

Human Capital as a Determinant of Foreign Direct Investment: Egypt's Case.

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ABSTRACT

In a new environment characterised by liberalisation of trade and investment regimes, the potential gains from inward investment are more likely to be realised than ever before. Countries' world-wide are competing to attract foreign direct investment (FDI) because of its spill-overs effects on the host country. But to attract FDI is not an easy task. There are many factors that may affect on the location of FDI, however only human capital factor is analysed in this paper. The paper justifies why only human capital, and why human capital now, is chosen to be studied. It is applied study on foreign investment in Egypt. It is found that, in general, labour skill is important factor for the whole companies investing in every sector, but the significance of skill is found to be varying from one sector to another. It is found also that labour skill in Egypt is considerably lower than the other competitor countries. The study depends on a survey conducted with a sample of foreign companies investing in Egypt. The SPSS statistical program package has been used in the analysis.

Keywords: Foreign direct investment (FDI), Labour skill, Multinational corporations (MNC).

Abbreviations

FDI	Foreign direct investment
MNC	Multinational Corporations
WTO	World Trade Organisation
WIR	World investment report
ILO	International Labour Organisation
HDR	Human Development Report
IFC	International Finance Corporation.
UNCTAD	United Nation Conference for trade and development

Introduction

The globalisation of the world economy especially the economic integration between north and south, and world-wide privatisation policies particularly which followed the Soviet Union, are facilitatory to foreign investors. These have given foreign investments new dimensions especially in the developing countries. Most host countries, particularly the developing one have liberalised their FDI regulations since early 1980s. Many are now actively trying to encourage foreign firms to invest and to enjoy the benefits of inward FDI. What is noticeable is that, while FDI is surging, other forms of capital flows to developing countries are diminishing. Aid has continuously declined as a share of capital inflows since the 1960s, when it was the most important source of external finance for developing countries; it now accounts for only one fourth of their capital inflows. Commercial loans, a major source of capital flows in the 1970s, have virtually disappeared since the debt crisis of the 1980s.

Portfolio investment, which boomed when stock markets in developing countries caught the attention of investors in the 1980s, is important but is also volatile and risky - as demonstrated by outflows from Mexico in December 1994. Even after the financial crisis in Asia, the only welcomed foreign capital is FDI. That is because unlike other forms of capital inflows, FDI almost always brings additional resources- technology, new jobs, management know-how, and access to export markets - which are desperately needed in developing countries (P. Athukorala 1997).

Egypt is one of the developing countries that look upon foreign direct investment as a vital and important catalyst in the achievement of the objectives of development and growth. To deal with the New World economy, the Egyptian government has begun its privatisation programme in 1990 under the sponsor of both the World Bank and the International Monetary Fund (IMF).

Egypt is the most populated country in the Middle East, with more than 65 million and according the World Bank, before the end of the 1990s, 6 million new jobs will be needed to keep pace with new entrants to the job market.

The first aim of the economic reform is to encourage the private sector (domestic and foreign) to create more projects to absorb the new generations that enter the labour market every year. But attracting FDI is not an easy task. Many factors should be exist to offer an attractive market in a world characterised by the openness in every field. In fact this paper is a part of a full Ph.D. research regarding the determinants of FDI in Egypt. It will be more concentrate on one of the determinants of FDI; human capital factor.

How important is labour factor in general and labour skill particularly in companies' investment decision? Does it have the same importance for the all-foreign companies' activities whatever the sector? What is the effect of the new technique age on the importance of human capital in general and for FDI in particular? What is the situation of Egypt's human capital? This paper aims to answer these questions. To know companies' views regarding the importance of human capital and Egypt's labour situation, a survey (self-interviews) had been conducted with a sample of foreign companies investing in Egypt in 1999.

Accordingly, this paper is organised as follows: *section one* contains a discussion to the available literature regarding the importance of human capital in MNC's decisions. Egypt's labour skill situation according to the academic studies and the international organisation's reports is discussed in *section two*. Survey design and hypotheses are introduced in *section three*. Statistical analysis and finding are presented in *section four*. *Section five* contains conclusion and recommendations to the Egyptian policymakers.

Section One

The importance of human capital as a determinants of foreign companies activities.

During the twentieth century, FDI by MNC has witnessed many changes in its characteristics which could be classified in three dimensions. FDI during the first half of the century until the 1960s and the mid- 1970s characterised by natural resources exploitation investment such as investment in oil and mining sectors. That type of investment was more dependent on the mechanical capital than the human capital skill in the host country. And sometimes there was no consideration given to the host country's labour skills. This was the case with American and British investment in the Gulf States during a period between 1950s and mid- 1970s.

Since mid 1970s and 1980s, FDI took another dimension. The weight has moved from natural resources investment to FDI in the manufacturing sectors such as motor vehicle, food processing, and construction investments in the Asian developing countries. These became latter newly industrialised countries. During this period, human capital factor in the host country got more consideration from the MNCs countries (P. Athukorala1997).

However in the 1990s, FDI took yet a new dimension. First more than 50% of FDI was in the services sector such as Banking, Insurance, and tourism. Second, was the technology revolution that depends essentially on the human brains and skills. Because of the dependence on advanced technology of MNCs, advocated human manpower became a crucial component in the MNC's decision. Accordingly, when investing in developing countries, world-class manufacturers tend to locate their factories in areas that have the advanced infrastructure and workers' level of literacy, skills and discipline rather than in areas that offer merely the lowest wages (J. Lindbaek 1997). Sub-Saharan Countries, for instance, have lower wage than most

Asian countries but are failing to attract export- oriented labour- intensive investments (WER 1995).

It is emphasised that the attraction of developing countries is no longer the presence of large protected markets, cheap unskilled labour and exploitable natural resources. Increasingly, FDI flows into competitive and higher technology activity, which require disciplined and productive labour, high skill levels and a supportive network of suppliers (UNIDO, 1990).

The economic success of several east and south-east Asian economies during the last two decades had been translated not merely into increased employment opportunities but also into improvements in the quality of employment (D. Lim 1994). In particular, these countries have conscientiously improved conditions of work and employment as integral components of the process of productivity improvement, coupled with enterprise performance and income levels (R.Kyloh 1997).

For many U.S. multinationals, labour costs are no longer a major determinant of production costs or investment decisions. According to one recent study (D. Spar 1999), for example, even in the member countries of the OECD, labour costs now comprise only 5 to 10 percent of production costs, down from 25 percent in the 1970s. This means that, for most firms at least, cutting the cost of labour is not all that important to their bottom line (D. Spar 1999).

Given a choice, however they would no doubt prefer cheaper labour. But other factors are likely to have an even greater impact on their investment decisions. One of these factors is the need to maintain a stable, well-trained labour pool. Recently, for instance, Intel chose Costa Rica as the site for a \$300 million semiconductor test and assembly plant largely because the tiny nation had a qualified labour pool and an educational system capable of producing the technicians and other employees that the Intel plant would demand.

This decision mimics precisely the findings of a World Bank study that concludes that, even when firms profess an interest in investing in low-wage countries, their actual investment decisions are based on the quality of labour, rather than the price. "While low wages may be desirable," the authors contend, "perceptions of labour quality are key to attracting foreign investment." Other studies support multinationals' preference for disciplined and productive labour as well as for high skill levels over low wages. To assemble the workforce they need, therefore firms invest in countries with better labour standards and higher educational levels: Singapore and Costa Rica, for example, instead of Bangladesh or Haiti (D. Spar 1999).

The workforce skills required in today's economic environment are vastly different from those of 15 years ago. Lifelong learning is now an important part of the business culture. Companies, employees, and future employees have already recognised and acted upon this. They want, need, and demand education anywhere and anytime (Jones 1998).

Therefore, given the supply of skills in the host country, the decision of the MNCs to upgrade technologies depends on the quality of labour it could recruit locally and on the cost of the training it would have to provide (Sanjaya 1995).

It may be argued that investment in education pays off. So does investment in vocational training, as well as enterprise-based training, which helps develop new skills and allows employees and businesses to adjust rapidly to changing technological requirements. An effective training system should create both job opportunities and a comparative labour force through involvement in international markets (L. De Mello 1997).

The experience of East Asia until recently confirms the value of substantial investment in an educated work force. This was most apparent in the fast-growing Asian economies (the Republic of Korea, Singapore, Hong Kong, Taiwan, and China). The development of a skilled

labour force makes an important contribution to development. Educated, trained and a more productive workforce contributes to greater growth and receives commensurate returns from growth (R. Kyloh 1997). As a result of the human capital improvements, the ASEAN countries received more than two thirds of total FDI to the developing countries (Fitzgerald 1997).

The ability to tap the potential contribution of TNCs depends largely on the host economy's own stock of skills and investment in education and training; the policy implications are evident. Singapore offers some excellent examples of centres to create particular skills and TNCs undertook the training in return for the trainees' commitment to work with them for a specific period (UNCTAD 1994).

Also, The United States Government, the top recipient of FDI, played a crucial role in the first phase of development of high-tech industry in three fundamental ways: 1- funding basic research, primarily in universities and public companies. 2- indirectly financing engineering education. 3. being the largest consumer of high-tech products in the early stage of their development. (J. Carnoy, 1985).

It is clear that investors look at the quality of education in the host country, because better-educated workers will be easier to train and will reach their peak output sooner than workers who are not as well educated.

Section two

Egypt's human capital situation and FDI

Foreign direct investment can make an important contribution to Egyptian economic growth, but this effect is not automatic. Its impact depends (among other things) on the quality of investment and the Egyptian domestic determinants. Labour quality not labour cost is one of these determinants (R. Ali 1998).

It is found (Radwan 1997) that labour quality is still a challenge facing Egypt's' attractiveness for FDI. It was estimated that country's minimum wage, including fringe benefits, is \$0.31 per hour, Thailand \$0.47-\$0.58; Cyprus \$0.83; Turkey \$0.74; Israel \$ 2.78-\$3.60; Tunisia \$3.53-\$3.76. Although Egypt has a competitive advantage in labour wages, its share of FDI is lower than all other countries because of the lack of skilled labour (Lindbaek 1997).

There are several factors. Educational and Training system is still very weak to adapt to the new challenges. It is emphasised (Radwan 1997) that the magnitude and structure of the current unemployment situation suggests that neither the education nor the training system has been able to provide the economy with the manpower it needs, both in quantity and in quality, and at the right time.

The current situation of formal education and human capital formation in Egypt leaves much to be desired. Despite tremendous efforts in recent years, educational attainment is low, investments in education are inadequate and the quality of acquired skills is poor, with the resultant declining, and sometimes negative returns to education in the labour market (Duncan 1994).

The difference between the wish list of the education sector and the final allocation in line with available resources imply that such a shortage will be reflected in both the quantity and quality

of educational services. Therefore, it was found that unemployment has hit hard secondary and universities' graduates those who got most investments (Egypt, HRD 1995).

The educational and training programmes in Egypt are not producing people with the skills needed by the private sector. But if Egypt does focus on the importance of education and training, life long education, it can produce the workers and growth in the private sector that it wants. (Arab World 1998)

As a result of these trends, there is no wonder, that productivity in Egypt is rather low; in 1992, GDP per capita in Egypt registered US\$ 600, less than half for other LDCs and one tenth of South Korea's. It was estimated also that Egypt's score is lowest in labour (40 out of 49), and particularly in terms of the skill of the labour force 41 out of 49 countries (Radwan 1997). Also, according to the human development report 1996, Egypt is number 106 as a medium level in human development (HDR 1996).

A shortage of skilled managers has been a complaint of foreign companies doing business in Egypt. Regarding the labour management, Korean companies in Egypt said recruits of skilled labourers and middle managers are especially difficult. On the other hand, they said, recruits of unskilled labourers are easy, and wage levels are not so high compared to neighbouring Middle Eastern countries (D.J. Joo 1996).

According to the Economist magazine (1999), a second handicap is the inadequacy of education throughout the Middle Eastern region. Roughly half of Moroccan and Egyptian adults cannot read or write. The universities are still churning out bureaucrats, not business-minded graduates. Mass illiteracy and high graduate unemployment hinder the development of the broad middle class that is an economic motor in other emerging markets. And they help to explain why domestic savings in both countries are barely half those in Asia's sprinters.

The shortage of skilled labour is a problem facing not only foreign investors but also local ones. In striking confrontation between the minister of labour and Bourg El-Arab city's investors, investors complained because, while youth are unemployed, factories are looking for trained labour, but no one applies, in spite of the high salaries, residence, and free medical services. Factories' owners consider that education policy is the cause of the problem (Al Messa official newspaper, 2/2/2000).

The education system produces un-required, unqualified and untrained labour, and that is the main cause of the unemployment problem. According to engineer Hosam Nagieb, member of the investment association, "factories in Bourg Elarab City could close their doors because of the shortage of skills. The latter problem also led to stopping many export requests because of the shortage of labours that are able to produce products in the international standards" (Ibid.).

In this meeting, investors indicated that, although there is more than seven million unemployed, they advertised many times for skilled workers and no one applies. That is why, engineer Hosam Nagieb asked the ministry of manpower to provide him with 500 worker from East Asia because he could not get them from the local market. There is now more than 18 thousands Asian workers working in Egypt while local youth are suffering from unemployment.

According to investor Adel Ibrahim, "we should understand that there is technical revolution, and we should be ready otherwise, we will find ourselves in one valley and the rest of the world in the other". Investor Ahmed Afify suggested that "theoretical studies should be reduced and the education policy should go with labour market requirements in order not to live this unemployment in spite of our needs for thousands of workers. Finally, according to engineer Tarik Hassan, "how can you say that we have more than seven million unemployed while I am

not able to get 70 worker for my factory. He added that, this problem is facing more than 75 factories in Bourg Elarab City alone” (Ibid.).

In brief, the previous research and international organisations’ reports consider that labour skill is a major problem and stands as an obstacle to Egypt’s attraction to FDI particularly in the industries that require labour skills. But what is the perception of foreign investors who are already investing in Egypt? That is what is going to be investigated in the following two sections.

Section Three

Hypothesis and sample frame

The author has conducted self-interviews with a sample (38 companies) of foreign companies doing business in Egypt. The sample covers companies in different sectors such as manufacturing, services and petroleum. Persons who have been interviewed were chairmen, general managers and commercial or financial advisors. They were either Egyptians or foreigners. Foreigners represent nearly 60 % of the sample. The interviewees’ nationality is considered in the analysis. The assumption is that the interviewee’s nationality, particularly the Egyptian, may affect on his evaluation of the Egyptian labour skills.

The sample covers solely owned companies and joint ventures, large, medium and small size companies. At least 80% of the multinational companies that are investing in Egypt have been covered in the survey. For example, Coca-Cola, Mobile Oil, Shell, JETRO, Hilton, Siemens, Peugeot, Nestle, and Cadbury have been interviewed.

Companies have been asked a large number of questions regarding the determinants of FDI in Egypt. Some questions are related to the economic environment, political, geographical, social and human capital conditions. Some other questions are related to the Middle East political

conflict and the effect of the absence of regional integration in the Middle East on the region's share of world capital inflows particularly FDI. Some other questions are related to the Egyptian tax system and the importance of tax incentives in general.

This paper is more focussed on one of FDI determinants in the host country, which is human capital. The paper aims to determine the weight of labour skill in companies' decisions and Egypt's human capital situation. Accordingly, hypotheses could be categorised as follows:

1. Labour skill is assumed to be important for foreign companies in general. But the weight of importance of skills is assumed to be varying from one sector to the other.
2. Egyptian labour skill is presumed to be respectively lower than other competitors' countries in Asia and Latin America. Also, because of the low skill level, it is assumed that foreign investors find it not easy to get the Egyptian advisors and that represent an obstacle against foreign investors. Analysis to those two hypotheses are findings is presented in the following section.

Section four

Analysis and findings

Since the paper aims to analyse two hypotheses regarding the importance of labour skills and Egypt's human capital situation, the importance of skill is tested first, followed by the second hypothesis.

Hypothesis (1)

The importance of labour skills

As previously explained in this paper, that in a new stage of FDI, it is presumed that human capital and labour skills are going to be more considered in foreign companies' decisions. The assumption is that the host country's labour skill is presumed to be considerably important

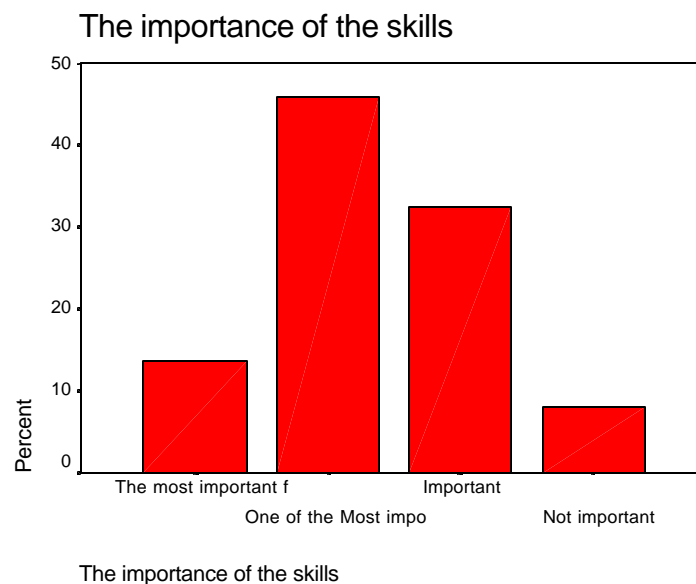
factor for every foreign investing company. But the weight of importance is expected to be varying from one sector to the other. Accordingly; this hypothesis could be presented as follows:

Ho: (The null hypothesis) labour skills are assumed to be important and have the same importance for FDI in every sector.

Hi: (The alternative hypothesis) Labour skills are presumed to be important for every sector but their importance is expected to vary from one sector to the other.

To test this hypothesis, companies were asked three questions regarding the human capital factor. The first question was, how important are labour skills in their investment decision? Using SPSS statistical package, Companies' replies were as shown in Graph 1.

Graph 1



More than 91% of the sample considers labour skills important, one of the most important factor and the most important factor, but only less than 9% believe that skills are not important. In this 91%, 13.5% considers labour skill as the most important factor, 59.5% considers it as one of the most important factors and 32.4 % considers skill as just important.

Hence, the general finding here is that labour skills are an important factor in a foreign companies' decision. The question here “ Does labour skill have the same importance for all types of foreign companies' activities?” The assumption is that, although labour skill is found to be important by the majority of the sample as shown in Graph 1, the weight of importance is assumed to be varying from one sector to the other.

To test this presumption liner regression and cross-tabulation test have been conducted between the sector of activity (independent variable) and the importance of skills (dependent variable) as shown in Tables 1 and 2. It is significantly noted that companies in both services such as tourism and banking and the manufacturing sector such as electronic and pharmaceuticals consider labour skills more than labour costs.

Table 1

The importance of the skills * The Sector of Activity Crosstabulation

Count		The Sector of Activity			Total
		Services	Manufacturing	Petroleum	
The importance of the skills	The most important factor	3	2		5
	One of the Most important	6	6	5	17
	Important	4	7	1	12
	Not important		2	1	3
Total		13	17	7	37

Table 2

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.437	.520		12.389	.000
	DUMSEC	1.513	.697	.349	2.170	.037

a. Dependent Variable: Cost and Skills

Companies were asked a more precise question regarding cost and skills requirements. Respondents had been asked a scale question. They had choices from 1 to 10 to determine the

rank of skill in their decisions. Replies were as shown in the liner regression Table 2. Dummy is used as a proxy for companies in Electronic, Chemical, Oil exploration, Tourism and Banking sectors to see whether there is any significant effect of the sector of activity. Table 2 shows that there is a significance of .03 or (nearly 97%), which is a high level of significance.

The Egyptian labour skill is considered to be important for companies in some activities that require more skills. Within the manufacturing sector, it is found that Companies in Electronics such as Siemens, Pharmaceuticals such as Rhone Poulenc Rover Egypt, Chemical such as Framehem S.A., and Electric components such as Schnaider Electric Egypt SAE give more consideration to the labour skill than labour cost factor.

The same situation is found with the hotel companies such as Hilton, Simeramis, Accor de France. These companies have a higher preference for labour skills (9 out of 10) than labour. However, companies in the food industry (Cadbury), steel (Inco-Steel S.A.E), and the sale of oil products, although skill is considered generally important by these companies, they are giving more consideration to the labour cost than labour skill. For example, companies such as Mobil oil sales, Coca-Cola, and Cadbury consider more the cost than the skills or giving the same rank to both skill and cost.

In brief, the finding regarding the sector of activity as independent variable and the skill factor as dependent variable is proving the alternative hypothesis, not the null one. Hence, labour skill is important factor for FDI in every sector, but the weight of importance varies from one sector to the other according to skill requirements.

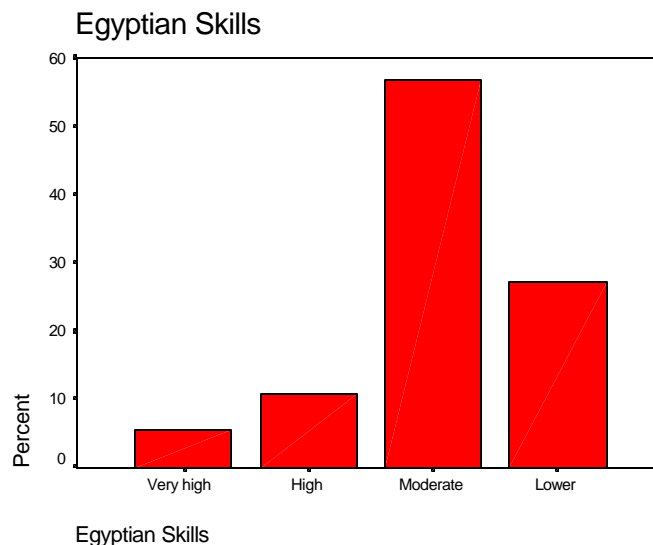
Hypothesis (2)

The Egyptian human capital situation and FDI

After analysing the importance of labour skills in foreign companies' decisions, the other hypothesis is related to the skills standard of the Egyptian manpower. According to the secondary data and the available literature concerning Egypt's labour skill, the lack of skill factor is still a problem facing Egyptian policy makers, and in turn, Egypt's ambition to attract more technical FDI.

During the interviews, companies were asked some questions regarding Egypt's human capital. Responses were as shown in graph 2 and table 3. The first question was “how do you consider Egyptians' skills' level compared to other emerging market?”. Companies' responses were as shown in graph 2. Only 16 % consider Egyptians skills are high and very high, but 57 % consider them as a moderate and 26 % consider it as lower than levels in the other emerging markets.

Graph 2



If the respondent's nationality as shown in tables 3 is considered, then the finding from bar 2 should not be taken as it is. Three out of twelve Egyptians consider labour skill high and very high, in contrast three out of twenty five foreigners consider it high and very high. But 8 out of 25 foreigners consider it lower and only 2 out of 12 Egyptians consider it lower.

The finding here shows how respondents' nationality, particularly Egyptians, affect on their consideration in respect of the Egyptian labour skill level and by implication, the direction of the finding. Result after considering the respondents' nationalities gives a clear indication that Egyptian respondents are more appreciative of Egyptian labour skills. And by separating their answers (see table 3), the finding is significantly different where the choice is mainly between moderate and low level of skills.

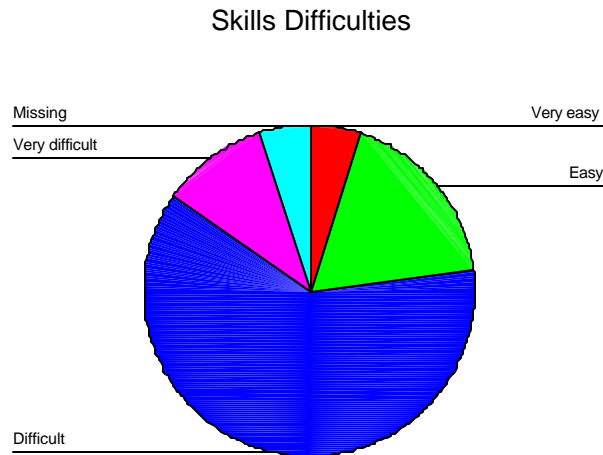
Table 3

Egyptian Skills * Nationality Crosstabulation

Count		Nationality		Total
		Foreigner	Egyptian	
Egyptian Skills	Very high	1	1	2
	High	2	2	4
	Moderate	14	7	21
	Lower	8	2	10
Total		25	12	37

Companies were asked another more precise question regarding labour skills. The question was; whether it is easy or difficult to recruit Egyptian workers who have the required skills. Companies replies were as presented in Graph 3. Nearly 65 % consider it is difficult to find the skilled labour, 11 % consider it is very difficult and only 25 % consider it easy and very easy. Even of the 25 % who considers it is easy, the respondent's nationality has a very significant effect. 6 out of 12 who considered it easy or very easy are Egyptian nationals.

Graph 3



In contrast, 3 out of 26 who considers it is easy and very easy are foreigners. By separating the Egyptian respondents' responses (see table 4), the result will be significantly different where there will be more than 95% who consider it is difficult or very difficult to recruit the skilled labour.

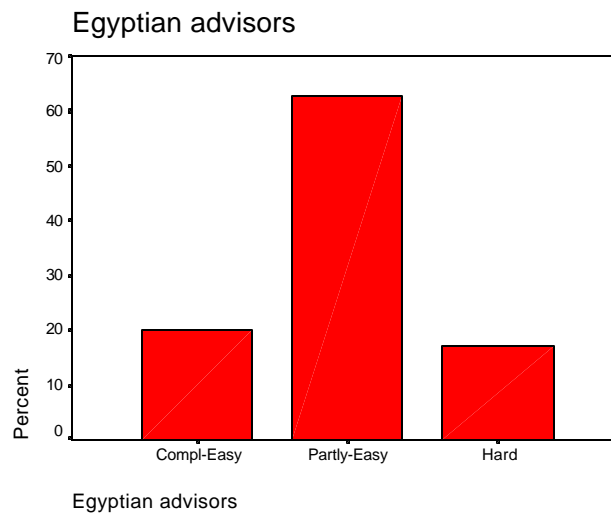
Table 4

Skills Difficulties * Nationality Crosstabulation

Count		Nationality		Total
		Foreigner	Egyptian	
Skills Difficulties	Very easy		2	2
	Easy	3	4	7
	Difficult	20	4	24
	Very difficult	2	2	4
Total		25	12	37

The same situation was found when companies were asked about the difficulty or the ease of getting Egyptian advisers. The general finding is as shown in graph 4. Only 20% consider that it is easy to find local advisers. But nearly 63% considers it partly easy and 17% as hard to find local advisers. This is the general image, but when the respondent's nationality is considered the image will be significantly different (see Table 5).

Graph 4



In their explanation as to why it is partly easy or sometimes hard to find local legal, commercial and accountant advisers, companies have had different views. Companies such as Framchem S.A. replies “ Too many people enjoy the title of adviser or consultants, but it is hard to find a good one”. But this according to German Arab Chamber of Commerce means, advisers are there but they do not have the know- how for the job.

Table 5

Egyptian advisors * Nationality Crosstabulation

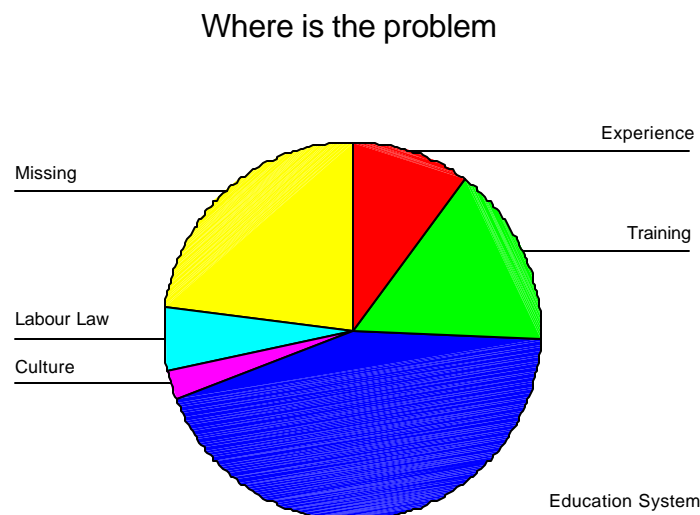
Count		Nationality		Total
		Foreigner	Egyptian	
Egyptian advisors	Compl-Easy	4	3	7
	Partly-Easy	14	8	22
	Hard	5	1	6
Total		23	12	35

While 4 out of 23 foreigner respondents responses were “completely easy”, 3 out of 12 Egyptians respondents’ chose the same answer. But 5 out of 23 foreigners consider “it is hard” but only 1 out of 12 Egyptian consider “it is hard to find the local advisers”. The finding here also shows the significance of the effect of respondents’ nationality, especially the Egyptians, on their choices.

It is noted that there is evidence that labour skill is a problem facing foreign companies investing in Egypt. This imperatively poses several questions. Why are labour skills generally low in Egypt? Is it because of the educational system, training system, or the culture factor or what? Where does the problem really lie?

Companies were asked the following question “ if you find it difficult to recruit skilled labour, where do you think the problem is? In fact it was an open-ended question, where responses of respondents were recorded and classified by the author as shown in graph 5.

Graph 5



The Egyptian educational system is considered by foreign companies (nearly 57%) as the main factor behind the low skills, training (20%) and experience (13%) and other factors such as the labour laws and the culture system in Egypt have also been given as affecting the quality of Egyptian labour. The missing part (25%) of the respondents who did not find any difficulty with the labour (the 25%, see graph 3) and therefore did not answer this item.

The foreign companies have given different explanations for this problem. The most significant problem is found with Egypt's educational system. According to Harmann Reimer SAE (German), both the university and the technical education are not successful. There should be a

medium system such as a higher diploma colleges between university and technical education Mr. M. Alt said.

According to Coca-Cola, “on the administrative level, the university education is underdeveloped. Workers should be sent to be trained abroad. But according to the German Arab Chamber of Commerce, there is no connection between education and the real life experience, which was the same reply by Semiramis hotel.

Also according to the manager of Degremont Egypt, “higher education is not satisfying our needs because it is a governmental education and not connected with the market requirements”.

The manager of INCO-STEEL SAE, said, “A lot of people have diplomas of some sorts, but hardly any experience”.

Some other companies think that beside education there is a problem in the training system in Egypt. According to Sika Egypt (construction), “there are many people who are carrying high degrees, but they have no experience or training”. Also, according to Baehringer Ingelheim Pharma Orient, “Egyptian labour are lack of the international experience and training, which was the same opinion of a manager of Friedrich Haumann Stiftung.

According to Apache Egypt companies, with concerns for the petroleum sector, there are a limited number of experienced geologists, geophysicists, and engineers who have the knowledge of latest petroleum methods. That is why Egyptian nationals who have worked for foreign companies or as experts in other countries are the best.

Besides education, training and experience, some companies consider some other factors as contributing to the poor quality of the labour force, such as culture and the Egyptian labour laws. According to Framchem SA, labour law does not allow to get rid of any employee good or not. But according to Matsushita Elec., “it is a matter of culture. The socio- economic system

should be changed. Workers' positive perception about quality is very important because they perceive a product as being of high quality but may not have the necessary qualification. They pass over a low quality product. This is the reason why local Egyptian products are relatively of low quality. Culture is yet another factor.

Section Five

Conclusion and recommendations

Egypt has done a tremendous job in stabilising its macro-economic imbalances, even better than many European countries. However, in order to ensure future growth and to attract more FDI, the government must address the demographics and education level of its labour force, the most obvious discrepancy between South Korea of the 1970s and Egypt today.

The geographical distribution of FDI showed that it was more concentrated in some specific regions such as USA, EU, ASEAN and Latin America. These regions had competitive advantages that made them attractive markets for FDI. FDI was motivated by many factors and labour skill, not labour cost, was one of them.

According to findings from this study, foreign investors gave high consideration to labour skills in their decisions. However, skill consideration was found respectively to vary from one sector to another. Activities that depended more on human brainpower and skills such as electronics, pharmaceuticals and tourism, highly considered labour skills more important than labour costs. However, companies in activities such as food and the selling of oil products take labour costs more into account - although they did not ignore the skills.

It was also found that labour skills in Egypt are moderately low. However, after considering the respondents' nationalities, a variance was found between foreign and Egyptian respondents.

Egyptian respondents were more appreciative of labour skills in Egypt than foreign ones. However, the general finding of the study was that there is a problem of lack of skilled-manpower, such as consultants, technicians, advisors and experts. When companies were asked about the cause of the problem, they largely identified education as the main problem, followed secondly by training systems, lack of experience, thirdly, and fourthly culture and labour law factors.

Under privatisation policy, it was expected that private sector investment would solve the problem. But as noted in other studies, (Ali & Clarke, 1998; Abdel-Fadil; 1994), there has been a reduction in both private and public investment since the mid-1980, and these trends would reflect negatively on investment in the human development. Dramatic improvements in this area are needed for the Egyptian economy to mature into a fully-fledged tiger (Elguindi, 1997). Hence, it could be said that a clear education and training strategy should be designed.

In summary, the study recommended the following, regarding labour factors, to be considered by Egyptian policymakers:

- The crucial reforms should be intensified in Egyptian human resources. To be a real tiger, as the previous ASEAN tigers, Egypt should invest more in human capital development, which would make Egypt more attractive to FDI, particularly in more advanced activities such as electronics.
- Educational reform is crucial for Egypt to attract FDI. The educational system from the primary school to the university should be re-planned and re-managed by educational, managerial and economic specialists.
- It is detrimental to Egyptian society that professionals are trained and brought to speed regarding FDI in their respective fields of practice (lawyers, judges, tax and custom

authorities, etc.). The private sector and governments must work together to create new human resources policies that better prepare students and workers to meet the challenges of the emerging world economy.

- Universities should be more involved in the national and socio-economic development. More practical work should be conducted. Universities should establish attachment programmes for students with the private sector to obtain practical experience in their relevant specialisms. For example, final year students in science, engineering, and economic studies should spend a few months in practical work in the private sector, “local or foreign”. The government, in co-operation with the private sector, could manage this operation. This practical period before the graduation would be very useful, since it connects theoretical study with practical life.
- Egyptian workers and students should also be sent abroad for more training and experience, to achieve the international standard required by foreign companies. This was the recommendation of many foreign companies represented in the sample.
- Labour standards and labour rights should be improved. For example, the right to strike and the freedom of association could influence the decision of MNCs on the location of investment, in which country to invest, and where specifically to locate in the country (ILO, 1996).
- Social service investment should be viewed as a contribution to industrial development, and not merely as providing consumption goods. Public housing, education, training, transportation and health services all improve labour productivity and efficiency, that is necessary for Egypt to attract more foreign investment (Yang, 1998).

- Manpower has to be sufficiently educated and trained, and domestic non-reproducible inputs have to satisfy minimal quality standards, to justify investment and technology transfers into Egypt. Technology leads to human capital augmentation in the presence of FDI, given that the host country has passed the development threshold needed for the existence of basic labour skills and infrastructure (Blomstrom, 1994).

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