Human Capital and FDI: Development Process of Southern Country in an Overlapping Generation Model *

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Abstract

We construct a North-South overlapping generational model with human capital accumulation to analyze the effect of human capital level on foreign direct investment (FDI) in developing country. In particular, we assume that a manufactured goods has the human capital intensive technology and a firm producing the manufactured goods chooses to locate in either the North or the South. We describe that a manufactured goods firms dose not locate in the South when level of human capital in the South is sufficiently low. On the other hand, it can locate both in the North and in the South when the level of human capital in the South is sufficiently high. In this model there exists the possibility of develop trap without the human capital accumulation. The high incidence of young worker is caused by low household income since Southern wage is low without a manufactured sector. We also investigate the effect of the policy that Southern government imposes the subsidy on manufactured goods sector.

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