



FDI AND ROLE OF INDIAN EDUCATIONAL SYSTEM

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ABSTRACT

Change is the need of the hour, as the whole world is in the transit phase and so is the economy as well as the higher education system. The rapid growth of world population since 1950 has occurred mostly in developing countries. This growth has been matched by more rapid increases in gross domestic product, and thus income per capita has increased in most countries around the world since 1950. An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic subsidiary may improve corporate governance standards. Furthermore, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources.

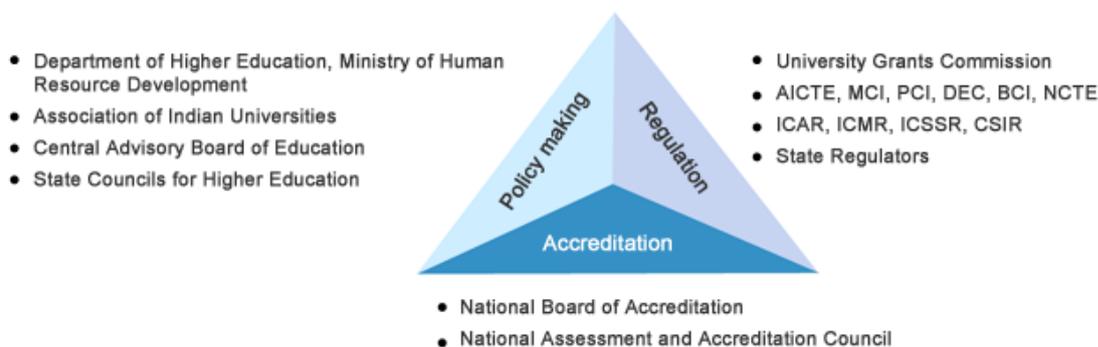
Introduction

A.P.J Abdul Kalam's 'India Vision 2020' envisages the transformation of India into a knowledge superpower. To achieve this vision, the higher education sector has to play a key role. Education and knowledge resources have to be accessible to a large number of people through various means in a seamless way so that the gap between demand and supply, which is especially stark in regard to the availability of quality institutions, is alleviated and some standardisation of quality takes place across all institutions. Promotion of competition among providers through various means, including those which can stimulate private investment, both foreign and domestic; and alleviation of resource constraints plaguing state universities constitute important elements of the solution.

Definition of Foreign Direct Investment (FDI)

- Foreign direct investment (FDI) is an investment in a business by an investor from another country for which the foreign investor has control over the company purchased.
- The Organization of Economic Cooperation and Development (OECD) defines control as owning 10% or more of the business. Businesses that make foreign direct investments are often called multinational corporations (MNCs) or multinational enterprises (MNEs). A MNE may make a direct investment by creating a new foreign enterprise, which is called a green field investment, or by the acquisition of a foreign firm, either called an acquisition or brown field investment.

Regulatory Framework Of Higher Education In India



Objectives of study

- To determine the current status of higher Education system in India.
- To study the role of FDI in Higher education system .
- To examines the problem of stimulating adequate but quality enhancing foreign investment in higher education

Arguments for the proposal

- There is a shortage of funds in higher education sector. And there are not many ways in which this investment in this sector can be increased domestically.
- Since a large number of students go abroad for their higher education, it is sensible to allow foreign universities to set up their campuses here, in India. This would help in arresting the outflow of monetary and human capital.
- Further, foreign higher educational institutes would create competition with the local institutes making them internationally competitive.
- Also FDI in education would create new institutes and infrastructure and generate employment.

Arguments against the proposal

- FDI in any field does not have an attached objective of fulfilling social agenda of the welfare state. It is guided by profit and market. This would result in commoditization of education.
- As per past observations, most foreign institutes invest in technical courses which market needs rather than in quality education and research which is important for creating and developing human resource.
- It has also been observed that only 2nd and 3rd tier universities are interested in setting up their campuses in the country.

Review of Literature By Ritika Chawla:

Higher education in India has lagged behind due to a variety of reasons. According to statistics of 2003-04, hardly 7-8% of the population is enrolled in the institutes of higher education in the country. Moreover, public expenditure on higher education is just 0.37% of the total GDP. Statistics also show that there has been a 28% decline in expenditure per student in just 12 years!

Higher education has suffered from both quantitative and qualitative constraints. Given the population that we have, the number of institutes for higher studies is highly inadequate. This has caused a large number of Indian students to look abroad for their higher studies. In fact, India is one of the largest importer of education at present. In 2004-05 US had 80,466 students from India, higher than those from any other country. Along with huge outflow of money capital, this also leads to a drain of human capital.

Given this backdrop, the education ministry came up with the proposal of 100% foreign direct investment (FDI) in higher education in the country, in 2007. This would then allow foreign universities to set up their campuses in India. Since then this topic has been hotly debated by academicians.

Research methodology

Secondary data :Data is collected from the various secondary sources such as Journals, Periodicals , Books, News Papers, Articles , Published Research Compendiums ,Government Reports , Authentic Websites .Etc.

Higher Education in India-Current status:

Higher Education in India has evolved in distinct and divergent streams with each stream monitored by an apex body, indirectly controlled by the Ministry of Human Resource

Development. The 433 universities/ institutions are mostly funded by the state governments. However, there are 44 important universities called Central universities, which are maintained by the Union Government and because of relatively large funding, they have an edge over the others.

FDI in Indian Education Sector

The Government of India ("GOI") has allowed for 100% Foreign Direct Investment ("FDI") in the education sector under the automatic route. Recently, GOI also allowed for 100% FDI in the Construction Development projects which would also include educational institutions. These investments are also carried through the automatic route.

However, despite allowing 100% FDI in the education sector, there has hardly been any investment in this sector and the response from foreign investors has been very lukewarm, to say the least. The primary issue behind the lack of investment is the fact that the investment has to be done through a not-for-profit entity. The not-for-profit character would inevitably require the Indian entity to be either registered as a Society or a Trust (in case of schools, colleges and private/deemed universities) or a Section 8 Company (mostly in case of schools) under the Companies Act, 2013. This not-for-profit requirement has become a major bottleneck for attracting investments.

Further, a Trust or a Society is also not eligible to receive foreign investments under the automatic route. Even if investments are to be permitted, the entities being of a non-profit nature would not be able to distribute any returns on the investment. A Section 8 Company is of a charitable nature and hence would require applying its profits or other income towards the promotion of its objects.

Advantages of Foreign Direct Investment

In the context of foreign direct investment, advantages and disadvantages are often a matter of perspective. An FDI may provide some great advantages for the MNE but not for the foreign country where the investment is made.

- **Access to markets:** FDI can be an effective way for you to enter into a foreign market. Some countries may extremely limit foreign company access to their domestic markets. Acquiring or starting a business in the market is a means for you to gain access.
- **Access to resources:** FDI is also an effective way for you to acquire important natural resources, such as precious metals and fossil fuels. Oil companies, for example, often make tremendous FDIs to develop oil fields.

- **Reduces cost of production:** FDI is a means for you to reduce your cost of production if the labor market is cheaper and the regulations are less restrictive in the target foreign market. For example, it's a well-known fact that the shoe and clothing industries have been able to drastically reduce their costs of production by moving operations to developing countries.
- **Source Of External Capital And Increased Revenue :**FDI also offers some advantages for foreign countries. For starters, FDI offers a source of external capital and increased revenue. It can be a tremendous source of external capital for a developing country, which can lead to economic development.

FDI in Higher Education Sector:

Traditionally education is considered to be non-tradable; the govt. has used to fund education through domestic resource mobilization and channelization. In the higher education a period of 1990 to 2000 is the decade of deficiency of funds on secondary, higher and technical institutions.

This resource crunch adversely affected both, public and promoted private sector in all level of education. To raise the funds in education sector it may be argued that FDI may be used as a resource of investment at least in some selected areas. Against this view academia in education argues that foreign investment in education sector might lead to cultural imperialism. Therefore education should be national agenda purely funded through domestic resources. However this table shows the FDI in India during last 12 years.

India's education sector has witnessed significant expansion since the government approved FDI in April 2000, thus providing a huge opportunity for investment. Yet FDI remained zero in the first three years, increased till 2008-09 and then kept falling again. In the past 11 years, the total FDI in education has stood at Rs 2,051 crore, the yearly average of Rs 186 crore being one-tenth of one per cent of what the Centre and state governments annually spends in this sector.

Government has proposed 100 percent foreign direct investment in higher education and hinted at making reservation mandatory in the institutions to be set up by foreign universities in the country. Once approved by the Cabinet and passed as law, the Foreign Education Providers (Regulation) Bill will grant deemed university status to such institutions. Recently Shri Arjun Singh, Minister HRD said, "I do not think that there are any ideological problems about FDI. But some kind of control has to be maintained. Education is a sensitive area". Before finalizing any policy on FDI in higher education, there are various issues that need to

be discussed. There is now no law in the country to regulate the entry and operations of foreign education providers.

That is why FDI inflow is not happening for setting up institutions or offering courses,” he said. “The proposed law provides for a proper mechanism for investment in this sector

Conclusion

There is thus an urgent need to address the deficiencies facing our higher education sector. However, one sided response to it won't solve the problem. The best option is the middle path. Government should allow foreign universities to invest in education sector but under strict regulation. It should shortlist the preferred universities for investment and then invite them to set campus in India. Low grade universities should not be allowed entry in the country. Moreover government should provide incentives to foreign universities to setup institutes in areas of research and academics, which is much needed in the country. Thus government needs to act with strictness and discretion in development of higher education. At last it is not wrong to state that India badly need funds for the development of education sector as it is beyond the capability of country to cater the need of finance. In order to tackle this situation 100% FDI has been allowed by the Govt. but besides its advantages and it is having certain severe disadvantages which needs strict action on the part of Indian govt. A regulatory body should be framed otherwise India might face some bad consequences in context of culture and autonomy of foreign education providers.

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