



ISSN 2278 – 0211 (Online)

FDI in Education Sector: Issues, Prospects and Future Implications

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Abstract:

Every country around the globe is trying to integrate its economy with the rest of the world. After globalization of Indian Economy there is a greater need of foreign capital in India. India has today become a budding target of FDI. 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 locations. The present paper makes an attempt to study the current scenario of FDI in education sector highlighting the positive and negative impacts of it on the society and economy as a whole. The research approach is exploratory in nature. This paper has major implications for educationists who intend to reap the benefits of FDI as well as Government who need to frame suitable policies.

Key words: Foreign Direct Investment, GDP, Higher Education, Indian Economy, Foreign Educational Institutions, Commercialization of Education

1. Introduction

Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". As a part of the national accounts of a country, and in regard to the GDP equation $Y=C+I+G+(X-M)$ [Consumption + gross Investment + Government spending + (exports - imports)], where I is domestic investment plus foreign investment, FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. FDI is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. FDI usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward and outward, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movements.

2. Types

- Horizontal FDI arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.
- Platform FDI Foreign directs investment from a source country into a destination country for the purpose of exporting to a third country.
- Vertical FDI takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

Horizontal FDI decreases international trade as the product of them is usually aimed at host country; the two other types generally act as a stimulus for it.

3. Methods of FDI

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

- by incorporating a wholly owned subsidiary or company anywhere
- by acquiring shares in an associated enterprise
- through a merger or an acquisition of an unrelated enterprise
- Participating in an equity joint venture with another investor or enterprise.

In today's globalised world there is immense growth of FDI in both developed and developing countries. FDI flows are rising faster worldwide. For Developing countries FDI is the safest source of external finance as it not only supplement domestic savings, foreign reserves but promotes growth even more through spillovers of technology, skills, increased innovative capacity, and domestic competition. Now days, FDI has become an instrument of international economic integration.

The foreign direct investment involves the transfer of technology and expertise, and participation in the joint venture and management. Foreign direct investment is profitable both to the country receiving investment (foreign capital and funds) and the investors. According to the International Monetary Fund, "Foreign direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The "lasting interest" implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter".

Countries Seek FDI because Domestic capital is inadequate for purpose of economic growth; Foreign capital is usually essential, at least as a temporary measure, during the period when the capital market is in the process of development; Foreign capital usually brings it with other scarce productive factors like technical knowhow, business expertise and knowledge.

Foreign direct investment (FDI) contributes to economic growth in host economies directly and indirectly. FDI adds directly to employment, capital, exports, and new technology in the host country (Blomström, Zejan and Kokko, 2000).

India is the seventh largest and the second most populated country in the world. It is the second most FDI destination as per the survey by UNCTAD after China for transnational corporations during 2010-2012. As per the data, the sectors which attracted higher inflows were services, Media, telecommunication, Construction and computer Hardware and Software.

With the flow of FDI in Indian service sector the economic growth gain momentum, as this sector contribute a large share in the growing GDP of India. There is a requirement of larger inflows of foreign investments for the country to achieve a sustainable economic growth.

4. Literature Review

Devajit Mahanta conducted the study to find out the impact of foreign direct investments on Indian economy and concluded in his paper –“ Impact of foreign direct investments on Indian economy” that Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development.

R K Sharma in his article “FDI in Higher Education: Official Vision Needs Corrections”, raised four issues which need critical attention: the objectives of higher education, its contextual relevance, the prevailing financial situation and the viability of alternatives to FDI. The conclusion of the article is that higher education needs long – term objectives and a broad vision in tune with the projected future of the country and the world. Higher education will require an investment of Rs. 20,000 to 25,000 crore over the next five or more years to expand capacity and improve access. For such a huge amount the paper argues, we can look to Foreign Direct Investment. Deliotte in their article “Indian Higher Education Sector, Opportunities aplenty, growth unlimited” talked about regulatory framework of education sector in India. They further highlighted the opportunities for private sector investment and challenges facing growth of this sector. They concluded that regardless of the huge potential in the higher education sector, challenges/threats, which the private sector players face in India, are significant and therefore, approaching the market with a well thought-out strategy is advisable.

Konark Sharma in his paper titled “FDI in Higher Education: Aspirations and Reality” analysed the profile of the foreign institutions already present in India. He concluded that 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 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.

5. Significance of Education Sector

The significance of education in India was recognized by the founding fathers of the country and as a result appreciable importance has been given to literacy, school enrolment, institutions of higher education and technical education, ever since independence.

We need to create a new era when India will be known for being an educational pivot. We need funds, expertise and technology in the field of education and Foreign Direct Investment is just the one we have been looking for. In India, education is the key to nation-building. By providing the right knowledge and skills to the youth, national progress and economic growth can be ensured. The Indian education system recognizes the role of education in infusing the values of secularism, egalitarianism, respect for democratic traditions and civil liberties and quest for justice. There is enormous need for the upliftment of education as India is expected to have a surplus of 47 million people in the working age group by 2020. As a result, both the formal education sector (including K-12 and higher education) as well as informal sector (including coaching institutions, pre-schools and vocational institutions) are observing rapid growth.

With increasing population in India, the demand for educational institutes has also augmented. Today, the Indian education sector is one of the biggest education systems in the world. The education sector in India is evolving and has emerged as a strong potential market for investments in training and education sector, due to its favourable demographics (young population) and being a services-driven economy. Further, India's expanding role in sectors such as software development, generic pharmaceuticals and healthcare, would require the country to invest into learning and training segment as well. The education sector in India is also considered as one of the major areas for investments as the entire education system is going through a process of overhaul.

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. India has a vast repository of intellectual resources thus exists opportunity for opening new colleges and universities. The education sector in India is divided into two sub segments; the key segment comprises of schools and higher education, while the other segment comprises of coaching classes, pre-schools and vocational trainings. The Government of India has recently ignited reforms by opening up certain sectors to foreign investment, which would ideally result in increased economic growth and employment generation. Government of India has permitted foreign direct Investment (FDI) up to 100 per cent through the automatic route.

6. Objectives

- To scrutinize the need of FDI in education in India.
- To analyze the current trends and patterns of flow of FDI towards education sector.
- To analyze the status of Indian higher education system and need of FDI in education sector in India.
- To examine the opportunities & challenges of FDI in education sector in India.
- To study the implications of bringing in FDI in Indian education.
- To trace out the barriers for FDI in Indian education.
- To suggest the removal of various barriers for FDI in Indian education system.

7. Methodology of the Study

The kind of research conducted here is exploratory research. Information was collected from various secondary sources to explore the inflow of FDI in education sector in India and its impact on Indian Economy. 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, reports of National Knowledge Commission, Bulletin of Reserve Bank of India, Securities and Exchange Board of India, OECD,, IMF, WTO, RBI, UNCTAD, EXIM Bank etc have also been accessed to justify the above mentioned objectives.

8. Present Scenario of Education Sector in India

There are 621 universities and institutes in all. As per "ALL INDIA SURVEY ON HIGHER EDUCATION" CONDUCTED BY MHRD.

TYPE-WISE DETAILS OF UNIVERSITIES	
Type of University	Number of Universities
Central Open University	1
Central University	41
Government Deemed University	40
Institution Established Under State Legislature Act	5
Institution of National Importance	59
Private Deemed University	91
Private University	87
State Open University	13
State University	281
Others	3
Grand Total	621

Table 1

- Currently, the Government spends around 3.8% of its GDP on education.
- According to the 2011 census, the total literacy rate in India is 74.04%.
- The number of people entering the Indian higher education sector is growing at a significant rate. According to a report published by Ministry Of Human Resource Development on "ALL INDIA SURVEY OF HIGHER EDUCATION" (2011-

12) data, enrolments in higher education have increased from 17.3 million (GER of 15%) in 2009-10 to 27.5 million in 2011-12.

- Total enrolment in higher education has been estimated to be 27.5 million with 15.5 million boys and 12.0 million girls. Girls constitute 44% of the total enrolment. Gross Enrolment Ratio (GER) in Higher education in India is 19.4, which is calculated for 18-23 years of age group. GER for male population is 20.8 and for females it is 17.9. These figures indicate an increasing number of young people who continue in the education system instead of dropping out. The higher education sector, owing to its huge potential, holds very promising prospects. There exists an ample opportunity for foreign sector players looking to invest in education sector and establish universities and Institutions in India.
- The Indian education space is developing, which has led to the arrival of new niche sectors like vocational training, child-skill enhancement and e-learning among others.
- According to a report published by Deloitte Touché Tohmatsu India, the government has set an aggressive target of raising GER in higher education from the current level of 15 per cent to 30 per cent by 2020.

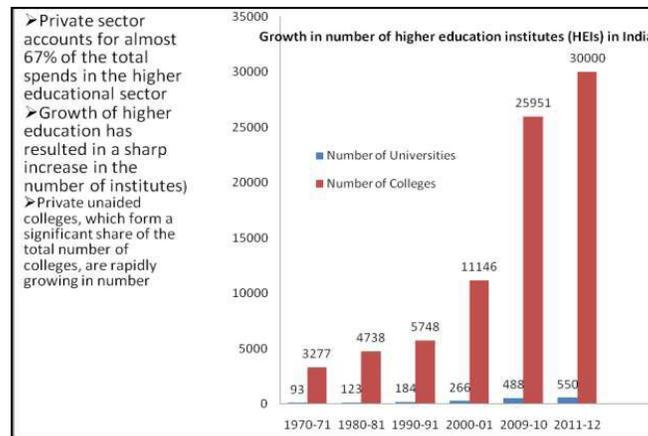


Figure 1

Source: Edge Report 2011, Ernst & Young and Internet

According to a report released by Ernst & Young, the higher education sector in India is expected to witness a compounded annual growth rate of 18.0 % till 2020.

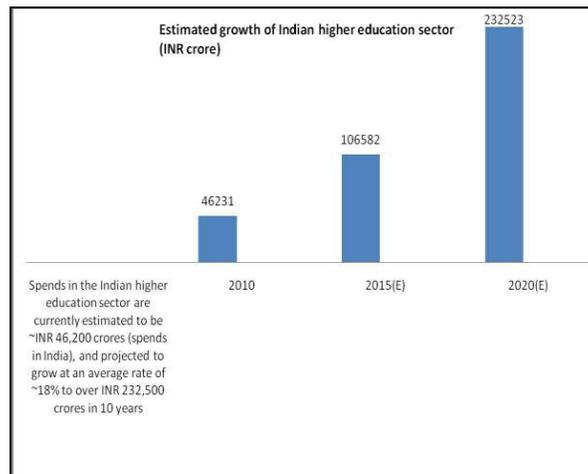


Figure 2

Source: Edge Report 2011, Ernst & Young and Internet

9. Current Status of FDI Inflow in Education Sector in India

FDI in education sector stood at Rs 1170.09 Crore (US\$ 221.71 million) in the month of May 2012 and Rs. 4,597.39 Crore (US\$ 901.46 million) in October 2013. The country's fast-growing education sector holds a potential to attract a US\$ 100 billion investment over the next five years, driven by demand for skilled professionals and need for infrastructure development. India, which has the third largest higher education system in the world in terms of enrolments, after China and the US, needs more FDI to meet its target of doubling the gross enrolment ratio (GER) by 2020.

Under the Foreign Direct Investments (FDI) Scheme, investments can be made in shares, mandatorily and fully convertible debentures and mandatorily and fully convertible preference shares¹ of an Indian company by non-residents through two routes:

- **Automatic Route:** Under the Automatic Route, the foreign investor or the Indian company does not require any approval from the Reserve Bank or Government of India for the investment. The investors are only required to intimate the Regional office concerned of the Reserve Bank within 30 days of receipt of inward remittance.
- **Government Route:** Under the Government Route, the foreign investor or the Indian company should obtain prior approval of the Government of India (Foreign Investment Promotion Board (FIPB), Department of Economic Affairs (DEA), Ministry of Finance or Department of Industrial Policy & Promotion, as the case may be) for the investment. The Foreign Educational Institutions (Regulation of Entry and Operations) Bill, 2010 is into regulating the entry and operation of foreign educational Institutions in India imparting or intending to impart higher education. However this Bill has been pending in the parliament for the last three years.

CUMULATIVE INFLOW OF FDI IN EDUCATION SECTOR IN INDIA FROM JAN 2010 TO OCT 2013			
MONTH	AMOUNT OF FDI INFLOWS (IN ₹) in crores	AMOUNT OF FDI INFLOWS (IN US \$) in millions	% TO TOTAL FDI INFLOWS
January 2010	1720.88	368.91	0.36
February 2010	17,22.86	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	2,306.13	491.99	0.31
February 2012	2,343.08	499.50	0.31
March 2012	2,406.73	512.15	0.30
April 2012	2,760.85	580.50	0.34
May 2012	2,930.93	611.72	0.35
June 2012	3,107.35	643.21	0.37
July 2012	3,136.69	648.49	0.37
August 2012	3,191.63	658.38	0.37
September 2012	3,205.54	660.93	0.36
October 2012	3,209.05	661.59	0.36
November 2012	3,237.52	666.79	0.36
December 2012	3,239.76	667.20	0.36
January 2013	3,312.69	680.62	0.36
February 2013	3,312.80	680.64	0.35
March 2013	3,332.97	684.35	0.35
April 2013	3,618.22	736.81	0.38
May 2013	3,627.19	738.44	0.37
June 2013	4,106.87	820.58	0.41

July 2013	4,483.06	883.52	0.44
August 2013	4,489.09	884.47	0.44
September 2013	4,596.96	901.39	0.44
October 2013	4,597.39	901.46	0.44

Table 2

Some of the major initiatives in education and training sector in India are as follows:

- The UK-based University of Northampton has tied up with Madras University to offer a Master's degree in International Environment Management. The course will allow students access to online courseware put up by the University of Northampton
- Ecole Hoteliere de Lausanne has opened a 67,000 square feet campus in India to tap into the growing demand for skilled hospitality professionals in the country. Located in the newly developed Lavasa township near Pune, Ecole Hoteliere Lavasa will offer a four-year programme
- Narsee Monjee Institute of Management Studies (NMIMS) has set up a centre for manufacturing excellence in collaboration with UK's Warwick University. The centre will offer specially designed Master's and Doctoral programmes
- CFA Institute, the global association of investment professionals, plans to set up office in India for its CFA and Claritas programmes
- Tech Mahindra has established an engineering college in association with the French university, Ecole Centrale and Jawaharlal Nehru Technological University (JNTU)
- EuroKids, education service provider in the pre-school segment, launched 'EuroVarsity', a virtual university aimed at providing programs to develop teaching skill sets. The first course to be offered is a certified teacher training course, 'diploma in early childhood care and education'.
- India and Republic of Korea have signed a memorandum of understanding (MoU) for cooperation in the field of education.
- Manipal University signed a memorandum of understanding (MoU) with Beijing Institute of Technology.
- The Ministry of Human Resource Development plans to set up ten community colleges in collaboration with the Government of Canada in 2012. The Government of India has decided to set up hundred community colleges this year.
- The Government of Gujarat plans to set up a farming educational institute in collaboration with Israel, offering post-graduation and PhD programmes with practical training and degree from Israeli universities.

Higher education holds great significance for Developing countries, especially countries including 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. 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. Existing higher education system is inadequate and out-of-date in terms of infrastructure and facilities.

As per the data published by Planning Commission, Government of India the trend of GDP from year 2009-10 has been as follows:

Time period	Actual Value of GDP at Current Prices (in Crore)	Increase in GDP over the years (%)	FDI inflow in education (in Crore)	Increase/Decrease in FDI over the years (%)
2000-01	2,000,743	-----	0	-----
2001-02	2,175,260	0.087226	0	-----
2002-03	2,343,864	0.07751	0	-----
2003-04	2,625,819	0.120295	0.88	-----
2004-05	2,971,464	0.131633	8.76	8.954545
2005-06	3,390,503	0.141021	13.75	0.569635
2006-07	3,953,276	0.165985	187.73	12.65309
2007-08	4,582,086	0.15906	177.56	-0.05417
2008-09	5,303,567	0.157457	1033.36	4.819779
2009-10	6,108,903	0.151848	300.50	-0.7092
2010-11	7,266,967	0.18957	173.24	-0.42349
2011-12	8,353,495	0.149516	155.79	-0.10073
2012-13	9,461,013	0.132581		
CAGR	12.69%	-----	77.74%	-----

Table 3: Value of GDP at Factor Cost
Source: Central Statistical Organisation (CSO)

10. The indirect Role of MNCs in Formal Education

While the role of MNCs in primary and secondary education is marginal, there is increasingly clear evidence that MNCs may have a noticeable impact on tertiary education in their host countries. The most important effect is perhaps on the demand side. MNCs provide attractive employment opportunities to highly skilled graduates in natural sciences, engineering and business sciences, which may be an incentive for gifted students to complete tertiary training, and MNCs demand skilled labour, which may encourage governments to invest in higher education. There are also more direct links between FDI and higher education. Apart from providing scholarships and sponsoring the formal. Education of individual employees in the host country or elsewhere, MNCs are also active in supporting the development of universities and related institutions in several ways. . In Thailand, various training programmes are run jointly by international chambers of commerce (of which MNCs are prominent members) and the Thai government. In Malaysia, several skill development centres have been established jointly by the government, local business and foreign MNCs.

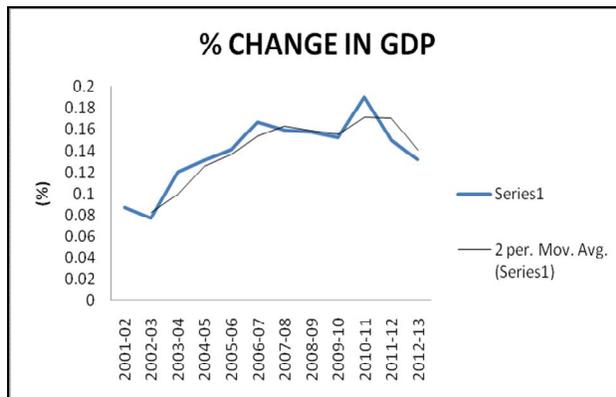


Figure 3

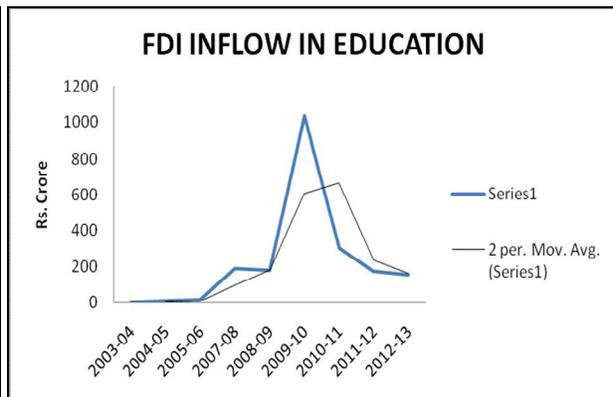


Figure 4

11. Favorable Side of Promotion of FDI in Education

With inflow of Foreign Direct Investment in higher education there will be

- Increase in number of universities & Institutions, thus sizeable opportunities to the students shall be available.
- Students will be able to access best universities of the world. International exposure of higher education in India will help in curtailing the immigration of students. It will enable Indian students to access superior quality higher education in the country itself at relatively lower cost, and thus not permit the outflow of our foreign exchange reserves.
- Opportunities of International Qualification & degree
- Creation of new colleges and institutes, building of infrastructure shall generate more employment.
- There will be utilization of improved infrastructure , World class technologies, labs and libraries
- It will create Competition within the institutions leading to quality improvements.
- Curriculum and Technological innovation.
- Better technology and infrastructure will help further in research and development area.

12. Darker Side of Promotion of FDI in Education

- FDI in any sector is guided by profit motive alone and if this motive is not fulfilled, the investors look for other destinations for FDI. Since foreign investors aim to increase their profits, foreign educational institutions would launch courses which the market needs, create false impression about their courses through advertisements, and will charge exorbitantly hefty fees for courses. Thus there is possibility of commoditisation and commercialisation of education. It may adversely affect a large section of the society and thus the main purpose of FDI infusion into education will be diluted.
- FDI in education sector would lead to unhealthy rivalry among differing institutions. Since competition necessitates reduction in costs, infrastructure, laboratories and libraries would find least investment and the teaching and non-teaching staff would be appointed without necessary qualifications and on such terms which would be exploitative as is prevalent in most private institutions today.
- Foreign educational institutions will be interested in starting high demand courses this will side line the national agenda and needs. The courses that will be introduced will concentrate on making quick money which will have fancy nomenclatures and alluring scheme. These institutes will resort to various malpractices to allure and attract students.
- Superficial Curriculum Innovation with aggressive Marketing will further mislead students.
- Create false impression of quality by increasing convenience and flexibility for students.
- Further FDI in education would hamper the development of indigenous and critical research within our University education system.
- Degrees awarded by foreign institutions by partnering with unapproved domestic institutions will not be accredited in India.

13. Conclusion

Attracting FDI into India has become a vital component of the economic development strategies for India. FDI has been a flourishing factor that has strengthened the economic life of India. "Investor friendly" environment will help India establish itself as a favoured destination of foreign investors. India has enormous potential for absorbing greater flow of FDI in years to come.

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. However, our knowledge of these effects is still sketchy in many areas, and further research is needed to provide a more accurate and detailed picture of the relationship between FDI in education sector and economic growth of India, that could serve as a foundation for policy and strategy conclusions for Indian government and MNCs. The primary finding of our study is that though opportunity for investment and capital appreciation being offered by the Indian higher education sector is unprecedented. However, one needs to be cautious about the various complexities in terms of structuring of investment, market offering, entity options and tax implications.

What India desperately need is good quality research oriented institutes. We need to establish institutes which can bring new culture and infrastructure for creating better talent pool. For this to happen, we need to have top institutes of the world to open their centres in India. India must act in self-interest. Indian higher education is at a verge of next generation quality improvement just like Indian industry was in early 1990s when government went ahead with liberalization of economy. Liberalisation in education should be achieved through correct approach. FDI in Education should be channelled properly to raise the quality of education. There should be a suitable regulatory framework that would ensure quality and standards in curriculum, courses, teachers, evaluation and assessment systems etc. There should be effective registration and certification system, which will prevent unapproved institutions from partnering, and good quality institutes can enter into Indian education hub, and which will create a level playing field between domestic and foreign institutions so that the former can compete effectively in liberalised environment.

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