

# Foreign Direct Investment in Indian Higher Education With Reference of Canadian Universities

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## Abstract

The demographic dividend of India is the strongest key factor for the nation's growth in future. India is home to an increasing share of the planet's under-25 population, and Canadian universities, have realized that they need to tap into that market of opportunity. The Govt. of India agreed to encourage the continued development of "synergies" between Canadian and Indian universities on the sidelines of the Toronto G-20 summit. In a decade, 30 million Indian students are expected to be looking for a post-secondary education double current enrolment levels and Indian schools, even with the expected addition of 1,400 more, are unlikely to meet that demand. The key factors of potentiality of Canadian Universities in India are fees, Staff salary structure, living standard, education system and many more. There is a noticeable disparity in Canadian fees v/s Indian fees and also in Salary structures of staff. The study will focus on the potentiality for Canadian Universities in Indian Higher Education Market. As Canadian Universities will get international exposure as well as huge heap of student and on other side Indian economy will be stronger with FDA (Foreign Direct investment) and having essence of education from the standpoint of other country.

## Keywords

Indian Higher Education, Canadian University Scopes in India, Internationalization of Education, Demographic dividend of India

## I. Introduction

Higher education is assuming a growing significance for developing countries, especially countries including India experiencing service-led growth. Higher education is all about generating knowledge, encouraging critical thinking and imparting skills relevant to this society and driven 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 spectacularly rapid.

The research examines the two-way services trade and investment opportunities between Canada and India, and gives concrete examples of Canadian and Indian regulatory barriers, lack of regulation, and/or domestic practices that impede the growth of bilateral services trade flows. Policy recommendations, addressing the two-way trade and investment structural barriers, are provided to aid the government's development of trade policy and its ongoing international trade negotiations. The paper provides a brief overview of India's economic, political, and social scenarios; followed by an illustration of Canada and India's current trade relationship; a discussion on the two-way services trade and investment opportunities and the barriers standing in their way. Finally, specific policy recommendations will be presented to address these barriers and ensure that both nations can enjoy a mutually beneficial and growing economic relationship.

## Objective of Study

The Objective of this study is to bring in to light the possible opportunities and challenges for upcoming years in Indian higher education.

## Methodology for the study

The past data about the higher education has been studied from various literatures. On basis of this literatures as well as some reputed reports from the various organizations like FICCI has been referred. The glimpses of various literature is shown in literature review.

## II. Literature Review: The base of a Study

### A. A Demographic Dividend of Country

India is at the cusp of becoming the world's youngest country — 600 million Indians are under 25 years old. By 2015, more than 550 million will be teenagers. This will result in the labor pool expanding by 15 million people annually. Concurrently there will be a major demographic shift in the population as the country moves from a rural to a more urban society. As a result, each year an additional 12 to 16 million individuals who were previously involved in agriculture will search for work in other sectors. This transition will continue through 2030. The total labor pool that will require advanced training in vocational, managerial, IT and other skilled and semi-skilled professions is expected to exceed 30 million individuals per year through 2020.

### B. The Education Shortfall Gap Analysis

There are 18 thousand public universities and colleges in India to serve the needs of 11 million students and, while India's education system churns out more engineers and scientists than any other country, major challenges remain. An excerpt from a recent article published in the International Herald Tribune highlighted this fact: "The Indian educational system is locking millions of students in the bottom berth of a two-tier economy, depriving the country of the fullest expression of their talents and denying students a chance to share in the fruits of reform. The problem, experts say, is in a classroom environment that infantilizes students well into their mid-20's, emphasizing silent note-taking and discipline at the expense of analysis. Students at second- and third tier colleges suffer not because of a dearth of technical ability or intelligence, but most simply lack the soft skills sought by a new generation of employers but still not taught by change-resistant colleges."

India's Tier II and III university facilities are unable to accommodate the dramatic increases in enrollment. For graduate and professional programs, there are more than 600 applications per seat. As a result, educational infrastructures are frequently spread to maximum capacities. Reservation policies, a quota system designed to promote education opportunities for underprivileged groups in India, further limits opportunities for many Indians.

The opportunity itself is hard to grasp considering that more than 15 million individuals who will need some type of skill training every year do not currently have access to said training. The number is much higher if we consider quality training and education programs with a total market value of more than \$17 billion dollars per year. Contrary to common belief, several for-profit educational institutions in India have been recognized and accredited by the Indian government. These include the National Institute of Information Technology and Manipal Education. Together these organizations work with over 50,000 students a year, but that's not enough to fill India's education gap.

On top of that 70 percent of the Indian population is rural often living in small villages with little or no infrastructure and literacy rates that often do not exceed 50 percent. Combine all of that with wide variances between India's 28 states towards education and direct foreign investment and you begin to get a better sense of the challenge.

### **C. The Comparison of Both Countries: India v/s Canada**

#### **1. Common nature of Indian and Canada**

Studying at university is an expensive investment. Tuition fees have a disincentive effect on the poor and middle-income students. There has been a general trend towards marked increases in tuition in recent years, even in countries where tuition fees have generally been much lower than average. For example, Canada has seen its tuition fees more than double in the last ten years.

#### **2. Current Economic Relationship**

The Canada - India economic relationship is in the unique position of being largely complementary economies. Instead of viewing each other as a threat, both countries can complement the other. For example, Canadian strengths in engineering services, energy services, environmental services, and telecommunications can be used to develop the infrastructure within India. Canadian knowledge-based information technology firms can collaborate with those in India in order to harness each others strengths in developing innovative products and services. Indian R&D intensive companies can take advantage of Canada's favorable R&D concessions. Canadian food processing firms can provide storage facilities for the large Indian agriculture market. Canadian companies seeking to enhance their own competitiveness can become integrated in the global supply chain by taking advantage of India's low-cost skilled labour.

It should be noted however that services are notoriously difficult to measure and that these statistics may not be truly representative of Canada's involvement in the India economy. The Asia-Pacific Foundation of Canada (APFC) estimated in 2002 that Canadian firms sold \$336 million in commercial services to the Indian market, which is about 2.5 times greater than the value reported by Statistics Canada. Also, in a limited sample of 43 Canadian companies, the APFC reported that investment into India from Canadian firms represented \$284 million, which is about twice Statistics Canada's reported value.

#### **3. Overview of FDI in India**

A recent UNCTAD (United Nations Conference on Trade and Development) survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010-2012. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities

and computer software and hardware. Mauritius, Singapore, the US and the UK were among the leading sources of FDI. FDI for 2009-10 at USD 25.88 billion was lower by five per cent from USD 27.33 billion in the previous fiscal.

#### **(i). FDI in Indian Higher Education**

Foreign Direct Investment (FDI) in education is allowed in India under the automatic route, without any sectoral cap, since February, 2000. There is no offshore campus of any foreign university in India. In India there are 106 institutions running technical programmes in collaboration with over 125 foreign universities and institutions.

There are only 10.5 million students enrolled in all higher education institutions in India. That is just 11 per cent of the relevant age group (17 to 23) population. According to 2004-05 survey 80,466 Indian students were enrolled in USA universities and 15,000 Indian students were enrolled in the UK universities.

#### **(ii). Advantages of FDI in Indian Education**

If international educational institutions come to India, then students would be able to get foreign education in India, cheaper. The seats are limited in the Indian educational institutions and so foreign direct investment in the educational sector would result in more opportunities for the Indian students. The Indian students will get libraries and labs that are of world class standards. The setting up of international educational institutions in India will attract students from the neighboring countries to come and study in those institutions in India and this will help the country to become an important destination for education.

It will enable the Indian students to come in touch with the best professors from across the globe. FDI in education will also lead to higher number of Indian students getting jobs in internationally acclaimed companies.

Availability of world class research facilities. It will attract the topmost universities across the world to set up their branches in the country. Foreign institutions planning to invest in the education sector in India: FDI Inflows to Education sector in India are expected to increase, as many foreign educational institutions have submitted proposals to make investments in the sector. FDI Inflows to Education sector in India are expected to come from Egmont Imaginations which has submitted a proposal to establish 200 play schools in the country. Further FDI Inflows to Education sector in India are expected to come from major American universities such as, Georgia Institute of Technology, Yale, and Standford, as they are eager to establish green field campuses in the country. USD 1.33 billion, the lowest in 2010 fiscal, industry department data released showed.

#### **4. PROS of FDI in Higher Education in India**

Due to lack of funds it is not possible to increase the number of state funded universities and colleges. Therefore FDI in higher education is solving this problem. A large number of Indian students go abroad for higher education but by allowing foreign educational institutions opening their campuses in the country will stop the outflow of Indian students thus allowing quality higher education in own country which would be less expensive.

It is also argued that foreign higher educational institutions would create competition with the local institutions enabling them to become internationally competitive. This competition would force the local institutions to change their curricula and respond to the immediate needs of the students. And by this, the degrees offered by these institutions will become internationally comparable and

acceptable.

Furthermore, the FDI in education would create new institutions and infrastructure and generate employment.

### III. Benefit to India by Allowing Canadian Universities

Considering the future opportunities, Indian government is now contemplating on the idea of allowing Foreign Direct Investment (FDI) in education sector of India. Indian government has been carrying out a lot of reform activities for the economy to attract more FDI in the country.

Indian government is in favor of allowing FDI in education sector for foreign Universities by taking into consideration the points: listed below.

1. There are limited seats in Indian colleges and universities. So, allowing FDI would increase more opportunities to study for Indian students.
2. Many students are going abroad to pursue higher education. If foreign universities come to India, then some of these students will surely stay in India and study here.
3. Indian economy is incurring an expense of more than \$4 billion every year because of the fact that thousands of Indian students are going to America and Europe for higher education.
4. FDI in education sector will attract some of the best universities in the world and open their branches.
5. It will also ensure world class research facilities for Indian students.
6. It will also increase the possibility of Indian students to get jobs in multinational companies.
7. India needs many skilled workers within a short time. Foreign universities can contribute a lot in this regard.
8. If foreign schools and universities open their branches in India then many students from neighboring countries will come to study in those universities in India and India will turn into a regional hub on education.
9. Indian students will come into contact with some of the top professors of the world.
10. Indian students will be able to have world class labs and libraries.

### IV. The Support From Indian Government

#### A. Rationale for FDI in Education

The govt. of India shows the interest to increase the FDI in nation's edification system. To support the favorable policies for foreign universities govt. initiated the steps which are as mentioned below.

#### 1. Export

It is also argued that there is a positive correlation between FDI and export. Hence it is argued that allowing FDI in education might lead to export of Indian education abroad in which there are large potentials in South East Asia, Africa, Latin America etc. Education may, therefore, turnout to be net exporter and earner of foreign exchange. It is, however, maintained that foreign institutions would be interested to develop the large market in India, rather than exporting education from India. There is also no empirical evidence to show the positive association between FDI and export. Since nations cannot remain isolated in this age of globalization, therefore, the FDI policy should be linked to specific sectors and the specific objectives.

### 2. FDI and GATS (General Agreement on Trade in Services)

In the background of GATS the policy on FDI needs to be discussed. So far in the era of bilateralism, the investment has followed the trade in manufacturing and quite often the reverse in the case of services. Commitments and conditions for investments were mutually agreed upon. GATS is directly not an investment agreement. It is a trade agreement in services that is multilateral and guided by minimum rules principles. Hence, institutional and legal inter linkages under GATS also necessitate the FDI gearing to fulfilling trade based needs arising from inter linkages. It should be noted that investment is one of several different ways of gaining access to market. There is no investment protection provision as found in bilateral agreement. Hence, if there is commitment to allow commercial presence in Mode III, no control in FDI is possible. The next important point is that both existing and future bilateral and regional investment agreements will need to take its provisions fully into account including strong MFN commitment. It means that opening any sector today for any country would mean opening the sector probably for all countries under GATS.

### 3. The Generic Strategy Model

As a part of Govt. Initiative the report of Knowledge Commission recommended five major "game changers" to promote the Indian Higher Education System.

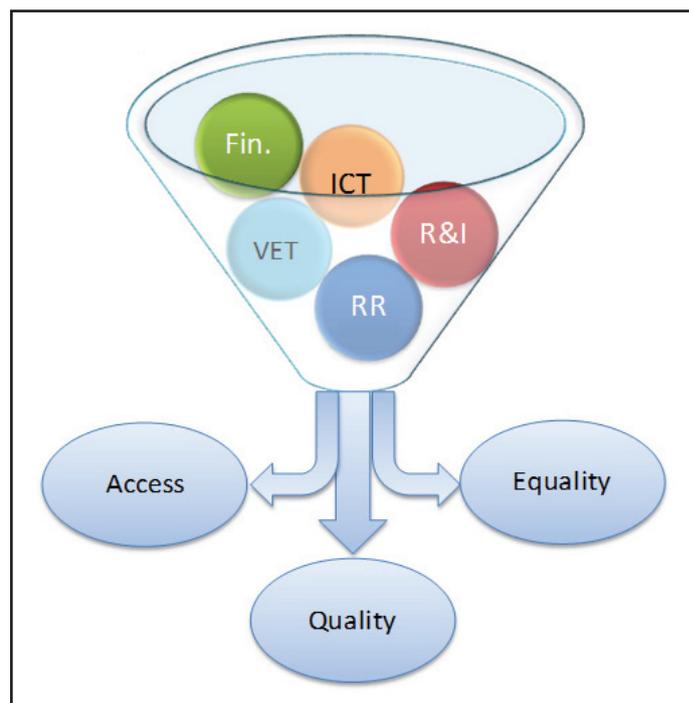


Fig. 1: Generic Strategy Model by Indian Govt.

1. Fin. – Financing, with focus on telling the government not to fund low quality institutions and to allow fee 'rationalization', reduce burden on governmental financing of higher ed, tax sops for private endowments
2. ICT - ICT read as [Information Communication Technology virtual classrooms and digital content, read as more purchase orders for IT procurement; national repository for free content
3. R&I- Research And Innovation (means to incentivise research; i.e. get some more marketable patents),
4. VET Vocational Education and Training – VET will only teach what industry wants and needs, reduce VET-HE mobility

barriers, let private sector in

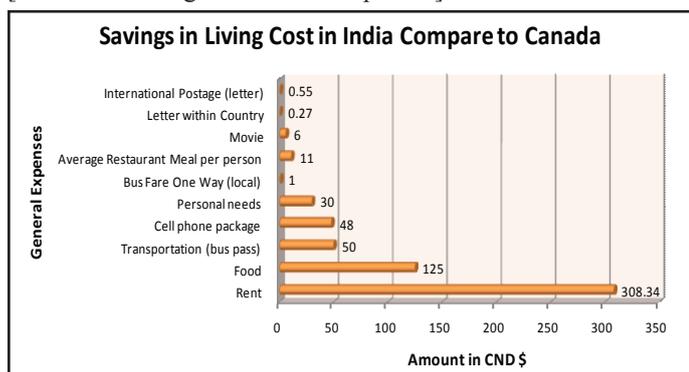
- RR- Regulatory Reforms will consolidate, simplify, reduce entry barriers, become more transparent

As a part of favorable attitude of Indian Govt.(Knowledge Commission) for foreign universities, the generic strategy model has been derived, shown in fig. 1. These will explore the horizons of internationalization of edification by providing higher accessibility, better quality and equality in education system. According to the report, these five game changers will “solve” three problems – Access, Equity and Quality.

### V. Benefit to Canadian Universities by FDI in Indian Higher Education

#### A. Lower Cost Option for Students

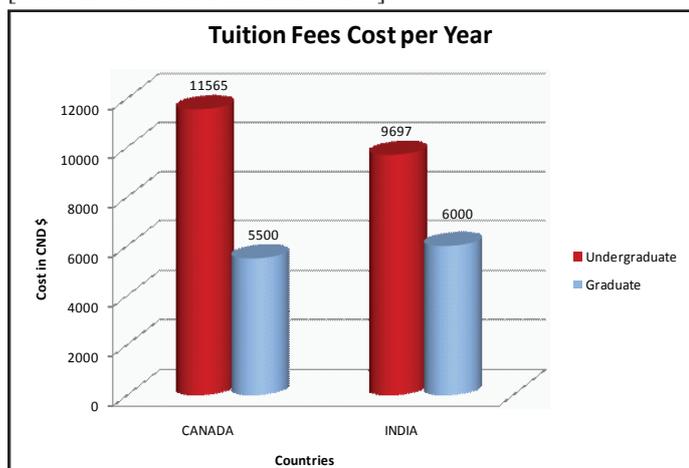
[Chart 1 – Savings in General Expenses]



Source & © LivingIn-Canada, AICTE

Living cost and general expenses are one of the crucial parameters of student life. Even for the general citizens, the living cost is highly affecting parameter as far as their budget is concern. The above Chart-1 shows the saving in general expenses compare to Canada in India. These will provide availability of quality education at affordable price in India. The data are gathered from the telephonic survey from Canada and personal interview survey in India.

[Chart 2 – Tuition Fees Difference]



Source & © LivingIn-Canada, AICTE

The tuition fees in India are almost 50% than the fees in Canada as far as undergraduate tuition fees are concern. Very likely for the graduate courses the fees are almost 40% higher than India. Here the fees of NRI quota are taken into consideration. At the point, the tuition fees are cheaper in India compare to Canada.

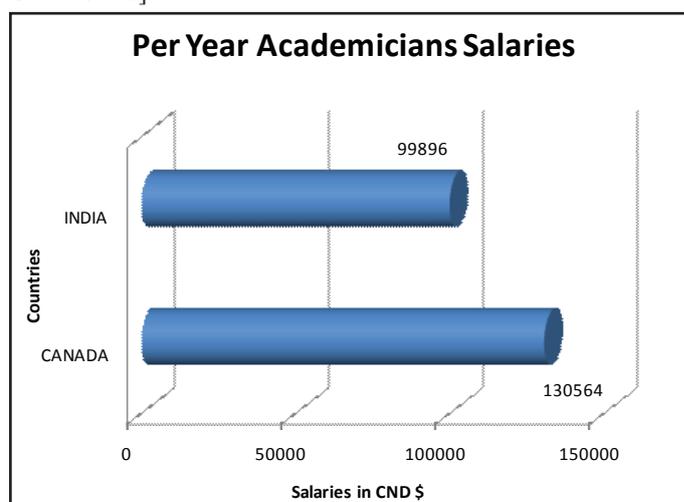
#### B. Lower Expense Options for Canadian Universities

[Table 2: Average Salaries in Indian and Canadian Universities (per Year)]

University	Average Pay In CND \$
University of Manitoba	\$135,120
Brandon University, Manitoba	\$114,413
University of Winnipeg, Manitoba	\$111,338
University of Saskatchewan	\$135,967
University of Regina, Saskatchewan	\$124,047
University of Alberta	\$151,119
University of Calgary, Alberta	\$161,361
University of Lethbridge, Alberta	\$138,073
Athabasca University	\$137,628
University of British Columbia	\$163,028
Simon Fraser University, British Columbia	\$135,251
University of Victoria, British Columbia	\$131,210
Trinity Western University, British Columbia	\$78,779
University of Northern British Columbia	\$110,563
<b>Average Salary in Canadian Universities</b>	<b>\$ 130,564</b>
<b>Average Salary in Indian Universities</b>	<b>\$ 99,896</b>

Source & © LivingIn-Canada, AICTE

[Chart 3 –Per Year Average Salaries in Indian and Canadian Universities]



Looking at the average salaries per year in Indian and Canadian Universities, there are 30% higher salaries in Canada. These bases are taken by comparing the salaries of Canadian Universities with premium universities / Institutions like IIMs, IITs of India. These makes echo to the profitable future scenario for Canadian Universities as they can afford the salaries of expert skill set in India at lower expenditure.

#### VI. Collaborations: The Journey has began Started

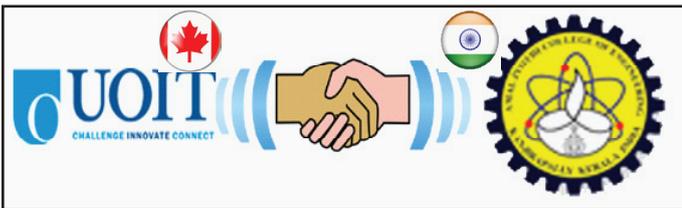
Canadian universities declared to fund a series of India-specific initiatives valued at over \$4 million. These investments include the new “Globalink” Canada-India Graduate Fellowship. A statement issued by the Indian ministry for human resources announced as eight Canadian universities would be providing graduate fellowships for top Indian students who wish to pursue a Masters or PhD in Canada. The Globalink Canada-India Graduate Fellowship Programme will provide 51 scholarship valued at more

than CAD \$3.5 million for Indian students who participate in the MITACS Globalink programme in 2010. The announcement was made by Stephen J Toope, President and Vice-Chancellor of the University of British Columbia, in the presence of the Indian Minister for Human Resources Development Kapil Sibal and Gary Goodyear, Canada's Minister of State (Science and Technology). Four memoranda of understanding (MoS) were signed earlier in the day. There are four major MOUs has been signed as an initiative to internationalization of edification in India by Canadian universities. Those are:

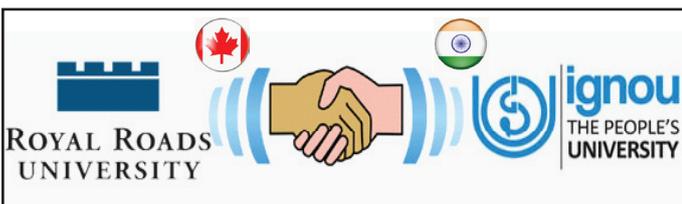
1. Between the University of British Columbia and the Indian Institute of Technology, Delhi on a long-standing student mobility agreement. This deal involves undergraduate engineering students spending time at each others' institutions.



2. The second is between the University of Ontario Institute of Technology and Amal Jyothi College of Engineering to jointly offer a Bachelor of Applied Science in Nuclear Power degree.



The third, between the Royal Roads University and the Indira Gandhi National Open University (IGNOU) seeks to establish an education partnership that will explore joint delivery of programmes through blended and distance education programmes.



The fourth is signed between the Royal Roads University and the ACN School of Business which agreed to establish a partnership on academic cooperation.



It is the biggest mission to India by Canadian educational institutions after the two countries signed a memorandum of understanding on higher education during visit of Prime Minister (Dr.) Manmohan Singh to Canada in March 2010. Though more than 150,000 Indian students go abroad for higher education each year, Canada gets only about 3,000 annually.

The mission will also participate in the higher education summit being organized by the Federation of Indian Chambers of Commerce and Industry (FICCI).

"This mission is a way for us to get to know India and its needs more deeply - and to make sure that when Indians think of research and higher education, they think of us," said AUCC president Paul Davidson before the mission's departure for India.

"Educators and business people in India need to know that Canadian universities are open to building successful partnerships that will enrich experiences for students, strengthen links between our countries and advance international research collaboration," he said.

### VIII. Conclusion and Recommendations

This efforts has highlighted some of the key policy issues for services industries specifically education, that need to be addressed in order for Canada and India to fully maximize their economic relationship. Based on the analysis, there are complementarities between the Canadian and Indian economies, providing the necessary base for increasing two-way services trade and investment. The recommendations to the Canadian federal government are designed to increase the economic relationship between Canada and one of the fastest growing and most lucrative economies in the world, India. Below is a summary of the recommendations.

Canadian education institutions should increase their efforts in both attracting Indian students and in setting up satellite campuses to deliver Canadian recognized diplomas and degrees. Some other catalyst policies in same direction can be considered as below:

- The Federal government of Canada should provide funding to establish an excellence-based scholarship program specific to international students.
- The Federal government must work with the universities and their associations to develop and market a Canadian education brand.
- The government of Canada must work within its goal set out in Advantage Canada of making it easier for foreign students to enter Canada and stay in Canada to work once their studies are complete.
- Student visa procedures should ensure synchronous college/university acceptance and visa issuance timing.

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