STRATEGIC ANALYSIS OF THE INDIAN HIGHER EDUCATION SECTOR FOR ATTRACTING FOREIGN DIRECT INVESTMENT.

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Abstract

The globalization of knowledge - its creation, dissemination, and acquisition - poses a tremendous challenge to India’s governing bodies and national education policy makers who are aiming for the sustained integration of global knowledge into the country’s national educational system which demands transparency, openness, flexibility, and innovation.

This paper provides a strategic analysis of the Indian higher education sector from the perspective of education in India’s universities and colleges, from the viewpoint of the foreign investor, and from the current debate of the Indian Government’s Foreign Educational Institutions Entry and Operations Bill introduced in the parliament to attract and encourage more foreign direct investment in education. The paper surveys, examines, and reassesses the literature and work done in FDI in education and on foreign educational collaborations, and it utilizes an institutional based approach to explore the role of formal institutions, regulatory framework and informal institutions in evaluating the Indian higher education investment environment.

The authors explain and address the fundamental questions that are crucial to the foreign investor: What is the nature and scope of the investment? What are the risks? What are the tangible and intangible returns from the investments? How does this investment benefit all stakeholders? The authors find that there is a lack of depth and fulfillment of foreign collaborations, ambiguous and burdensome regulations, protectionism, heavy bureaucracy oversight, and lack of shared vision for global education which are all critical factors that affect foreign direct investment in education in India.

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Introduction

Since 2001 India has experienced accelerating growth in gross domestic product, powered by building on international trade in services, business and knowledge process outsourcing, and manufacturing, reaching a peak growth rate of about 12% in 2010.\(^2\) The underpinnings of this unprecedented growth were the liberalization of the Indian economy, the revolution in computing and communications technology and the global competitiveness of India’s pool of well-educated English language skilled workforce.

Now faced with the adverse impact of global economic slowdown and uncertainty, India’s economic growth has slowed to half that peak rate in recent years, and projections for near term growth call for only a modest recovery (World Bank, 2012). In line with the deceleration in economic growth during the four years leading to 2011, foreign direct investment declined annually in current dollars from $43 billion in 2008 to $26 billion in 2010 and recovering modestly to $32 billion in 2011.\(^3\)

A rebound in the global economy to more “normalized” levels of economic activity is expected to benefit the Indian economy, however, several studies have identified core risks to the Indian economy that will affect its longer term economic growth trajectory. Many of the risks arise from financial, macroeconomic and regulatory conditions, and policies; others arise from the current state of Indian infrastructure; and yet, others relate to the Indian education sector’s ability to deliver highly skilled workforce for the modern competitive knowledge economy.

Foreign Direct Investment (FDI) in higher education will create new opportunities for Indian firms, academic professionals, and educational institutions to be suppliers of goods and services to the foreign colleges establishing branch campuses in India, and will attract multinational companies to take advantage of a skilled and sophisticated higher educated work force. This will also give Indian students the opportunity to get a foreign based education at home, will reduce


the amount of Indian students traveling overseas for their education, will reduce the amount of foreign exchange sent overseas for education, and will help Indian firms to further globalize their businesses.

The success of FDI in Education in India, depends on the openness of the economy, effective government policies, common sense regulation on the entry and operations of foreign colleges and universities, infrastructure development and availability of low cost real estate, land, and a flexible financial system that does not restrict capital inflows and outflows. The issue for India is how to ensure that FDI in education by foreign universities and colleges will benefit the country, and the issue for foreign colleges and universities is how to determine what should be the nature and scope of the investment, and how to assess the risks and benefits for all stakeholders.

This paper will attempt to shed light on these issues by surveying the literature on FDI in education in other countries and India, and utilizing an institutional based approach to examine the Indian higher education sector from the strategic perspective of the US foreign education institution interested in collaborating and/or directly investing in this sector.

The analytical framework draws from the academic literature on institutional analysis for strategic development and management which brings to the forefront the role of Indian institutional based factors in strategic decision-making, and draws from some of the econometrics studies on FDI in education. The paper explores the strategic objectives of the foreign education institution considering participating in the Indian higher education sector and evaluates the opportunities, risks and the range of potential strategic responses by US education institutions.

This paper is structured with the first section containing a survey of the economics literature in foreign direct investment in education, and an overview of the literature on the institution based view of business strategy. The next section is an overview of the Indian higher education sector and the regulatory and institutional framework including the market size and growth; the third section is the review of The Foreign Educational Institutions (Regulations of Entry and Operations) Bill, 2010 ; the fourth section is an overview of Foreign (United States) Education Institutions strategic objectives for investing in India’s higher education sector, the penultimate section discusses the strategic analysis and issues of foreign direct investment in education from
the perspective of foreign Institutions and in the context of the institution-based view of India’s resources, culture, infrastructure, and legal and regulatory framework. The final section presents the conclusions and recommendations.

**Literature Survey and Overview of Institution based view of Business Strategy**

The literature relating to the impact of foreign direct investment in education on the economy shows a direct correlation between investment in education and growth in GDP, and concludes that FDI in education develops and enhances human knowledge that is needed for upgrading technical and business skills.

One study by Mustafa and Vlad study on the relationship between education and FDI, defined FDI as (net inflows as a percent of GDP) and is dependent on several independent variables: number of phone lines, GDP per capita, international trade per GDP, primary education, secondary education, tertiary education. These variables are divided into high income, upper middle Income, lower middle and low income, and represented by the following equation:

$$Z_{it} = \alpha_i + \beta X_{k_{it}} + U_{it}$$

i= country units  
t= time

The findings using this model suggest that FDI level is significantly higher in countries with high education. A 10% increase in education level is associated with a 0.2 % increase in FDI on average of all levels of income; but a 10% increase in education level is associated with a 1.0% increase in FDI for upper to middle income countries.

Other studies by Billington4,Culem, Chakrabati and Asiedu; and Blomstrom and Kokko; find that there is a spillover effect of FDI on other industries and that improvements in education and human capital are essential for absorbing and adapting foreign technology, and for

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generating sustainable long-run growth. Balasubramanyam (1988) suggests that FDI is effective only if there is a well-developed infrastructure and a stable economic climate.

Carl Dahlman and Anuja Utz\(^5\) of the world bank show how India can increase its real GDP per worker (not population) by increasing its total factor productivity growth (TFG) rate (capital, labor, and human capital which is taken to be learning capability, or knowledge) to increase its real GDP per worker. The authors show that in the period 1991-2000, India’s TFP growth was about 2.09\%, 2001 GDP per capita was $480, and the GDP per worker was around $1,070. Increasing the TFP growth rate from 2.09\% to 4.0\% , from 2002 to 2020, results in about 50\% increase in GDP per worker (see appendix 1). Therefore, increasing India’s knowledge base will cause an increase in GDP per worker.

The World Bank Knowledge Assessment Methodology (KAM) Knowledge Index (KI)\(^6\) measures a country’s ability to generate, adopt and diffuse knowledge. This is an indication of overall potential of knowledge development in a given country. The KI is the simple average of the performance scores of a country or region on the key variables in three Knowledge Economy pillars—education and human resources, the innovation system and information and communication technology (ICT). The Knowledge Economy Index (KEI) takes into account whether the environment is conducive for knowledge to be used effectively for economic development. It is an aggregate index that represents the overall level of development of a country or region towards the Knowledge Economy. The KEI is based on the knowledge economy - economic incentive and institutional regime, education and human resources, the innovation system and ICT. The Education and Human Resources Index is derived from the measurement of three key variables: adult literacy rate, secondary education, and tertiary enrollment.

According to Table 1, India ranked 111 in Education index out of 145 countries; 110 in knowledge economy index; and 112 in knowledge index. China is ranked better than India in all three indexes. Appendix 2 also lists India’s relative position in the knowledge economy index.

\(^5\) Carl Dahlman and Anuja, “India and the Knowledge Economy: Leveraging strengths and opportunities” World Bank, Washington, D.C

\(^6\)http://www.worldbank.org/kam
Table 1

2012 World Bank KAM Index Rank (145 countries)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Education</th>
<th>Knowledge Economy Index</th>
<th>Knowledge Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>111</td>
<td>110</td>
<td>112</td>
</tr>
<tr>
<td>United States</td>
<td>13</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>36</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>China</td>
<td>95</td>
<td>84</td>
<td>86</td>
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<tr>
<td>Pakistan</td>
<td>126</td>
<td>117</td>
<td>114</td>
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Total factor productivity (TFP) depends on the availability of knowledge. For example, Romer (1986, 1990) and Lucas (1988) argued that TFP levels depend on the stock of knowledge or human capital. Therefore foreign universities establishing technical based courses and programs will increase TFP, and TFP can be estimated to see the impact on real GDP growth since total factor productivity growth rate, is a predictor of real GDP per capita growth.

The World Bank KAM tool uses the Cobb Douglas model to estimate TFP\(^7\) to identify the impact of investment on TFP which in turn affects economic growth measured by real GDP. Increase in investments in education should lead to increase in TFP and GDP. Total factor productivity is achieved through increasing in knowledge or human capital, and therefore, understanding India’s TFP can be a benchmarking tool that can help India understands its strengths and weaknesses by comparing itself with China, competitors, or any other country.

The Cobb Douglas model is represented as:

\[
Y = AK^\alpha L^{1-\alpha} \quad (A1)
\]

Where,

- \(Y\) is the level of aggregate output
- \(K\) is the level of the capital stock
- \(L\) is the size of the labor force
- \(A\) is total factor productivity

\(^7\) In 1999 the world bank developed the KAM tool (see the world bank publications on using the KAM tool)
The “Learning curve” report, published by Pearson and written by the Economist Intelligence Unit, outlines the main findings from analysis of a large body of internationally comparable education data – The Learning Curve Data Bank\(^8\). The report brings together an extensive set of internationally comparable data on education inputs and outputs covering over 50 countries and conducts correlation analysis on the data to test the strength of relationships between inputs, outputs and various socio-economic outcomes on education outcomes. Some of the key findings are: (i) education remains very much a black box in which inputs are turned into outputs in ways that are difficult to predict or quantify consistently; (ii) simply pouring resources into a system is not enough: far more important are the processes which use these resources; (iii) income matters, but culture may matter more. Cultural change can be brought about to promote better educational outcomes; (iv) countries with greater choice of schools have better education outcomes.

The scientific approach of using econometrics and statistics showing the relationship between FDI and economic and human development growth does not take a holistic or strategic view of FDI, especially as it relates to India. A more holistic approach is to look at FDI from a strategic perspective as Peng, et al\(^9\) show that an institution-based view can add significant insights to the contexts and under what circumstances educational institutions rationally pursue their interests and make strategic choices under constraints imposed by the formal institutions (e.g.; laws, regulations, rules), and informal institutions (e.g.; norms, cultures, ethics). The institution-based view, suggests that foreign educational institutions need to incorporate in their strategy the influences of the formal and informal institutions role on their operations in India.

In contrast to the historical treatment of institutional analysis as a subset of the larger external environmental analysis for strategic management, recent academic literature (Oliver 1997; Peng 2002; (Peng et, al 2009) drives the point that institution based view is an integral part of the strategy tripod analysis, representing the third leg of the strategy analytical framework, along with industry and resource based analyses.

\(^8\)www.thelarningcurve.pearson.com

\(^9\) Mike W. Peng, et al; Academy of Management, 2009
Douglas North describes institution as “the humanly devised constraints that structure human interaction” comprising of “both informal constraints (sanctions, taboos, customs, traditions and codes of conduct), and formal rules (constitution, laws, property rights)”.\textsuperscript{10} North further asserts that institutions provide an “incentive structure” that can effectuate direction and the rise and fall of economic change, and competent institutions can engender collaborations and lessen transaction and production costs of exchange.\textsuperscript{11} Peng takes the cost attribution a bit further in suggesting that the role of institutions is to reduce uncertainty associated with transactions/exchange.\textsuperscript{12} This mitigation effect on uncertainty potentially encompasses financial, transactional, and strategic (tangible and intangible) consequences of investment. Furthermore, the uncertainty arising from institutional engagement can be particularly concerning in emerging economies due to their relatively higher levels of activism and evolutionary dynamism, compared to more mature counterparts (Khanna & Yafeh, 2007; Zacharakis, McMullen, & Shepherd, 2007).

**Overview of the Indian higher education sector, regulatory and institutional framework (Formal Institutions)**

The formal and informal institutions play a major part in FDI in education. The formal institutions serve to reduce uncertainty by defining the legal boundaries for foreign colleges and universities which then act rationally to pursue their investments within these boundaries. The informal institutions are shaped by the country’s history and culture. These institutions tend to influence the conduct of the formal institutions by guiding their behaviors which can have an impact on foreign investors perception of doing business in India. The formal and informal institutions can constrain or make FDI attractive by their policies that affect social and economic activities.

Higher education is regulated both by the Central Government and the State Government. The Central Government has the crucial role in formulation of public policy towards higher education, and is responsible for the coordination and determination of standards in educational

\textsuperscript{10} North (1991), 97  
\textsuperscript{11} North (1991),98  
\textsuperscript{12} Peng (2006), 94
institutions. The Central Government regulates education through the Ministry of Human Resource Development and its Department of Higher Education is responsible for secondary and post-secondary education. The Central Government grants "deemed university" status on the recommendation of the University Grants Commission (UGC) and the All India Council on Technical Education (AICTE), in a joint effort with the concerned state governments. UGC processes and grants approval of new institutions, new courses, and lays down quality standards for such institutions. It also ensures quality development of technical education through accreditation of technical institutions or programs. As for distance learning, the Department of Higher Education sees a limited role in "continuing education, skill updating of in service personnel and for quality education of relevance to learners located at educationally disadvantageous locations".

By several estimates India has one of the largest education sectors in the world – it is estimated to be the third largest, followed by US and China (UNESCO 2011). According to the 2011 University Grants Commission report (UGC 2011), there are 13.6 million students enrolled in 26,418 universities and colleges. The report concludes that 68% of the universities and 91% of the colleges are rated average or below average by the National Assessment and Accreditation Council (NAAC), the accreditation agency of the UGC. The UGC report clearly acknowledges its concern over the quality of the education system and identifies three goals that need to be achieved: one, "impacting scientific knowledge…we create knowledge society with scientific approach and mind”, second, "impacting skill and working knowledge…for economic development”, and third, provide "value education so that education serve as an instrument of creating citizens who cherish value of democracy, secularism, fraternity, and equality”. It is interesting to note that the stated UGC set of values make no reference to global education, globalization of the knowledge development and the development of global citizenry.

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15 University Grants Commission (2011), pp. 3
16 University Grants Commission (2011) pp. 16
17 University Grants Commission (2011), pp. 17
The UGC report also outlines its focus in the Eleventh Plan to expand gross enrollment ratio (GER) in higher education from its own estimate of GER from current 10.84% - 14% range, to 15%. It proposes to do so by expanding enrollment in existing institutions and the creation of new institutions – 30 new central universities, one tribal university and 374 colleges.\(^\text{18}\) Again, consistent with its educational value statement, it is clear that the UGC does not clarify a role for international education institutions and/or technologies in increasing access, quality, or in the development of global education across all demographics and geographies. Collaboration between Indian and foreign institutions regarding eligibility, approval, operations and punitive action in the field of Technical Education, Research and Training is currently vested with All India Council for Technical Education (AICTE).

It is estimated that the higher educational infrastructure in India can only enroll about 8% of the college-age students.\(^\text{19}\) Increasing enrollment has been at the expense of quality, outdated course design, poor absorption of knowledge, and growing demand for quality infrastructure.\(^\text{20}\) Only a handful of India’s educational institutions possess some degree of resource and capability similar to most of the colleges and universities in the US and UK.

AICTE regulates the entry and operations of foreign education institutions in regarding direct investment, collaborations, twinning arrangements, partnership between Indian and Foreign universities/institutions in the area of Technical Education. Their regulations clarify their objectives, states eligibility and approval conditions, and punitive measures for non-compliance.\(^\text{21}\) AICTE’s regulations cover degree, diploma, post graduate diploma, and post diploma (presumably certificate courses), and their objectives echo the values of the UGC and their intention to “safeguard” against the entry of non-accredited institutions in their home country. The penalties for non-compliance include cease and desist requirements, publishing of unapproved programs on the AICTE website, informing all relevant central government ministries, including the Reserve Bank of India and the arresting of all repatriations of funds from India to the Home Country.

\(^{18}\) University Grants Commission (2011), pp. 19

\(^{19}\) The Financial Express, November 24, 2008

\(^{20}\) Ernst & Young-Leveraging Partnerships in India’s Education Sector, 2008

Indian education lacks creativity, dynamism and quality. Passing entrance exams, to get in to the top universities, through mastering and memorizing course materials and formulas, is not a good indicator of students ability to think critically, and to be innovate and creative. As a consequence, students who are not good entrance exams test takers but very bright, articulate and creative are denied access to the prestigious universities. The rapid expansion of higher education in India over the past two decades has been mainly driven by private sector initiatives. However, there are genuine concerns about many of them being substandard and exploitative. Due to the government’s ambivalence on the role of private sector in higher education, this ambivalence has led to chaotic and unplanned growth and the failure of the regulatory system to maintain standards or checks on exploitation.

The Indian annual budget does not allocate sufficient money for education because of a shortage of funds, as a consequence, only 12.4 % of students enroll in institutions of higher education as compared to 55 % for the developed countries and 23% for the world average. This has implications for India which needs to increase enrollment in order to increase its human knowledge and increase and sustain its economic growth.

Market Size and Growth

India’s economic growth has accelerated significantly over the past two decades with a robust GDP growth of 7.4% in 2008, and a 6.7% growth in 2009 despite the global economic downturn. India’s economy is expected to grow at a rate of over 7% over the next decade with the education sector doubling to US$50 billion by 2015. About 7% of the urban Indian per capita monthly household expenditure is spent on education. In 2008, the government allocated about USD 13.3 billion or 0.7% of the GDP for higher education. It is in this higher education market that foreign universities will need to carve out their niche.

If India continues on the current high growth path over the next two decades, the Indian market will undergo a major transformation. Income levels will almost triple and India will

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22 Economic survey 2008-2009
23 Ernst & Young – Globalizing Higher Education in India, EDGE 2008 Report
climb from its position as the 12th largest consumer market today to become the world’s 5th largest consumer market by 2025. As Indian incomes rise, the shape of the country’s income pyramid (appendix 3) will rise significantly. Over 291 million people will move from desperate poverty to a more sustainable life, and India’s middle class will grow from its current size of approximately 283 million to 583 million people. By 2025 over 23 million Indians will be among the country’s wealthiest citizens.\(^\text{24}\) and annual real rural income growth per household will also increase from 2.8 percent over the past two decades to 3.6 percent over the next two.

Vocational education/training is attracting huge investments from corporate and private equity firms in response to the rising demand for vocational training and on-line education, and pre-school segment, current market size of US$ 750 million, is expected to reach US$ 1 billion by 2012, according to Arun Arora, Chairman, Serra International Pre-Schools. The market size of K-12 sector is expected to reach US$ 34 billion in 2012, with a rise of 14 per cent, as compared to US$ 20 billion in 2008.

The demand growth for management graduates in the year 2007-08 was 330,000, on the other hand, the number of management graduates produced in 2007-08 was approximately 310,000. The cumulative short supply during the period 2006-08 reached 50,000. The estimated demand for management graduates during 2008-12 is expected to be about 1,340,000 and India requires between 1.5 million and 2 million students per year to enroll in business programs. (an increase 1.1 million added for the past three years)\(^\text{25}\)

The demographic group of 18-24 years is the world’s largest young population which presents a large demand for higher education programs. This group constitutes approximately 12% of the total population which is about 132 million young people, and out this number, India needs a minimum of 10% or 13.2 million per year to sustain its knowledge based economy. India has a demographic advantage with 70% of its population below the age of 35 years, and a median age group between 20-30 years, and people between the ages of 15-24 expected to be 235 million by the end of 2012 or around 19% of the total population.

\(^{24}\) McKinsey & Company, 2010 Report

\(^{25}\) Private Enterprise in Indian higher Education, Ernst & Young –Edge 2009 Report
Review of The Foreign Educational Institutions (Regulations of Entry and Operations) Bill, 2010

The proposed legislation acknowledges the values stated in the UGC annual reports and in AICTE’s foreign university collaborations regulations. It aims to provide an overarching regulatory framework for the entry and operations of foreign institution in the Indian Higher Education sector in all areas of investment alternatives and collaborative arrangements (except distance learning). In this regard the legislative proposal is very broad in scope and will potentially have a large impact on the sector. The Bill has some financial restrictions and risks which will affect foreign direct investment in education in India. Colleges and universities who contravene any of the regulations will be publicly shamed by posting their names on a “shame list.”

- **Scope of Foreign Institution** – incorporated outside India; offers or proposes to offer educational services towards awarding degree, diploma, or other equivalent qualification at undergraduate, post graduate, doctoral, or post - doctoral.
- **Approving Authority** – Central Government.
- **Qualification** – Foreign Institution has been offering educational services for at least twenty years and has received accreditation from the accrediting agency of the home country.
- **Corpus Fund** – Foreign educational provider approved to impart education in India and to award degree, as described by the Scope of Foreign Institution above must maintain a corpus fund of not less than fifty crore rupees.
- **Use of Corpus Fund** – Not more than 75% of the income from corpus fund must be used towards the development of its institution in India. The reminder must be retained in the corpus fund.
- **Surplus revenue generated from India** – no part of the surplus after meeting all expenditures can be repatriated. The surplus must be reinvested in the educational institution in India.
- **Status of Foreign Education Provider** - Upon the recommendation of the UGC, the Central Government can recognize and notify the foreign education institution as the foreign education provider for the “purpose of award of degree or diploma ... the provisions of the Act (UGC) shall apply to such institutions as they apply to any university in India”.


• **Academic Program of study** – Academic programs must conform to Indian statutory authority and must all be in conformity with the standards, quality, methods of imparting education, and faculty offered by the foreign education provider in its main campus in the home country.

• **Penalties for lack of compliance** - Fines and penalties, possibly confiscation of the corpus fund and publication of unapproved status.

The Proposed legislation affirms the UGC values as per its annual report regarding the participation of foreign educational institution and also, broadens and extends the regulatory framework under currently under AICTE to all fields of study. However, a comparison of the highlights of the proposed legislation to the current regulatory framework reveals differences and nuances.

1. The AICTE regulatory framework makes distinction between foreign direct investment and collaborative/twinning arrangements, with specific minimum requirements for study abroad in twinning arrangements. The Foreign Education Bill 2010 makes no distinction amongst possible various strategic investments in the Indian higher education sector. It merely describes/defines the foreign education provider “competent to impart education in India and to award degree diploma or any other equivalent qualification.” The lack of such distinctions can lead to vagueness in the application of the numerous conditions specified in the proposed bill.

2. The AICTE regulatory framework clearly articulates the foreign institutions investing in Indian higher education sector must be established as a Society/Trust under the Section 25 of Companies Act 1956. No such explicit language is used in the Foreign Education Bill 2010. However, the requirement of the large corpus fund, the use of the fund and the surplus revenue for operations clearly are consistent with a non-profit structure.

3. The foreign educational provider status is unique to the Foreign Education Bill 2010. No similar recognition is stated in the AICTE regulatory framework. In the latter specific collaboration or institutional set up is “approved” by the AICTE and appears on the approved list. The list of those failing approval or not receiving approval prior to operations are also

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26 The Foreign Educational Institutions (Regulation of Entry and Operations) Bill, 2010, pp. 2
27 AICTE, [www.aicte-india.org/foreignuniversities.htm](http://www.aicte-india.org/foreignuniversities.htm)
published on the AICTE website. 28 As part of the AICTE approval the foreign institution/collaboration is constrained to follow the advice of AICTE admissions and the conduct of the courses/program. No such requirements are stated in the Foreign Education Bill 2010, other than the requirement of commensurate education content, quality and processes with home/main campus.

4. Penalties of noncompliance – The existence of the corpus fund raises the risks and penalties under the Foreign Education Bill 2010, in addition to similar penalties that exist within the AICTE regulatory framework (notification of related/interested ministries, Reserve Bank of India…) and possible criminal proceedings.

5. AICTE regulatory framework does not explicitly specify conditions / limits for educational programs leading to the awarding of certificate for coursework. Its interests are represented in the following language of “Degree, Diploma, Post Graduate Diploma and Post Diploma Level”. 29 On the other hand, the Foreign Education Bill 2010 makes specific reference to certificates. It requires that programs “imparting education leading to award of certificate or any other qualification not being a degree or diploma or equivalent qualifications” must publish such information and also supply reports of its activities to the UGC.

**Foreign (the United States) Education Institutions-Strategic Objectives for Investing in the Indian Higher Education Sector**

Since the views presented herein regarding United States educational institution strategic goals are not representative of a specific university, the paper can only make broad statements regarding those goals and directions. Consequently, the paper draws from a comprehensive source, the United States Department of Education research report on International Strategy 2012-16, developed in consultations with various stakeholders and reflects the Department’s ongoing work with foreign countries and multilateral organizations. 30 It is reasonable to assume that the strategic academic goals stated in the report are broadly shared amongst the US higher education community and can be applied here in generalized manner.

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28 AICTE, Unapproved Institutions
29 AICTE, Foreign University / Collaborations
The US Department of Education report makes a compelling case for domestic US education to go beyond local or nationalistic agenda - “In today’s globalized world, an effective domestic education agenda must address global needs and trends and aim to develop a globally competent citizenry”. The strategic academic goals should not be limited to the teaching of basic skills but must prepare all learners to interact and succeed in a highly integrated globalized society. To achieve this strategic goal the report explains that understanding of the world around us can be achieved through “Disciplinary and Interdisciplinary study” - “investigating the world beyond their immediate environment”; “recognizing perspectives, others and their own”; communicate ideas effectively with diverse audience”; and take action to improve conditions, viewing themselves as players in the world.”

At a university level there are several ways to foster the strategic goal of global education – internationalizing curriculum, developing an integrated and diverse academic campus, providing support for cross border collaborative learning, research and cultural experiences for both students and faculty, enhancing international experiential learning, and actively participating, as an institution, in a more direct manner with foreign education institutions in key economic and academic centers of the world.

An accredited US educational institution has much flexibility to initiate and nurture many activities for enhancing global education without the involvement, oversight, or explicit approval of accrediting authorities. As examples, the institution can promote cross border faculty and student exchange programs, support and encourage international research collaborations, reorient its curriculum, provide greater support for cross border experiential learning and create a diverse cultural campus. However, the flexibility and freedom will cease when the institution plans to create new degree programs, open new campuses, create joint or dual degree programs, or even deploy aggressive pathway programs that breach minimum requirements towards the granting of degrees.

These latter decisions on more direct involvement in a foreign country will require extensive accrediting and approval processes and will unleash a greater measure of complexity due to the international component. Accrediting authorities will also demand /require regular assessment reports and audits to ensure that the validity and effectiveness of academic programs and operations. Furthermore, the education institution has the fiduciary duty to its stakeholders to

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uphold rational decision-making in the use of its resources, both tangible and intangible, amongst various investment alternatives. Consequently, a full business case must be made to the key stakeholders to justify costs and risks of more direct investments and requisite infrastructure, resources, controls and governance mechanisms must be in place for effective management of offshore interests. These added costs and uncertainties are part of the evaluation when considering a more direct investment into the Indian higher education sector.

Without doubt, Indian higher education sector provides ample opportunities to advance the strategic goal of US global education. The vibrancy of the Indian economy, India’s place as the nexus of economic and intellectual activity within the pan Asian region and the rapid growth of her higher education sector are compelling argument for greater involvement and collaboration with partner institutions. However, a persuasive case must be made that foreign investment in the Indian higher education will effectively advance the institution’s strategic goal of furthering global education for all its learners and will do so at acceptable levels of investment and risk to all stakeholders.

*Strategic Analysis and Issues of FDI in Indian Higher Education Sector from the Perspective of the Foreign Institution.*

Indian educators and the media are having a wrenching conversation on the reformation of the higher education sector. The conversation expresses the national emotional investment in the sector and the apprehensions of opening the sector to increased foreign presence and investment. These conversations are quite informative in that they reflect the polarization of viewpoints and the political pressures that are likely to come to bear in completing the Foreign Educational Bill 2010 and seeing it through into legislation. These conversations also reveal the volatility of emotions related to the proposed legislation and the cultural and emotional expression of the nation towards deregulation at a time when key elements of the bill are being debated. The continued delay of passing the bill adds to the apprehension of potential foreign investors that the welcome mat is not quite ready to be laid out.

Discussions in the media center on three different perspectives regarding foreign investments in the higher education sector. One broadly held viewpoint is that State and Central government do not have sufficient resources to meet the current and future educational investment needs of
the country. Therefore, it stands to reason that private sector and foreign investment are necessary to advance the national goals for quality and accessibility, and the only option left is to deregulate the sector and open it to foreign investment (Sharma, 2012). In an alternative perspective, foreign investment is viewed in more rapacious terms, seeking profits in the lucrative Indian market. Education is viewed as human resource development and investment in education should be treated as a Society/Trust in which net income is reinvested in the Trust and repatriations of income are closely regulated. A third dominant perspective incorporates a strong measure of elitism. The Indian higher education sector should be opened only to the best, “top 100” colleges and universities. Quality in research, quality in rankings, and quality in brand should all be important considerations in evaluating the foreign applicant. All efforts must be made to keep unsavory elements from entering the sector.

From the perspective of the foreign educational investor, the above-mentioned viewpoints are inherently protectionist. The foreign investor will also have to content with heavy bureaucratic oversight that will also raise uncertainty and operational costs. The elitist attitude is particularly disquieting for accredited universities in their home country. Do they even bother to submit an application for entry? Will their application not stand on its own merit? Do they have to form “appropriate” relationships with Indian partners that can influence the outcomes? Will this process quickly move away from a rational process to something that is based on political influence?

Additionally, there is also the question of a shared vision for the future. Foreign educational institutions have a primary interest in India arising from the strategic goal for advancing global education opportunities for all their learners. Although there is acknowledgement of the competitiveness of the global knowledge economy and the development of global competencies through academic and experiential learning, the value of global education is not incorporated into the UGC’s Eleventh Plan and has not given any significance in the proposed Indian Foreign Educational Bill 2010 legislation. The core of this proposed legislation is to “regulate entry and operation” and elucidate penalties for non-compliance, rather than incentivizing foreign entry and investment in the sector in order to provide effective education for all learners. Lacking the explicit acknowledgement of a shared vision for global education, the foreign investor is left
apprehensive and will likely delay or moderate entry into the sector, until the experiences of a community of investors create a body of common evidence on costs, returns and risks.

Moving on to the formal considerations of the institution based view, there are two regulatory frameworks in question – the current AICTE regulations for Technical Education and the proposed Foreign Educational Bill 2010. The AICTE regulation is highly restrictive to foreign entry, even towards limited participation in the provisioning of a foreign degree. Oversight to safeguard the student against unaccredited foreign institutions is understandable and commendable. However, the lack of effective and streamlined process is a strong deterrent against foreign participation. For a foreign investor, the rationale underlying the broad scope of the binding regulations is often difficult to understand.

As an example, a student wishing to acquire a foreign degree in a technical subject is free to seek admission at a foreign university and complete his or her entire course work abroad. However, the same foreign university cannot enter into a limited twinning arrangement without full AICTE approval to allow the student to study a portion of the foreign curriculum at an Indian partner university. This has led to several foreign collaborations moving forward assuming the risks of being listed on the AICTE website as “unapproved” and subject to the penalties of non-compliance. More often than not, this risk to the foreign university’s reputation is often unacceptable. The foreign university may wait for more positive changes in the regulatory environment when making a choice to accept the processing burdens, delays and compliance requirements with the resultant uncertainties and associated costs, or to abstain from participating in the Indian higher education sector.

As for the Foreign Educational Bill 2010, the proposed legislation is far from complete. Work on completing the legislation has been consistently delayed. The source of the delay is due to the political pressures arising from the contrasting viewpoints on liberalization discussed previously. There are several components of the bill that must be explicitly clarified – regulations on twinning arrangements, ability to grant a foreign degree to students based on the regulations and authority of home country, the implications of granting “deemed university” status to foreign university campus, and the size and the use of the corpus fund. Additionally, the role of AICTE regulations in face of the proposed legislation must be abundantly clear.
With the shortfall in government spending and the need for an estimated additional 1,500 universities, the formal institutions must develop and implement the right kinds of regulatory policies that promote collaboration with the private sector and that attract foreign educational institutions without commercialization of private education. One such policy is to ease the restriction or big hurdle imposed on foreign institutions to form a trust or society under Indian law, which is the prerequisite to purchase land for the establishment of an institute. The formation of a trust is also the pre-requisite to get permission for international funding. Another cause of concern under present regulatory environment is that foreign universities cannot confer a degree in India.\(^{32}\)

As final note, institutional considerations are critical factors that play into the decisions of US educational institutions to expand beyond their home country because these institutions are highly regulated in their home country. These regulations extend and apply to all individual campuses inclusive of their foreign campuses. So, a US institution must have a strong and compelling strategic goal that it desires to achieve when it makes a decision to invest in India. Therefore, an Indian regulatory framework that conflicts with home regulations, or is ambiguous or unnecessarily burdensome will have a chilling effect on investment decisions.

**Conclusions and Recommendations**

The paper finds that: (i) culture has a significant impact on education, and cultural change in India is necessary to promote better education outcomes; (ii) countries with greater choice of schools have better education outcomes; (iii) increase in education level is associated with increase in foreign direct investment which leads to increase in GDP and human capital. Increase in India’s knowledge base will increase its ability to innovate, generate, adopt, and diffuse knowledge which will increase GDP per worker and the country’s international competitiveness; (iv) the Indian regulatory institutions, central and state governments policies create uncertainty and risks for foreign education institutions; and therefore the right kinds of regulatory policies are required to promote collaboration and attract foreign educational institutions without commercialization of private education; (vi) there is a lack of quality of Indian education, poor

\(^{32}\) The Private Professional Educational Institutions Bill, 2005. http://www.education.nic.in
absorption of knowledge, low enrollment rate in higher education as compared to the developed countries.

The success of FDI in Education in India depends on the openness of the economy, effective government policies, common sense regulation on the entry and operations of foreign colleges and universities, infrastructure development and availability of low cost real estate, land, and a flexible financial system that does not restrict capital inflows and outflows. India must continue to build and enhance its knowledge stock by increasing the number of learning institutions, and by attracting foreign colleges and universities that can add new types of curriculums that will build and infuse knowledge that can give India significant ability and sustainable advantage to compete in the global market place.

The leaders of the formal institutions must have a strong strategic orientation while simultaneously embracing change in the complex and dynamic international education sector. To gain the trust of foreign investors, these leaders must be innovative thinkers and look at their role that goes beyond their constituencies: to include a civic and personal commitment to their duty as institutional custodians; and to promote innovation and openness in education. As custodians, they must understand and appreciate the realities of the fast changing globalized world including India’s neighbors who are becoming stronger every day in their economic, military, and human capital development. In the long run, India will have to keep pace with China as a world economic and military power, and to do so, India will have to develop its human and economic capital.

Further research is needed to compare and document India’s current human capital knowledge needs and capabilities by each industry, and compare it with those of its main trading partners, competitors and neighbors. Also, research is needed to develop a macroeconomic model/s that will include the formal and informal institution as independent variables and to quantify these variables effect on foreign direct investment risk. Finally, data gathering, is needed to conduct the strategic institutional analysis of the Indian higher education sector to determine whether the formal and informal institutions in India have a significant impact on the strategic goals of foreign education institutions seeking to invest in India.
Appendix 1

Knowledge Economy Index, India, Comparators, and the World, 1995 and Most Recent Period

Note: Countries in the north-east section of the figure are the global leaders. Countries above the 45-degree line have improved their position in the knowledge economy index (KEI) for the most recent period for which data are available relative to their position in 1995 (or closest available date in the mid-1990s) and vice versa for countries below the line.

Appendix 2

India: Real Gross Domestic Product Per Worker, Alternative Projections, 1995–2020

*Note:* For all four projections, capital, labor, and human capital are assumed to grow at their 1991–2000 average annual growth rates for India, that is, 5.41, 2.23, and 0.58 percent, respectively. For the growth-TFP decomposition to be more precise, labor force figures rather than total population are used as a measure of the amount of “labor” available for use as a factor of
Appendix 3

Source: The Bird of Gold: The rise of the India’s Consumer Market”, McKinsey Global Institute
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