

# Human Capital and Economic Growth In South Asia

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## المخلص :

يعد رأس المال البشري من أهم عوامل النمو الاقتصادي ، ففي معظم الدول فان راس المال البشرى يحدد معدلات النمو الاقتصادي و التكنولوجي و العلمي و ذلك من خلال تطوير لتعليم و التدريب بما يرفع مستوى جودة الحياة بصفة عامة ، فمؤثرات النمو الاقتصادي مثل معدلات الانفاق و الاستثمار في الراس المال البشرى و معدلات التوظيف . ففي العقد الاخير قطعت دول جنوب اسيا معدلات جيدة في هذا المجال مما ساعد في تسريع عملية النمو الاقتصادي هذه الدول (فيما عدا سيريلانكا)، الا ان هناك المزيد للقيام به لتسريع عملية النمو الاقتصادي ،ومن ثم تقترح الدراسة العديد من التوصيات في هذا الشأن :تشمل تطبيق استراتيجيات التنمية البشرية و الاهتمام بجودة التعليم و التدريب و التدريب المهني و الحرص علي تطبيق المحاسبية و الحوكمة و التعاون بين دول الاقليم .

## Abstract:

Human capital is one of the most important factors of a steady and speedy economic growth in most countries. This is usually done through expanding knowledge and skills by upgrading education and training which in turn improves quality of life in general. Increasing economic growth drivers i.e. consumer expenditure, investment in human capital and employment rates are directly interrelated.

Most South Asian countries have accomplished a lot in that matter which participates in a speedy economic growth in these countries.



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Nevertheless, there is more to be done regarding the matter. Recommendations regarding implementing strong human development strategies, quality education and vocational training. Also applying accountability, governance and full corporation among countries of the region.

### **Introduction:**

The term human capital refers to the economic value of a worker's experience and skills. Human capital includes assets like education, training, intelligence, skills, health, and other things employers value such as loyalty and punctuality. Nations require adequate human capital who are educated and qualified as educators and other specialists. Human capital is needed to generate other human capital who will later become a human asset and contribute to the economy of the country.

### **Human Capital and Economic Growth:**

Regarding economic growth, human capital is essential for an accelerated growth and expansion for many countries that provide investment in human capital. This creates competitive advantages for such countries for providing the best situations for work and lifestyles. In most countries, human capital determines the rate of development, economic, technological, and scientific progress.

A significant advantage in generating a stable environment for growth is that the nation has the expanded high-quality human capital in fields like health, science, management, education, and other. The main components of human capital are of course human beings. In other words, the principal component in such a case is a creative, educated, and enterprising person with a high level of professionalism.

### **The Role of Human Capital in Economic Growth:**

In most countries, human capital determines the rate of development, economic, technological, and scientific progress. Human capital leads to more innovations in the areas of production and other related activities. Innovation leads to more growth. Human capital also creates the ability to absorb new technologies. Human capital and economic growth have a strong correlation. Human capital affects



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economic growth and can help to develop an economy by expanding the knowledge and skills of its people through effective education and training.

Referring to human capital as the knowledge, skill sets, and experience that workers have in an economy, provides economic value in the sense that knowledgeable workforce can lead to increased productivity. The concept of human capital is the realization that not everyone has the same skill sets or knowledge. Also, the quality of work can be improved by investing in people's (whether white collars or blue ones) education and training.

### **Economic Growth Drivers:**

Economic growth is an increase in an economy's ability, compared to previous periods, to produce goods and services. Economic growth is measured by the change in the gross domestic product (GDP) of a country. GDP is a representation of the total output of goods and services for an economy. To measure how human capital impacts growth, we must consider two key drivers of economic growth in an economy:

#### **1. Consumer Spending:**

It's estimated that consumers are responsible for a significant percentage of the economic growth in most countries. For as consumers become employed or experience wage increases, they tend to increase their purchases of clothes, cars, technology, homes, and home goods such as appliances. All of that spending creates a positive ripple effect leading to improved employment in various industries. The spending also leads to higher GDP growth throughout the economy.

In a growing economy with growing demand and consumption, businesses tend to borrow from banks to expand production due to the higher consumer demand. The added production also leads to higher wages and increased employment as more workers are needed for the increase in consumer demand for a company's products.

#### **2. Human Capital Investments and Employment Rates:**

Investing in workers has had a track record of creating better employment conditions in economies. If employment is improving, con-



sumer spending rises, leading to increased revenue for companies and additional business investment. As a result, employment is a key indicator or metric for determining how GDP growth may perform. In 2020, The Organization for Economic Co-operation and Development, OECD, found that countries with people who had grammar and high school educations experienced an employment rate among 25–34-year-olds of 72% for men and 45% for women. However, those who had college or graduate education levels experienced an employment rate of 89% for men and 81% for women.

Moreover, companies look to hire workers to help with the increase in sales, it leads to new job openings in various types of employment. But, when the labor market becomes too tight in a fast-growing economy, due to an expanding, companies are forced to train workers for the skillsets needed since there aren't enough available

REAL GDP GROWTH AT CONSTANT MARKET PRICES, 2020 AND FORECASTS

|                     |                      | Real GDP growth at constant market prices (percent) |            |            |            | Revision to forecast from June 2021 (percentage point) |            |
|---------------------|----------------------|---|------------|------------|------------|--|------------|
| Calendar year basis |                      | 2020  | 2021(e)    | 2022(f)    | 2023(f)    | 2021(f)  | 2022(f)    |
| South Asia          |                      | -5.4  | 7.1        | 7.1        | 5.4        | 0.3  | 0.3        |
| Maldives            | January to December  | -33.6   | 22.3       | 11.0       | 12.0       | 5.2  | -0.5       |
| Sri Lanka           | January to December  | -3.6  | 3.3        | 2.1        | 2.2        | -0.1   | 0.1        |
| Fiscal year basis   |                      | FY20/21   | FY21/22(e) | FY22/23(f) | FY23/24(f) | FY21/22(f)   | FY22/23(f) |
| India               |                      | -7.3  | 8.3        | 7.5        | 6.5        | 0.0  | 0.0        |
|                     |                      | FY19/20   | FY20/21(e) | FY21/22(f) | FY22/23(f) | FY20/21(f)   | FY21/22(f) |
| Bangladesh          | July to June         | 3.5   | 5.0        | 6.4        | 6.9        | 1.4  | 1.3        |
| Bhutan              | July to June         | -0.6  | -1.2       | 3.6        | 4.3        | 0.6  | -1.4       |
| Nepal               | mid-July to mid-July | -2.1  | 1.8        | 3.9        | 4.7        | -0.9   | 0.0        |
| Pakistan            | July to June         | -0.5  | 3.5        | 3.4        | 4.0        | 2.2  | 1.4        |



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skilled workers. As a result of such investment in human resources, companies are more productive, while GDP growth rises since business investment is a key component of growth making consumer spending and business investment not only lead to more economic growth but also play a prominent role in determining the level of training and development of workers. The level of economic growth driven by consumer spending and business investment determines the amount of skilled labor needed. Investing in human capital has a track record of creating better employment conditions in economies throughout the world.

**Human Capital and Economic Growth in South Asian Economies:**

The entire planet looks to Asian and other emerging markets to sustain growth momentum as traditional markets in the USA and Europe struggle with the slow or negative economic growth after the global financial crisis due to the Covid -19 pandemic. There is a growing recognition in Asia that the sources of growth must shift to sustain their own growth momentum in the years ahead. Heavy reliance on the region's high savings rates and plentiful supplies of low-cost labor will have to shift towards increasing the human capital embodied in more educated and skilled labor forces capable of contributing to productivity growth and innovation as future drivers of growth.

The Human Capital Formation and Economic Growth in Asia and the Pacific focuses on why and how countries are making this shift. The demographic transition is shown to be a significant factor as ageing populations in Japan, South Korea and China manage declining growth in the labor force by stepping up investments in education, and by changing policies and institutions. Lessons learned from such experiences by more youthful populations in Southeast Asia are explored. Attention is also paid to the consequences of cross-border differentials in technical knowledge and the quantity and quality of human capital. Several implications for public policy and for international cooperation on human-capital issues in the South Asian region are identified.



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Governments and business in Asia and the Pacific can apply the key insight that one of the reasons economies grow is because of human-capital formation – the quality and diversity of the labor force are augmented.

Several South Asian countries are going through a very fast structural transformation where the young population is growing, leading to the challenge of how to train them to meet industry demands.

South Asian countries are expected to continue to provide a huge influx of workers to the global labor market; and the future of the South Asian and global economy hinges on these workers, and on whether they can upgrade their skills to meet changing demand.

Educational and skills challenges constrain the development of human capital in South and Southeast Asia as the region catches up with the rest of the world and achieve the required growth rates in of their economies. The introduction of technical and vocational education and training programs helps prepare new entrants to the workforce by providing quality education and skills development.

**Achievements and Challenges in Education and Skills Development:  
Education:**

There has been a strong educational progress in South Asia, with enrollment ratios at the primary and secondary levels increasing rapidly. This has enabled South Asian countries to narrow the gap with other Asian countries and develop base for human capital investments. The number of years of schooling in South Asian countries also increased significantly, while the percentage of those with no schooling has been reduced, but there remains the challenge of how to train this portion of the population. Greater gaps in schooling accessibility, with 30–50% of the adult population having some secondary education or higher, but around a third remaining with no access to this level of education.

Moreover, despite of a significant progress, there remain disparities in access, participation, and completion across gender, income, and social groups throughout South Asia. Some other Asian economies, gender disparities in educational access have narrowed, bring-



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ing the gender parity index for enrollment closer to 1 (i.e., equal ratios for males and females) in the 2010s, especially at the primary education and secondary levels. However, except in Sri Lanka, for example there remains significant gender disparity at the tertiary level. The high disparity in educational quality and earning outcomes is also an issue affecting both quality of life and economic growth negatively.

School completion rates in the region are also low, as many of those who enroll in school dropout affecting their ability to generate decent income thus affecting consumer behavior and in turn economic growth. Taking India, as an example, about 35% of students who enroll do not reach grade 10 (Sabharwal 2013).

Beyond school attendance, the goal of education is ultimately to improve learning and develop both cognitive and non-cognitive skills. Relevant literature has shown that a substantial part of the variation in individuals' labor market outcomes and differences in national economic growth rates can be explained by the quality, rather than the quantity, of schooling (Hanushek and Woessmann 2008).

In South Asia, educational investments have led to large improvements in access and reduction in enrollment gaps but have not translated into improved learning outcomes. Low learning outcomes across all levels of education in comparison to international standards indicate the poor quality of education (Dundar et al. 2014; Panagariya 2008). This undermines South Asia's competitiveness and economic growth, especially considering the rapid evolution of technology. Nonetheless, South Asian governments are increasingly recognizing that a focus on improving education is essential to fully realize the returns on their investments and increase labor productivity and income thus rapid and sustainable economic growth.

South Asia urgently needs to shift focus from increasing educational access toward improving learning outcomes, especially at the primary and secondary levels, as well as narrowing regional and social gaps in learning (Dundar et al. 2014).

### **Recommendations:**

Recommendations to be considered to develop a more productive,



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well-skilled, and quality labor force for a modern, competitive economy:

- Implementing a human development strategy in line with national development policies in a way relevant to changing demand.
- Broadening access to quality education and skills development training to reduce geographical and gender disparities. Disparities among social groups could be reduced by offering education scholarships to socially or economically disadvantaged students. Empowering local governments and rural communities to demand and use local resources to support better learning outcomes can also reduce geographical disparities.
- Increasing investment devoted to quality of education and skills, partly through improved teacher quality and skills.
- Improving accountability and governance. Greater efforts should be made to improve the autonomy and accountability of school operations. Strengthening monitoring and evaluation mechanisms also helps to improve education outcomes.
- Improving the quantity and quality vocational education at the secondary level as well as in tertiary education.
- Boosting the training quality and skills development systems to meet industry standards and upgrade job skill matching. Public sector should also provide information about employees and expected labor requirements, evaluate performance, and offer training programs for those in the informal sector.
- Articulating sustainable mechanisms for financing using public resources.
- Using closer regional cooperation for human development using information and communications technology in distance education and TVET.





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