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# Scenario of FDI in higher education in India

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**Abstract**
In the 21st century education is a powerful tool to build knowledge-based society. Indian education sector is one of the pillars of Indian economy. India is a very profitable destination for investment in education sector because of the high demand and market size. At present, India's Gross Enrolment Ratio (GER) is 15 per cent in higher education which is much lower than the world average of 23 per cent. The aim to increase the GER to 30 per cent by 2020.India's gross outbound enrolment ratio is of 0.11 per cent, which is quite low compared with many other Asian countries. This paper highlights the inflow of FDI in education sector in India and based on secondary sources. During the period of January, 2012 to may 2015, FDI has increased from Rs 2,306.12 Cr to Rs 6, 227.51 Cr respectively. The percentage of FDI in education has increased slightly from 0.31 to 0.45 for the same period. The future of higher education services will be shaped by domestic factors, like the domestic regulatory framework and the State of the domestic Education System in terms of quantity, quality, costs, infrastructure and finances.

**Keywords:** India, FDI and higher education

## Introduction

Higher education is of vital importance for the country, as it is a powerful tool to build knowledge-based society of the 21st Century. With the growing size and diversity of the higher education sector particularly in terms of courses, management and geographical coverage, it has become necessary to develop a sound system on higher education.. The Indian education system, considered as one of the largest in the world. India is on economic boom and to sustain this development it requires engineers and management graduates which mandate infrastructural development to address the demand. Entry of foreign universities would not only intensify the competition, but also provide an international platform to the Indian students where they can achieve quality learning. Indian education sector is one of the pillars of Indian Economy and many global players are willing to enter into it. Education sector assumes greater significance in developing countries like India. This sector offers huge untapped market. The higher education sector, owing to its huge potential, holds very promising prospects. Increase in number of Educational Institutions in India has been remarkably rapid. India faces a big challenge to provide education to young people, especially in far-flung location. India is a very lucrative & profitable destination for investment in education sector because of the high demand and market size. Moreover the mindset of Indian students regarding quality is foreign degree with good placements. The growth of India's higher educational institutions has indeed been outstandingly rapid. 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. 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.

## Need For Foreign Investment

1. Indian money and talent going abroad will come in check.
2. FDI in higher education will solve the problem of enrolment rate as we are in a situation of less supply high demand.
3. Further, FDI in education would generate employment.
4. There will be better scope for research as foreign universities have different methodology to run and generate revenues.

## Potential of Higher education in attracting FDI

India which is experiencing service led growth higher education is of vital importance for the country, as it is a powerful tool to build knowledge-based society of the 21st Century. India is the third largest higher education system in the world (after China and the USA) in terms of enrolment. India's potential as a knowledge super power rests on three advantages: it's large population; the large proportion of youth in the population; and last but not the least, the widespread knowledge/awareness of the English language backed by a generally satisfactory urban school education system. However, these conditions are at best necessary and not sufficient for transforming India into a knowledge super power. Hence it requires better allocation and utilisation of resources favouring allocation to vocational sources as well as increase in per capita spending on higher education through higher investment. Further, India can emerge as a provider of

higher education to the developing world and even developed countries in niche areas by taking advantage of the economies of scale generated by its large market size.

**Review of Literature**

Mughal Mazhar & Natalia Vechiu (2010) [1] 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 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 enrolment is much higher in the LICs than in the MICs.

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 (Sukhlecha Meenal Lodha; Mamta Jain).

Suhag Viney and Kavita Rani (2013) [5] in their paper maintained that foreign institutions can bring quality programs with market orientation. Besides, updated curricula, teaching-learning processes, evaluation of processes may be internalized within educational institution in India. It may also reap the benefits of improved managerial and organizational skills to run the institutions. It is also argued that FDI could promote competitiveness in the education system as a whole.

Narang Viney and Anshu Jain (2014) [2] in their paper have talked about the major implications for educationists who intend to reap the benefits of FDI as well as Government who need to frame suitable policies. They maintained that undoubtedly there is a potential for significant spill over benefits from FDI, with training and human capital development as a particularly important channel for these positive externalities. However, spillovers are not automatic consequences of FDI. Spill over benefits are realised only if local firms have the ability and motivation to invest in absorbing foreign technologies and skills.

Singh Vijay Vir (2010) [4] in his paper examines the problem of stimulating adequate but quality enhancing foreign investment in higher education in the context of the overall need for greater access coupled with higher quality.

Sharma Konark (2007) [3] examined that the major concerns regarding liberalising higher education in India is the possibility of 'commoditisation/commercialisation' of higher education. This may result in high fees adversely affecting a large section of the society. Besides there has been large scale scepticism concerning the foreign investor commitment to the larger social goals and quality of their packages.

**Methodology of the Study**

Information was collected from various secondary sources to explore the inflow of FDI in education sector in India. Further statistics published by Department of Industrial Policy & Promotion, MHRD'S All India Survey on Higher Education, Economic Surveys of India and Ministry of Commerce and Industry, Bulletin of Reserve Bank of India, Securities and Exchange Board of India, OECD,, IMF, WTO, RBI, UNCTAD, EXIM Bank etc have also been accessed.

**Higher Education**

Education provided after completion of school education (Class XII) is known as higher education. Higher Education in India comprises of Diploma Courses, Bachelor's/Undergraduate Degrees, Master's/Post-graduate Degrees and Pre doctoral/Doctoral programs. It may also be broadly classified into technical and non-technical education. Technical Education as defined under the AICTE Act means "programs of education, research and training in engineering technology, architecture, town planning, management, pharmacy and applied arts and crafts and such other programme or areas as the Central Government may, in consultation with the Council, by notification in the Official Gazette, declare. Non-Technical Education would, thus, refer to the courses, other than technical courses. At present, India's Gross Enrolment Ratio (GER) is 15 per cent in higher education which is much lower than the world average of 23 per cent. The aim is to increase the GER to 21 per cent by the end of the 12th Plan and 30 per cent by 2020. The number of unaided higher education institutions is on the rise, and currently almost 65 per cent of higher educational institutions are in the private sector. Private sector educational institutions have improved access to higher education and the recognized establishments providing higher education include Universities, Colleges and accommodate more than 50 per cent share in students' enrolment.

**Regulation of FDI in Higher Education**

The economic reforms launched by the Government of India from 1991 onwards have resulted in substantial economic growth and integration of India into the global economy. The pace of reforms has gained a new momentum due to political stability and strong industrial growth. The Indian capital markets have been opened up for Foreign Institutional Investors in 1993; the Foreign Direct Investment (FDI) regime too has been progressively liberalized over the years. As per the regime, FDI up to 100% is allowed under the automatic route in the education sector. Further, vide the revised Consolidated FDI Policy (Circular 2 of 2011), which became effective from October 1, 2011, construction development activities in the education sector have been exempted from conditions generally applicable to construction-development sector in terms of the minimum built area, the minimum capitalization (USD 10 million for wholly owned subsidiaries and USD 5 million for joint ventures with Indian partners) and the lock-in period of three years from the date of completion of minimum capitalization. As a step towards liberalization of the heavily regulated higher education sector, MHRD on September 10, 2013 issued a press release informing various stake-holders about its proposal to allow foreign universities to set up campuses in India as not-for-profit companies. MHRD is in the process of finalizing the UGC (Established and Operation of Campuses of Foreign Educational Institutions) Rules to permit foreign universities to set up campuses in India and issue foreign degrees without having to collaborate with domestic educational institutions or education

service providers, as is the case currently. MHRD has forwarded the above Rules to the Department of Industrial Policy and Promotion ("DIPP") and the Department of Economic Affairs ("DEA") for their comments. The above proposal and Rules, if passed, will usher a new era in the higher education sector in India with many reputed foreign universities setting up independent campuses in India.

**Cumulative Inflow of FDI in Education**

The recent data FDI in education reveals that overall FDI has increased from Rs 1,720.88 Cr (January 2010) to Rs 1,787.67 Cr (December 2010). But the percentage of FDI in education to the total has reduced from 0.36 to 0.30 for the same period. During the year of 2011 it increased from Rs 1,853.44 Cr (January, 2011) to Rs 2,174.36 Cr (December, 2011). But the percentage of FDI in education to the total has reduced from 0.31 to 0.30 during the year of 2011. During the period of January, 2012 to May, 2015 FDI has increased from Rs 2,306.12 Cr to Rs 6,227.51Cr respectively. The percentage of FDI in education has increased slightly from 0.31 to 0.45 for the same period.

**Table 1:** Cumulative Inflow of FDI in Education Sector in India

| Months | Amount of FDI Inflows Crores | Amount of FDI Inflows (in us $) in millions | %to total FDI Inflows |
|---|---|---|---|
| January 2010 | 1,720.88 | 368.91 | 0.36 |
| February 2010 | 1,7,22.86 | 369.34 | 0.35 |
| March 2010 | 1,723.95 | 369.58 | 0.34 |
| April 2010 | 1,724.40 | 369.68 | 0.34 |
| May 2010 | 1,724.40 | 369.68 | 0.34 |
| June 2010 | 1,734.12 | 371.76 | 0.32 |
| July 2010 | 1,743.12 | 373.69 | 0.32 |
| August 2010 | 1,778.66 | 381.32 | 0.32 |
| September 2010 | 1,778.81 | 381.35 | 0.31 |
| October 2010 | 1,787.46 | 383.30 | 0.31 |
| November 2010 | 1,787.67 | 383.35 | 0.31 |
| December 2010 | 1,787.67 | 383.35 | 0.30 |
| January 2011 | 1,853.44 | 397.09 | 0.31 |
| February 2011 | 1,855.53 | 397.55 | 0.31 |
| March 2011 | 1,891.44 | 405.53 | 0.31 |
| April 2011 | 1,913.10 | 410.40 | 0.31 |
| May 2011 | 1,955.35 | 419.92 | 0.31 |
| June 2011 | 1,983.94 | 426.30 | 0.30 |
| July 2011 | 1,990.86 | 427.85 | 0.30 |
| August 2011 | 2,051.57 | 441.26 | 0.30 |
| September 2011 | 2,088.29 | 448.97 | 0.30 |
| October 2011 | 2,162.16 | 463.97 | 0.31 |
| November 2011 | 2,167.29 | 464.98 | 0.30 |
| December 2011 | 2,174.36 | 466.32 | 0.30 |
| January 2012 | 2,306.12 | 491.99 | 0.31 |
| February 2012 | 2343.08 | 499.50 | 0.31 |
| March 2012 | 2406.73 | 512.15 | 0.30 |
| April 2012 | 2760.85 | 580.50 | 0.34 |
| May 2012 | 2930.93 | 611.72 | 0.35 |
| June 2012 | 3107.35 | 643.21 | 0.37 |
| July 2012 | 3136.69 | 648.49 | 0.37 |
| August 2012 | 3191.63 | 658.38 | 0.37 |
| September 2012 | 3205.54 | 660.93 | 0.36 |
| October 2012 | 3209.05 | 661.59 | 0.36 |
| November 2012 | 3237.52 | 666.79 | 0.36 |
| December 2012 | 3239.76 | 667.20 | 0.36 |
| January 2013 | 3312.69 | 680.62 | 0.36 |
| February 2013 | 3312.80 | 680.64 | 0.35 |
| March 2013 | 3332.97 | 684.35 | 0.35 |
| April 2013 | 3618.22 | 736.81 | 0.38 |
| May 2013 | 3627.19 | 738.44 | 0.37 |
| June 2013 | 4106.87 | 820.58 | 0.41 |
| July 2013 | 4483.06 | 883.52 | 0.44 |
| August 2013 | 4489.09 | 884.47 | 0.44 |
| September 2013 | 4596.96 | 901.39 | 0.44 |
| October 2013 | 4596.39 | 901.46 | 0.44 |
| November 2013 | 4,638.30 | 907.99 | 0.43 |
| December2013 | 4,686.52 | 915.78 | 0.44 |
| January 2014 | 4,736.88 | 1,007.83 | 0.48 |
| February 2014 | 4,791.97 | 932.74 | 0.44 |
| March 2014 | 4,875.54 | 946.44 | 0.43 |

| | | | |
|---|---|---|---|
| April 2014 | 4,900.86 | 1,014.83 | 0.46 |
| May 2014 | 4,919.51 | 953.78 | 0.43 |
| June 2014 | 4,921.32 | 954.08 | 0.42 |
| July 2014 | 4,961.76 | 960.82 | 0.42 |
| August 2014 | 4,970.89 | 962.32 | 0.42 |
| September 2014 | 4,981.31 | 964.03 | 0.42 |
| October 2014 | 4,987.17 | 964.98 | 0.41 |
| November 2014 | 5,047.80 | 974.81 | 0.41 |
| December 2014 | 5,086.45 | 980.97 | 0.41 |
| January 2015 | 5,649.81 | 1,071.50 | 0.44 |
| February 2015 | 5,717.84 | 1,082.47 | 0.44 |
| March 2015 | 5,763.22 | 1,089.73 | 0.44 |
| April 2015 | 6,145.09 | 1,150.59 | 0.46 |
| May 2015 | 6,227.51 | 1,163.51 | 0.45 |

***Source*:** Department of Industries and Policy Promotion

**Position of India**

Developing countries such as India and China are the largest importers of education in the world. The USA is the largest exporter of education services in the world. The other large exporters are the UK, Australia and New Zealand. The US has therefore benefited enormously as a result of these revenues, which have come in through this Mode. 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.

According to the UNESCO Institute for Statistics (UIS), the number of internationally mobile students globally has increased to 4.0 million in 2012 with a 135 percentage increment from 1.7 million in 1995. China has been the largest contributor of the world's mobile students since 1995. India became the second largest contributor since 2005.

**Table 2:** Top ten sources of internationally mobile students worldwide, 1995, 2005 and 2012

| 1995 | | 2005 | | 2012 | |
|---|---|---|---|---|---|
| **Country** | **Number** | **Country** | **Number** | **Country** | **Number** |
| China | 115871 | China | 403128 | China | 694365 |
| Republic of Korea | 69736 | India | 146267 | India | 189472 |
| Japan | 62324 | Republic of Korea | 100895 | Republic of Korea | 123674 |
| Germany | 45432 | Japan | 64291 | Germany | 117576 |
| Greece | 43941 | Germany | 64263 | Saudi Arabia | 62535 |
| Malaysia | 41159 | Turkey | 53402 | France | 62416 |
| India | 39626 | United States | 50850 | United States | 58133 |
| Turkey | 37629 | France | 49177 | Malaysia | 55579 |
| Italy | 36515 | Morocco | 46009 | Viet Nam | 53802 |
| Hong Kong | 35141 | Canada | 43335 | Iran | 51549 |
| Total | 1702788 | Total | 2830788 | Total | 4009312 |

***Source*:** MHRD

**Indian Students Studying Abroad**

In 2012, over 189 thousand Indian students were enrolled in higher education institutions abroad. This population accounts for 4.7% of the total internationally mobile students worldwide and is the largest source of foreign students after China (17.3%). Despite its magnitude this population represents a small proportion (0.7%) of total higher education enrolment in India (29.18 million). At the same time, India's gross outbound enrolment ratio (which is the total no of students from a given country studying abroad, expressed as a percentage of the population of tertiary age in that country) is of 0.11%, which is quite low compared with many other Asian countries, such as China (0.6%), Japan (0.5%), Malaysia (1.9%), the Republic of Korea (3.6%) and Srilanka (1.0%).

Indian students are dispersed over 50 countries of the world. Out of the 189,472 Indian foreign students in 2012, more than 85% students were concentrated in six countries: the United States (51%), UK (16%), Australia (6%), Canada (4%), UAE (4%) and New Zealand (4%). It is noted that between 2008 and 2012, the popularity of Australia as a destination for Indian students has declined. There were 55% fewer students in 2012 as compared 2008.

**Table 3:** Top Ten destinations of Indian students, 2005, 2008 and 2012

| 2005 | | 2008 | | 2012 | |
|---|---|---|---|---|---|
| Country | Number | Country | Number | Country | Number |
| United States | 84044 | United States | 94664 | United States | 97120 |
| Australia | 20515 | Australia | 26520 | United Kingdom | 29713 |
| United Kingdom | 16685 | United Kingdom | 25901 | Australia | 11684 |
| UAE | 6684 | Russian Federation | 4314 | Canada | 8142 |
| Germany | 4339 | New Zealand | 4094 | United Arab Emirates | 7310 |
| Canada | 2829 | Germany | 3257 | New Zealand | 7248 |

| | | | | | |
|---|---|---|---|---|---|
| New Zealand | 1563 | Canada | 3219 | Germany | 4312 |
| Kazakhstan | 1003 | Ukraine | 1785 | Russian Federation | 3351 |
| Ukraine | 957 | Cyprus | 1076 | Ukraine | 2516 |
| Malaysia | 828.5 | Malaysia | 1065 | France | 1955 |
| World Wide | 146267 | World wide | 176881 | World wide | 189472 |

***Source*:** MHRD

**Opportunities for Investment in Education Sector**

1. The Market Size is huge hence, we have high demand.
2. Our Mindset of quality means foreign degree without much distinction.
3. Our Vast Reservoir of Intellectual Resource.
4. Our Regulatory Mechanism is deterrent for high quality, promoting for inferior quality.

**Challenges Faced By the Education Sector in India**

1. Accessibility.
2. Drop-out rate: nearly 40 per cent drop out at the primary stage.
3. Social Barriers.
4. Relevance: more skill-oriented – both in terms of life-skills as well as livelihood skills.
5. Management: needs to build in greater decentralization, accountability, and professionalism.
6. Pre-condition: "Not-for-profit" basis.
7. Regulation.
8. Alliances.
9. Approval procedures cumbersome and tedious.
10. Quality and relevance of education: Infrastructure, curriculum, industry involvement and Employability of graduates due to lack of effective training.
11. Financing higher education institutions.
12. Technology - Low technology penetration.

**Factors Favouring Promotion of FDI**

Increased Investment in higher education will lead to:

- Increased Institutions.
- Enhanced Access to the best universities of the world.
- Opportunities of International Qualification.
- World class labs and libraries.
- Competition leading to quality improvements.
- Curriculum and Technological innovation.
- Research & development.

**Factors against Promotion of FDI**

- Profit and Market Considerations would dominate High demand courses.
- Cosmetic Curriculum Innovation with aggressive Marketing will mislead students.
- Create false impression of quality by increasing convenience and flexibility for students.
- Degrees awarded by foreign institutions by partnering with unapproved domestic institutions will not be recognized in India.
- Many of the programmes offered by these institutions might not be accredited in their own countries.

**Conclusion**

Although investment in the Indian education sector is plagued with challenges, it offers great opportunity to investors. A number of studies and reports indicate that strong returns could be expected from the sector. With the demographic dividend in India at its peak, India's working age population almost two-third of the total population and the presence of a severe shortage of institutions delivering high quality education and training across segments, what is present before the investors is a timely opportunity. 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.

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