economy. However, Pakistan is in a better position as compared to the rest of the region in terms of utilizing its workforce at administrative and professional levels. However, there is still a need to increase the proportion of professional, technical and managerial sections of workforce in Pakistan as well as in South Asian countries. To gain economic competitiveness, the existing education and technical training institutions need to be geared towards producing the required mix of skills in the workforce with different education and training levels.

TABLE 7

Employment by Major Occupational Groups (Percentage of Total Employment)

Countries	Bang-ladesh	Bhutan	India	Mal-dives	Nepal	Pakis-tan	Sri Lanka
Professional, Technical and Related Workers	3.89	–	–	16.19	2.57	6.86	9.93
Managerial workers	0.22	–	–	4.41	0.17	11.48	8.27
Clerical and related workers	3.43	–	–	5.33	1.13	1.64	4.48
Sales workers	14.77	–	–	12.87	2.11	2.34	3.89
Service workers	4.47	–	–	17.93	3.09	2.82	4.57
Agriculture, forestry, fishermen and hunters	51.36	–	–	13.41	70.26	34.92	24.05
Production and related workers, transport and labourers	21.87	–	–	29.86	20.67	40.18	44.82

Source: ILO, *Year Book of Labour Statistics* 2006

## V. CONCLUSION AND POLICY IMPLICATIONS

The 21<sup>st</sup> century has witnessed fast changing global technological conditions and huge capital mobility in countries with developed infrastructure, skilled manpower, security and political stability. These factors pose a greater challenge for the developing countries in the wake of globalization process. These rapidly changing factors urge developing regions in general and developing countries in particular to respond to these global challenges with integrated and concerted efforts. The strategies like integration of available capital to the regional countries, indigenous capabilities and technologies through joint ventures and technology transfer are vital for the sustainability of developing regions.

Pakistan has not positioned itself to benefit substantially from the opportunities created by the globalization. The weak skill base is one of the major factors effecting the competitiveness and integration with the world markets. Development of human resource would help Pakistan to deal with the phenomenon of globalization effectively. The process of integration would be strengthened by the interaction of professionals, intellectuals, political scientists, technological experts, trade and industry circles, writers and policy makers of the country with the rest of the world. The problem of poverty, weak social and economic indicators and barriers of global trade policies can be overcome by the acceleration of regional economic activities and macroeconomic stability. Moreover, the manpower export should be an aggressive marketing agenda for Pakistani officials, which will help in decreasing poverty, and positive impact on the macroeconomic indicators through increased remittances and employment opportunities.

Positioning through education and training to face the challenges of globalization and competitiveness in the wake of skilled-based society is the major problem of Pakistan. Moreover, to promote the economic growth, employment creation and development of social sector and integrated set of labour market policies is needed. Acquisition of relevant knowledge and demand-based skills to be competitive and for sustainable growth is the main requirement of globalization. Although the promotion of education and training has been a part of ongoing efforts of Pakistan, however, this slow progress needs a focused and object-oriented approach to achieve desired results to become a skilled-based society. It is imperative to create favorable conditions for a knowledge-based economy in Pakistan in order to generate long-term competitiveness. The focus should be on the areas that will support the growth of the creative potential and economic competitiveness of the country. For this purpose, while making the strategy, Pakistan should focus on essential structural reforms and creating conditions for the development of a knowledge-based economy.

Basic education for all is the key to securing long-term competitiveness of human resources in Pakistan. The level and type of education must be relevant, provide general skills to the people and must be demand-driven with respect to the market needs and requirements. Moreover, familiarity with the use of information

technologies is one of the best means of transforming the nation into a dynamic, knowledge-based economy. High IT literacy must be insured in all the age and social groups and internet access must be expanded to grab the benefits of global libraries. Introduction of information technology should be in the syllabus of both traditional and modern professional education for all the students and teachers and private companies should be encouraged to develop the information technology services to general public.

Research and development is another essential aspect of the knowledge-based economy and therefore, Pakistan needs a wide variety of researchers who could be able to carry out high quality applied scientific research. The gap between the industry and university should be bridged up properly so that scientific knowledge and research could be materialized into industrial output, which would further contribute to the economic growth. Unfortunately in Pakistan, the total investment in research and development is negligibly low as compared to the other developing and developed countries like Korea, Malaysia, Singapore, Thailand, India, China, and Japan (Khan, 2005). The national research and development bodies should take into considerations the importance of R&D in the perspective of globalization and increasing competition and take suitable actions to improve the R&D activities.

Combining the human development policies with other economic and social policies would lead towards development of competencies that Pakistan could have in its skilled and educated labour force. However, some sectors like health, population control and welfare, availability of clean water and sanitation to the general public, working conditions for labourers, and pollution control are the issues that cannot be deferred until Pakistan eventually meets macroeconomics successes in trade and FDI. These sectors do need parallel attention and the government should simultaneously push these factors for sustainable economic and social development of the country.

## REFERENCES

- Beynon, J. and D. Dunkerley (2002), General introduction. In J. Beynon and D. Dunkerley (eds.), *Globalization: The Reader*. London: The Athlone Press.
- Board of Investment (2006), *Annual Report*. Islamabad: Government of Pakistan.
- Cho, E. and G. N. Mclean (2004), What we discovered about NHRD and what it means for HRD? *Advances in Developing Human Resources*, Volume 6(3), pp. 382-393.
- Debrah, Y. A. and G. Ofori (2006), Human resource development of professionals in an emerging economy: The case of the Tanzanian construction industry. *International Journal of Human Resource Management*, Volume 17(3), pp. 440-463.
- Dollar, D. (1992), Outward oriented developing economies really do grow more rapidly: Evidence from 95 LDCs 1976-1985. *Economic Development and Cultural Change*, Volume 40(3), pp. 523-544.
- Ghai, D. (1997), Economic globalization, institutional change and human security. *Discussion Paper*, Geneva: United Nations Research Institute for Social Development.
- International Labour Organization (2001), Life at work in the information economy. *World Employment Report 2001*, Geneva: International Labour Office.
- International Labour Organization (2006), *Yearbook of Labour Statistics*. Geneva: International Labour Office.
- International Institute for Management Development (1995), *World Competitiveness Yearbook 1995*. Switzerland.
- Khan, A. K. (2005), Human resource development, competitiveness and globalization: A South Asian perspective. *SAARC Journal of Human Resource Development*, Volume 1(1), pp. 5-54.
- Meister J. C. (1994), Corporate quality universities: Lessons in building a world class workforce. *American Society of Training and Development (ASTD)*. Illinois: Irwin Publishing.
- Muqtada M. and A. Hildeman (1993), *Labour Markets and Human Resource Planning in Asia: Perspectives and Evidence*. UNDP and ILO Asian Regional Team for Employment Promotion (ARTEP).
- Planning Commission (2005), *Medium Term Development Framework 2005-10*. Islamabad: Government of Pakistan.
- Rao, T. V. (2004), Human resource development as national policy in India. *Advances in Developing Human Resources*, Volume 6(3), pp. 41-49.

- Reich, R. B. (1991), *The Work of Nations: Preparing Ourselves for 21 Capitalism*. New York: Alfred A. Knopf.
- Rodrik, D. (2002), What is Wrong with the (Augmented) Washington Consensus? Unpublished paper.
- Sachs, J. D. and A. W. Warner (1996), Achieving rapid growth in the transition economies of Central Europe. *Working Paper* No. 116, Stockholm Institute of East European Economies.
- Scotland, M. (2004), National human resource development in St. Lucia. *Advances in Developing Human Resource*, Volume 6(3), pp. 355-362.
- Thurow, L. (1994), *Head to Head: The Coming Economic Battle among Japan, Europe and America*. New York: Morrow.
- UNCTAD (2006), *World Investment Report 2006*.
- UNDP (2005), *Human Development Report 2005*. New York: Oxford University Press.
- Walter, E. (1995), *Closing the UK's Compositeness Gap in Europe Productivity Ideas*. Brussels: European Association of National Productivity Centres.
- World Economic Forum (2006), *The Global Competitiveness Report*. Geneva.
- Yussof, I. and R. Ismail (2002), Human resource competitiveness and inflow of foreign direct investment to the ASEAN region. *Asia-Pacific Development Journal*, Volume 9(1), pp. 89-107.