A study on globalization of higher education through foreign direct investment: a phase to be engaged or not in India?

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Abstract

Higher education is assuming an upward significance for developing countries, especially countries including India which is experiencing service-led growth. Higher education is all about generating knowledge, encouraging critical thinking and imparting skills relevant to this society and determined by its needs. Education general and higher education in particular, is a highly nation-specific activity, determined by national culture and priorities. The growth of India's higher educational institutions has indeed been outstandingly rapid. The numbers of universities have doubled since 1990-91, and enrolment has become more than doubled. But this has been at the expense of quality, increased rigidity in course design, poor absorption of knowledge, and growing lack of access to laboratory facilities, journals and opportunities for field work, etc. The average Indian graduate compares poorly with her/his counterpart in many developing countries. All this calls for reform, administrative changes, more funding, greater flexibility, quality improvement, etc.

Introduction

Higher education is assuming an upward significance for developing countries, especially countries including India which is experiencing service-led growth. Higher education is all about generating knowledge, encouraging critical thinking and imparting skills relevant to this society and determined by its needs. Education general and higher education in particular, is a highly nation-specific activity, determined by national culture and priorities. The growth of India's higher educational institutions has indeed been outstandingly rapid. The numbers of universities have doubled since 1990-91, and enrolment has become more than doubled. But this has been at the expense of quality, increased rigidity in course design, poor absorption of knowledge, and growing lack of access to laboratory facilities, journals and opportunities for field work, etc. The average Indian graduate compares poorly with her/his counterpart in most countries, including many developing ones. All this calls for reform, administrative changes, more funding, greater flexibility, quality improvement, etc.

In 2007, the Indian Government announced a nine fold increase in higher education spending over the next five years. While this came as good news to a sector characterized by limited supply and uneven quality, four years later it is apparent that a more intensive effort is required. For India to maintain its limited supply and uneven quality, four years later it is apparent that a more intensive effort is required. For India to maintain its economic growth in a global marketplace fueled by the knowledge economy, it needs to nearly double its number of students in higher education by 2012. Fifty-one percent of India's population is under the age of 25. Without proper access to education the country's demographic dividend could turn into a demographic disaster.

India is one of the most attractive education markets but historically the government has not encouraged foreign participation in this sector. It faces a massive challenge to provide education to young people, especially in remote locations. According to the National Knowledge Commission estimates, the country needs to build 1,500 universities within a period of five years to endow enough people with the skills to sustain rapid growth.

Given this state of higher education in India, could liberalization be the way out? The major concern regarding such liberalization is that it can lead to commercialization of higher education which may have an effect on a large section of society adversely. This Paper would try to look at the scope for FDI in higher education in India, assess the regulation of higher education in regard to its ramifications for FDI and make recommendations for change.

Objectives

The basic aim is to focus on the following aspects:

* To study the status of Indian higher education system
* To study the need of FDI in higher education in India.
* To analyze the importance of regulatory bodies in inviting the foreign universities.
* To study the implications of bringing in FDI in Indian higher education
* To study the aspects of FDI entry in different countries in higher education.

Review Of Literature

The importance of FDI and human capital accumulation or education for economic growth has been largely discussed in many literatures. Economic theory recognizes FDI and human capital as two important conduits for economic growth. FDI can contribute both directly as well as indirectly to the growth of an economy, by improving knowledge, technical knowhow and technology spillovers, by boosting capital stock and by instigating domestic production and consumption (Feenstra and Markusen, 1994).

1. There is also a lot of literature on the FDI - human capital - economic growth triangle. Stijns (2001, 2006) in his study of the role of natural resource abundance on human capital
2. Accumulation in various developing and developed countries suggests that FDI can have a lasting effect on a country's per capita income through a higher human capital stock.

3. Intuitively, as Beugelsdijk et al. (2008) have shown for the impact on economic growth, FDIs should have different impacts on human capital accumulation and education depending on the type of FDIs. Vertical FDIs or efficiency-seeking FDIs look for cost advantages, mostly cheap low qualified labour. On the contrary, it may lead to specialization into low value added products, thus providing the local population little incentive to participate into higher education. Horizontal FDIs or market-seeking FDIs pursue increased market shares in the host countries, competing directly with one another as well as with the local firms. This is generally synonym to technology transfer, thereby contributing to the host country's technological upgrading and human capital accumulation. Accordingly, MNEs, usually associated with FDIs, seem to be responsible for a large part of R&D activities, which are human capital intensive (UNCTAD 2004). Furthermore, recent data show that most of Greenfield R&D projects have been conducted in developing countries, suggesting that this type of FDIs should boost skilled labor demand and thus, participation into higher education.

4. In similar vein, Ram and Zhang (2002) concluded that while the interaction between human capital and FDI might have been important in the 1980s, it was no longer the case in the 1990s. Using data for 29 provinces from 1978 to 1999, Zhuang (2008) finds that FDI contributes to the accumulation of skilled labour and the participation in middle school education. The findings are that the increase in share of population with college education and professional and technical education is larger in provinces with economic and technological development zones (ETDZs) relative to other provinces.

5. Mazhar Mughal & Natalia Vechiu (2010) investigated the determinants of tertiary and secondary education for the period 1999 to 2006, with a special focus on FDIs and economic growth. The paper analyzes two samples of low-income and middle income developing countries. The paper confirms the theoretical proposition that a country's growth rate exerts a strong positive impact on education. Per capita GNI is found to have a very strong positive impact on both levels of education in both groups of countries. However, it seems that the importance of GNI in the evolution of education enrollment is much higher in the LICs than in the MICs.

**Discussion**

**Structure of higher education**

Knowledge is the driving force in the hastily changing globalized economy and society. Quantity and quality of highly specialized human resources establish their competence in the global market. It is now well recognized that the growth of the global economy has amplified opportunities for those countries with superior levels of education and vice versa. India is no exception to this global observable fact. As part of globalization, the economic reform packages were introduced in India in the beginning of 1991. These reform packages have imposed a heavy compression on the public budgets on education sector in general and higher education in particular.

India is the third largest higher education system in the world (after China and the USA) in terms of enrolment. Unlike China or other Asian economic powerhouses, India's growth has not been led by manufacturing. Instead, the nation's pool of skilled workers has allowed India to go quickly up the economic value chain in several knowledge-based industries. According to a report by the New Delhi-based think tank ICRIER, India is home to the world's biggest pool of scientific and knowledge workers, and produces 400,000 engineers each year while the United States produces 60,000. According to the same report, in August 2006 India filed 1,312 patent applications, second only to the United States. Also, in terms of the number of institutions, India is the largest higher education system in the world with 17973 institutions (348 universities and 17625 colleges). This means that the average number of students per educational institution in India is worse than that in the US and China. In US and UK, percentage of enrolment in higher education is 82.4 and 60.1 respectively. In India, regardless of recent increment due to private players, current enrolment is merely 12 %. Even South East Asian countries have higher enrolment rate like 31 % in Philippines, 27% in Malaysia, 19% in Thailand and 13% in China. To maintain the positive trends and an economic growth rate of 7 percent, India's higher education gross enrollment ratio (GER) would need to boost from 12 to 20 percent by 2014.

According to United Nations Educational, Scientific and Cultural Organization (UNESCO), public spending on higher education in India has one of the lowest public expenditure on higher education per student at US 406 dollars, which compares adversely with Malaysia (US 11,790 dollars), China (2728 dollars), Brazil (3986 dollars), Indonesia (666 dollars) and the Philippines (625 dollars). This expenditure in the USA is 9629 dollars, in the UK 8502 dollars and in Japan 4830 dollars. India needs to deal with issues of both quantity and quality.

Every year nearly 0.4 million Indians go abroad for higher studies spending approximately $ 12bn. This leads to not only loss of foreign exchange, but also 'Brain Drain', as most of these rarely come back to India subsequent to completing their courses. The primary reason for a large number of students seeking professional education abroad is lack of capacity in Indian Institution. There is no doubt that the state of affairs in public universities in India is not so good. Also, with increasing enrollment in higher education, it is not probable for the government to provide higher education on its own. But, the private institutions are themselves ailing. Many don't have experience and many are trying to just grow money without quality.

**Regulatory Bodies And Government Initiatives For Providing Higher Education**

At present India is allowing 100% FDI in higher education through automatic sector. But, still no university has established a campus here, due to a large no. of guidelines and regulation. Also, many rules are vague. Indian government is trying to pass a bill, The Foreign Educational Institutions Bill, in the parliament to directly allow 100% FDI in higher education. Right now 106 institutions are running programmes in India with collaboration with foreign universities. But, only 2 out of 106 are approved by AICTE (All India Council for Technical Education). Indian government does not allow foreign universities to honor any separate degree. It could only provide dual degree with collaboration with local institutions. Currently, many degrees given by these foreign universities are not even recognized in their own countries.

The main governing body at the tertiary level is the University Grants Commission (India), which enforces its standards, advises the government, and helps coordinate
between the centre and the state. As of 2009, India had 20 central universities, 215 state universities, 100 deemed universities, 5 institutions established and functioning under the State Act, and 13 institutes which are of national importance. Most of these institutions are public funded. Some of these institutions have been globally applauded. However, India has failed to produce world class universities like Harvard, Stanford, Oxford, Cambridge or the Massachusetts Institute of Technology (MIT). If The Foreign Educational Institutional Bill will be passed, it will not only permit foreign universities to set-up campuses and award degrees in India, but simultaneously facilitate Indian government regulation of their operations.

The purpose of the bill is to regulate entry, operation and quality of education by the foreign universities. The bill will allow them to earn the status of Deemed University, which in turn will make them come under the domain of University grant commission (UGC). The foreign universities then have to invest at least 51% of the total expenditure for such establishments.

Features Of The Foreign Educational Institutions Bill

No foreign institution can provide degree to Indian student unless such institution is confirmed as Foreign Educational Provider by Indian Government

- At least twenty years of establishment in its own country
- Have to maintain a fund of at least 500 million rupees Quality of education, curriculum, method of imparting and the faculty employed will be in accordance to guidelines of UGC
- At max 70% of the income raised from the fund can be utilized in the development of institution in India and rest should be added to the fund. No part could be used in any other purpose other than growth and development of the institution established by it in India

Institution has to publish prospectus writing clearly about fee structure, refund norms and amount, number of seats, condition of eligibility with min and max age, detail of faculty, process of admission, min pay payable to each category of teachers and staff, infrastructure and other facilities, syllabus, rules and regulations, etc. at least sixty day prior to date of commencement of admission

- In case of violation of any guidelines a penalty of min 10 million and max 50 million rupees along with tuition fees should be refunded to the student

Any foreign institution not confirmed by Indian government as Foreign Education Provider which is awarding any certificate to Indian students should submit a report regarding course to the commission

Gats and higher education:

Beyond the establishment of foreign universities, the bill and the government must deal with the relationship between foreign direct investment and education. In 1995, the Indian government signed the WTO treaty the General Agreement on Trade in Services (GATS). The agreement aimed to give the international community access to the Indian services sector by deregulating markets. According to GATS, the private education sector qualifies as a tradable service, and therefore the Indian government is required to remove any barriers to the trade of that service.

India has received desires (for opening up of services) from several countries (Australia, Brazil, Japan, New Zealand, Norway, Singapore, USA) in education services in the new round of service trade negotiations launched in January 2000 (GATS 2000 round), which mostly focus on higher education, adult education, and other education services. All requests to India are for full market access and national treatment commitments. India has not made any proposal in education services in the GATS 2000 round due to sensitive public good nature.

There was a general perception that from January 1, 2005, India is obliged under the WTO to open up its higher education sector to foreign providers and to end public subsidies, with adverse consequences for the quality and affordability of higher education.

It's worth noting that India did not schedule education services either in the Uruguay Round or in its revised commitments under the ongoing Doha Round. Hence, India has no multilateral obligation under the WTO to open up higher education services to foreign participation. Whatever liberalization has occurred in this area, such as allowing 100% FDI on automatic route and permitting foreign participation through twinning, collaboration, franchising, and subsidiaries, has been autonomously driven. But it's unlikely that India will agree to such demands of liberalization in future.

The issue then is largely a domestic one. The impact of opening up higher education services is shaped not by the WTO but by domestic factors, including the domestic regulatory framework and the state of the domestic education system in terms of quality, cost, infrastructure and finances. In this context, evidence suggests that some of the concerns about opening up education services may not be so misplaced.

Judicial Pronouncements

The Courts have played a proactive role in shaping the private higher education in the country. Since early nineties till date, the Supreme Court has been giving inconsistent and puzzling judgments shifting its position from suspecting private sector to the acceptance of the present reality. The historic judgment of the Supreme Court in St. Stephens College v. University of Delhi in 1992 ruled that "the educational institutions are not business houses and they do not generate wealth." In another historic judgment in Mohini Jain v. State of Karnataka in 1992, the Supreme Court ruled the exorbitant fee demanded was in reality a capitation fee with a different tag. These judgments were followed by another landmark judgment in 1993, in J. P. Unnikrishnan v. State of Andhra Pradesh, which revisited the right of the State to interfere in the admission policy and fee structure of private professional institutions. It practically banned high fee charging private colleges, popularly known as capitation fee colleges. Thereafter, several other judgments came.

The loot of the students continued unabated. In 2002, a majority of an eleven-judge Constitution bench of the Supreme Court in TMA Pai Foundation v. State of Karnataka, while upholding the principle that there should not be capitation fee or profiteering, argued that "reasonable surplus to meet the cost of expansion and augmentation of facilities, does not however, amount to profiteering."

The seven-judge bench of the Supreme Court delivered its verdict in P A Inamdar &Anr. v. State of Maharashtra case on 12 August 2005. It held that states have no power to carve out for themselves seats in the unaided private professional educational institutions; nor can they compel them to implement the state’s policy on reservation. It further held that every institution is free to devise its own fee structure; but profiteering and capitation fee are prohibited. However, court allowed up to a maximum of 15 per cent of the seats for NRIs. In a situation where the State is increasingly withdrawing itself from the field.
need to have enough money to spend on this area. But, the problems are others too which FDI will focus. FDI in higher education will solve the problem of enrollment rate as we are in a situation of less supply high demand. Indian money and talent going abroad will come in check. Infrastructure will improve. Some new methods and technology will be used in teaching. It might happen that India may develop one of its own world class universities. India needs to fill the technological lag as fast as it can to compete with China. An increase in facilities, both in terms of physical magnitude and geographical spread, for inculcation of vocational skills backed by an increase in the general quality of higher education. The resulting competition with local universities would also induce us to become internationally competitive through quality improvements brought about by changes in curricula and other responses to an evolving market. Further, FDI in education would generate employment. Allowing FDI in education might lead to export of Indian education abroad in which there are large potentials. There will be better scope for research as foreign universities have different methodology to run and generate revenues. India may move towards practical study based learning rather than rote learning. Existing institutions need to be rebranded to overcome their poor image. Offered as a two-year associate degree with a strong skills focus and easy mobility into the mainstream higher education system, short-cycle higher education could be a less expensive and more relevant alternative to private professional education.

Need For Foreign Investment

If we look at the problem India is facing in expansion of higher education, one may say that FDI are being acceptable just because we don't have sufficient money to spend on this area. But, the problems are others too which FDI will focus.

1. FDI in higher education will solve the problem of enrollment rate as we are in a situation of less supply high demand.
2. Indian money and talent going abroad will come in check.
3. Infrastructure will improve.
4. Some new methods and technology will be used in teaching.
5. It might happen that India may develop one of its own world class universities.
6. India needs to fill the technological lag as fast as it can to compete with China.
7. An increase in facilities, both in terms of physical magnitude and geographical spread, for inculcation of vocational skills backed by an increase in the general quality of higher education.
8. The resulting competition with local universities would also induce us to become internationally competitive through quality improvements brought about by changes in curricula and other responses to an evolving market.
9. Further, FDI in education would generate employment.
10. Allowing FDI in education might lead to export of Indian education abroad in which there are large potentials.
11. There will be better scope for research as foreign universities have different methodology to run and generate revenues.
12. India may move towards practical study based learning rather than rote learning.
13. Existing institutions need to be rebranded to overcome their poor image.
14. Offered as a two-year associate degree with a strong skills focus and easy mobility into the mainstream higher education system, short-cycle higher education could be a less expensive and more relevant alternative to private professional education.

Experience Of Other Countries In Respect Of Fdi In Higher Education

India can use profit as a channel to raise the quality of education as done by other countries. We could take example of Singapore in the matter of framing the policy for foreign investment in scientific research. Singapore allows only world-class institutions to enter, and that only when they bring their own money. For instance MIT, a top technical institution in the US, has collaboration with the National University of Singapore. Singapore has now effectively achieved two goals, one to make itself an educational destination for neighbors in Asia who can now go to world-class institutions in Singapore rather than go to Australia or the US; and two, to bring in top-quality programs and skills to upgrade their own research.

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.

There is no provision for online and distance learning. In Malaysia also, foreign institutions can enter only by invitation from the Ministry of Education. Such an institution has to establish a Malaysian company with majority Malaysian ownership and has to be registered with the government. Permission for each course is required. Courses should be accredited and approved in the home country and recognized by an appropriate professional association in Malaysia. Because of its Bhopalputra policy, its government does not encourage the Chinese and other non-Malays to have the same kind of educational opportunities as Malays. So they have opened up the field to enable the private sector and also foreign institutions to operate in their country mainly to meet the needs of non-Malay ethnic groups.

Even in a country like Indonesia, any programme [foreign universities offer should be accredited [by the governments] both in their own countries and the country in which they propose to offer their programme.

Another new concept that has gained popularity is based on acquisitions. Baltimore based Sylvan Learning Systems Inc. has through acquisitions, built up a network of eight universities serving 101,000 students in nine countries in Latin America, Europe and India. In Chile, it has had spectacular success where it has quadrupled enrolment to 20,000 by opening several campuses.

Dubai has set up a 'Knowledge Village' after 11 September 2001 for wealthy Gulf students no longer interested in heading to the US. It has already attracted 15 foreign universities and business schools to set up campuses.

But to quote, India is one country where anybody can come and advertise all kinds of degrees. In fact, there have been plenty of offers from what the Americans call the "diploma and degree
mills”. In India there is no authority or no legal machinery that requires these people to register or get the permission of someone before they enroll students. There is no protection for students.

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.

So the need of the hour is structural reforms within the Indian education system. Only then can we have a proper, strong and skillful workforce. A workforce that could transform our country into a superpower.

**Arguments For Promoting FDI**

1. Increased Investment in higher education will lead to:
   a. Increased Institutions
   b. Enhanced Access to the best universities of the world
   c. Opportunities of International Qualification
   d. Opportunity to come into contact with the top professors of the world.
   e. World class labs and libraries.
   f. Technological Innovation
2. Competition leading to Quality Improvements
3. Curriculum Innovation
4. Research & Development
5. Resource Use Efficiency
   a. International Exposure
   b. Possibility of Indian students getting jobs in multinational companies.
6. Import Substitutions
   a. Emigration of Students would be checked
   b. Import of students from neighboring countries could be promoted

**Arguments Against Promoting FDI**

1. Profit and Market Considerations would dominate High demand courses
2. Irrespective of the National Need Mickey Mouse Courses would be introduced
3. Cosmetic Curriculum Innovation with aggressive Marketing will mislead students
4. Vulgar use of Marketing Communication for 2nd or 3rd tier institutions
5. Create false impression of quality by increasing convenience and flexibility for students
6. Degrees awarded by foreign institutions by partnering with unapproved domestic institutions will not be recognized in India
7. 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
8. Students in twinning programmes have not been able to obtain visas to study abroad at the Foreign partner's campus
9. Many of the programmes offered by these institutions are not accredited in their own countries.

**Conclusions**

In the light of the above discussion, both developing and developed countries maintain that increased trade, in higher education may caution the role of governments to regulate higher education and meet national policy objectives and jeopardize the ‘public good’ and quality aspects of higher education. The foreign universities are usually worried about economic and financial benefits. A consistent criticism of the liberalization of higher education is that it will hold back a nation's ability to develop its own system reflecting its unique social, cultural and political characteristics. There is also a threat of homogenizing national education systems. Foreign providers bring with them foreign curricula which mostly have limited relevance to the importing countries' socio-cultural contexts.

So, India must act in its self-interest. India must manage to launch a proposal and commit to areas where there are strategic opportunities to be exploited through trade. Regulation of higher education in India should be achieved through the correct approach in facilitating the attainment of high quality through interaction of the profit motives of various providers, private domestic as well as foreign. At the same time, such motives should be suitably bridled by setting and enforcing rules of the game, periodic evaluations, quality assessment and accreditation to remove information asymmetries between providers and recipients of higher education. This will ensure that profit making is not exploitative but channeled to raise the quality of education.

As already there are a plethora of regulatory bodies duplicating each other's functions, what is vital is more effective registration and certification systems, which prevent unapproved institutions from partnering, which defend and update 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. Finally, a point often lost on critics is that India also has gone on the offensive in education services. A growing number of Indian educational institutions are commencing to export to other markets. So, globalization of education services should also be seen as an opportunity. In short, a pro-active rather than defensive approach is required to benefit from the liberalization of higher education services.

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