

## **Impact of Foreign Direct Investment on Higher Education in India**

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### **Abstract:**

Education is becoming vital in the new world of information. Knowledge is rapidly accredited replacing raw materials and labour as the most critical input for survival and success. Higher education enhances a country's capacity for participation in an increasingly knowledge-based world economy and has the potential to enhance economic growth and reduce poverty.

Thus higher education has assumed even greater significance for developing countries, especially for those like India experiencing services-led growth. In this context, the foremost question that arises is: can the Indian higher education system sustain its competitiveness in the world economy and cater to the growing demand for higher education?

We may invite 100% FDI in these sectors under a suitable regulatory framework that ensures quality and standards in curriculum, teachers and assessment systems, etc.

The future of higher education services will also be shaped by domestic factors, including the domestic regulatory framework and the state of the domestic education system in terms of quantity, quality, costs, infrastructure and finances. What's required is adequate infrastructure and more effective registration and certification systems, which prevent unapproved institutions from partnering, which protect and inform consumers, enable good quality foreign institutions to enter the Indian market, and which create a level playing field between domestic and foreign institutions so that the former can compete effectively in a liberalized environment.

### **Introduction:**

Peter Drucker has remarked that the 21st century will belong to services. It's common knowledge that India has comparative advantage, vis-a-vis other developing countries, in services. But whenever any discussion takes place on foreign investment in education, the agenda is often sought to be hijacked by persons offering knee-jerk reactions from extreme left and extreme right of the political spectrum.

We are living in an increasingly globalised and shrinking world. Just as the economy needs foreign investment, technology and markets, huge manpower needs to develop skills by utilising all available investment, technology and resources that can be provided. Unfortunately, we do not have proper regulatory framework to invite private and foreign investment in education.

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Thus higher education has assumed even greater significance for developing countries, especially for those like India experiencing services-led growth. In this context, the foremost question that arises is: can the Indian higher education system sustain its competitiveness in the world economy and cater to the growing demand for higher education? Already doubts have emerged on the existing systems potential to generate required number of high-quality professionals. Lack of resources is not the only issue staring in the face of the government. Existing institutes of higher learning like the Indian Institutes of Technology (IITs) have become complacent. We need to remove the stipulation of 'non-profit' nature from institutions of higher, technical and vocational education to invite more and more investments, both domestic and foreign. We may invite 100% FDI in these sectors under a suitable regulatory framework that ensures quality and standards in curriculum, teachers and assessment systems, etc.

Significantly, no Indian university made it to a recent survey of the 100 greatest universities of the world, while even some Japanese and South Korean universities found mention on the list. According to McKinsey (2005), only 25 per cent of engineers, 15 per cent of finance and accounting professionals and 10 per cent of professionals with degrees, in India, are suitable for work in multinational companies. This high-lights the differential quality standards existing across institutions in the country.

Differential quality standards in higher education are closely linked to the prevailing excess demand for higher education in India and lack of competition among the providers. The excess demand is apparent from the rising number of students going abroad and spending almost \$ 4 billion annually for higher education. The US, the UK, Australia and New Zealand are the main beneficiaries, being large exporters of higher education. On the other hand given the resource constraints of the public sector and prevailing excess demand, the private sector's contribution has been increasing over the years. Given these shortfalls in India's higher education, could liberalisation be the solution? Could opening up the higher education to foreign investors akin to retail, telecom etc. be the panacea we are looking for? One of the major concerns regarding liberalising higher education in India is the possibility of 'commodification/commercialization' of higher education. This may result in high fees adversely affecting a large section of the society. Besides there has been large scale skepticism concerning the foreign investor commitment to the larger social goals and quality of their packages.

#### **Scenario of Education In India:**

INDIA is the third largest higher education system in the world (after China and the USA) in terms of enrolment which in 2005-06 was over one crore five lakhs. In terms of the number of institutions, India is the largest higher education system in the world with 17,973 institutions (348 universities and 17,625 colleges), Of these, there are 63 unaided deemed universities with enrolment of 60,000 students, and 7650 unaided private colleges with enrolment of 31, 50,000

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students. Even with such a huge system in place, higher education in India is in a miserable condition. This poses a severe constraint on the supply of qualified manpower. Though student enrolment grew at an estimated rate of seven per cent between 1987 and 1993, it has now declined to the 5.5 per cent compound rate of growth.

Even then, after nearly six decades of independence, higher education is not accessible to the poorest groups of the population. Hardly seven or eight per cent of the population in the age group of 17-23 years is enrolled in the institutions of higher education. In view of this shortage of public spending, parents and students are increasingly looking to private education for a solution. Enrolment in India has been below the average for the Asian countries.

Of the latter, the South-East Asian countries show much higher enrolment:

Philippines (31 per cent),

Thailand (19 per cent),

Malaysia (27 per cent) and

China (13 per cent) as compared to seven to eight per cent (11 per cent according to the consultation paper) in India.

Some of its key arguments were:

- India spends just \$ 406 (about Rs 18,600) per student on higher education. That is just a fraction of what countries like China (\$ 2728 or Rs 125,000), Brazil (\$ 3986 or Rs 182,000) and Malaysia (\$ 11,790 or Rs 540,000) spend.
- Public expenditure on education is only about three per cent of the Gross National Product and only 0.37 per cent of Gross Domestic product is spent on higher education in the country.
- There are only 10.5 million students enrolled in all higher education institutions in India — that is just 11 per cent of the relevant age group (17 to 23) population. Even South-East Asian countries show much higher enrollment: the Philippines (31 per cent), Thailand (19 per cent), Malaysia (27 per cent) and China (13 per cent).

Earlier this year, the Commerce Ministry had come out with a 24-page document—Higher Education in India and GATS—supporting FDI in the sector. Commerce Secretary G K Pillai hinted that the idea was to evolve a consensus on opening up higher education to foreign investment, even 100 per cent FDI. Making a strong case for foreign participation in higher education in India, the consultative paper drafted by the Commerce Ministry says: “GATS (General Agreement on Trade and Services) could provide an opportunity to put together a mechanism whereby private and foreign investment in higher education can be encouraged subject to high quality standards and efficient regulation.”

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According to the consultation paper, the Asian countries had 3,25,000 students in US colleges and universities in 2004-05, including 80,466 from India, 63,000 from China, 53,000 from South Korea and 42,000 from Japan. Further, 15,000 Indian students were enrolled in the UK, 22,279 in Australia and 2567 in New Zealand. The USA is the largest exporter of education services in the world. The other large exporters are the UK, Australia and New Zealand.

Developing countries such as India and China are the largest importers of education in the world. In 2004, nearly 14 per cent of all international students in the US were from India. In order to strengthen the case for trade in education services, the consultation paper quotes a recent McKinsey-NASSCOM study that “the total addressable global offshoring market is approximately US 300 billion dollars, of which US 110 billion dollars will be offshored by 2010”. Education itself generated as much as 13.4 billion dollars in export revenues for the US in 2003. The US has therefore benefited enormously as a result of these revenues, which have come in through this Mode.

The consultation paper therefore asserts that “there is a huge excess demand in India for quality higher education”, which is being met by “foreign campuses”. The Commerce Ministry recommends: “Services negotiations (in WTO ) could be used as an opportunity to invite foreign universities to set up campuses in India, thereby saving billions of dollars for the students travelling abroad.” Therefore, the consultation paper advocated for “a balance” between “domestic regulation and providing adequate flexibility to such Universities in setting syllabus, hiring teachers, screening students and setting fee levels”.

### **The Mirage of FDI:**

For India to make the most of its demographic dividend, it is imperative high-quality higher education is imparted to its teeming youngsters. But the future scenario in the education sector, after the General Agreement on Trade in Services (GATS) becomes operational, is highly uncertain. Chalking out ‘The Roadmap for the Future in Higher Education’ in a FICCI background paper, Prof Sudhanshu Bhushan, Senior Fellow, National Institute for Educational Planning and Administration [NIEPA], points out: “The most important challenge is not just to guarantee the expansion of education, but also to improve its quality and link education to society’s needs and development goals.” There are instances of foreign institutions partnering with unapproved domestic institutions. Degrees awarded under such programmes are not recognised in India. Although the Association of Indian Universities has laid down guidelines for twinning arrangement to ensure genuine partnerships and protect consumers, these guidelines are often violated. There are also instances of false marketing of foreign programmes, wherein institutions claim to have resources that they don’t really possess or give employment guarantees when there’s no international equivalence of degrees. At times, students in twinning programmes have not been able to obtain visas to study abroad at the foreign partner’s campus. It’s also interesting to note that there has been little or no foreign participation in India’s higher education sector through franchises and subsidiaries, that is, forms of participation, which is likely to yield greater benefit to the country’s educational infrastructure. It is only due to the craze for foreign degrees, many Indian students also get taken for a ride by B and C grade foreign universities. A few years back a United States based private commercial institution came to offer higher

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education programmes in Hyderabad. The institute had an office in Malaysia, and it offered its programme from there .it soon folded up leaving faculty and students in a lurch. In some exceptional cases where top tier institutions show interest they come with commercial strings attached. In one such case Carnegie Mellon University Pittsburgh and Illinois Institute of Technology offered postgraduate engineering degrees but they eventually folded up because the fees were too high for an average student to afford.

A survey found that 44 out of these 150 odd programmed are unaccredited and unrecognised in their own countries. These are thriving on the gullibility of Indian students. it is wishful thinking that liberalisation and inclusion of education under GATS would bring foreign investment and bridge the gap between demand and supply but given the facts there are remote chances where foreign investor coming in any real sense. Top-tier institutions like Harvard University, Yale, Princeton and MIT [Massachu-sets Institute of Technology] will only be interested in collaborating with India's outstanding institutions of research and that to public sector institutions.

There is little possibility that they will offer their degree programmes in India. Thus it is highly misleading to think that such institutions will cater to the needs of the poor and disadvantaged section. It is interesting to note that the consultation paper points out that since higher education has low price elasticity, "cost recovery through higher fees will not reduce enrolments. Hence, private funding of higher education is not only more efficient, but also more equitable". It not difficult to imagine that if with the existing fee structure, only about seven to eight percent of the population in the age group of 17-23 years is enrolled in the institutions of higher education, raising the fees will certainly lead to inequity; rather it will decrease the enrolment.

However, it appears that the Commerce Ministry is induced by examples of other countries allowing FDI in higher education. But the study by the Ministry suffers from many lacunae. It is noteworthy that many countries, which allow foreign educational institutions, vigorously protect their national interests and priorities set by their public policies. Case studies of all such countries cannot be provided here, but a few examples can indeed be given. In China, the entry of foreign institutions is by invitation only and the conditions under which the foreign educational provider can come to China include:

- 1) Foreign institutions must partner with Chinese institutions.
- 2) Partnerships must not seek profit as their objective.
- 3) No less than half the members of the governing body of the institution must be Chinese citizens.
- 4) The post of president or the equivalent must be held by a Chinese citizen residing in China.
- 5) The basic language of instruction should be Chinese
- 6) Tuition fees may not be raised without approval.

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Applications for setting up higher education institutions are considered on a case-to-case basis. All countries of the world impose at least some restrictions in relation foreign educational providers. Barriers are most extensive for commercial presence in educational services. Authorities must study the system of regulation and accreditation of Educational institutions in foreign countries. Our own accreditation system and laws for foreign institutions must be developed taking into account the treatment given to them in their respective countries.

**Conclusion:**

IN the light of the above discussion, India must act in its self-interest. She must manage to send a proposal and commit to areas where there are strategic opportunities to be exploited through trade. The World Bank-WTO-GATS dictated policy on higher education, prescribed in the consultation paper, must be reversed. The C.N.R. Rao Committee had cautioned against a hasty approach on the issue. As citizens of India, we have to ensure that the government takes care of public interests and act to protect public services like education from the predatory elements that preach the ideology of the marketplace as the solution to every issue.

In May 2006, a report submitted by the National Institute of Educational Planning and Administration warned against a “commodification” that could lead to “lopsided development of higher education”. The approach of the government is focusing on short-term market concerns. The immediate need is to plug the gap between opportunities in industry and the availability of matching skills. The future of higher education services will also be shaped by domestic factors, including the domestic regulatory framework and the state of the domestic education system in terms of quantity, quality, costs, infrastructure and finances. What’s required is adequate infrastructure and more effective registration and certification systems, which prevent unapproved institutions from partnering, which protect and inform consumers, enable good quality foreign institutions to enter the Indian market, and which create a level playing field between domestic and foreign institutions so that the former can compete effectively in a liberalised environment. Once such a regulatory framework is in place, India needn’t fear scheduling education services under GATS.

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