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## Higher Education in India: Sustaining Long-Term Growth?

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*In 2007, the Indian Government announced a ninefold increase in higher education spending over the next five years. While this came as good news to a sector characterized by limited supply and uneven quality, three years later it is apparent that a more concerted effort is required. For India to maintain its economic growth in a global marketplace fueled by the knowledge economy, it needs to nearly double its number of students in higher education by 2012. Fifty-one percent of India's population is under the age of 25. Without proper access to education the country's demographic dividend could turn into a demographic disaster. This paper identifies the key challenges that India's higher education sector is facing and evaluates the proposed solutions.*

**The Dilemma:** On April 1, 2010, "The Right of Children to Free and Compulsory Education Act" came into force in India, giving all children between 6 and 14 years of age a legal right to free education. Many praise the law, but are concerned that implementation may be out of India's reach. Their concerns are not unfounded; the Indian constitution enshrined primary education as a right more than 60 years ago and yet, according to a report published by Venture Intelligence, a supply shortage denies primary and secondary education to approximately 142 million children. Approximately a third of India's population cannot read, making it the world's largest adult illiterate population. Unless the country improves its primary and secondary education, large sections of its population will miss the benefits of rapid economic growth.

This stark backdrop contrasts with India's modern economy—the software industry and world-famous outsourcing operations staffed by young, educated, and dynamic Indians that are so critical to the global services industry and to India's prospects for growth and modernization. Continuing to field highly skilled labor to this industry depends on expanding higher education. How India allocates its resources will have serious implications for the country's poor as well as the nation's growth trajectory.

Public spending on education has not kept pace with the country's growth. In 1950 higher education spending as a proportion of GNP was 0.19 percent. In 1980 it had risen to 1 percent, but by the mid-1990s it was back down to 0.4 percent. One of the key requirements for meeting India's needs is an expanded higher education budget. However, the government is unlikely to be able to fund that expansion entirely through national and state government funds—hence the importance of supplementing budgetary support from the government with foreign and private funding.

**Importance of the Knowledge Economy:** Unlike China or other Asian economic powerhouses, India's growth has not been led by manufacturing. Instead, the nation's pool of skilled workers has allowed India to move quickly up the economic value chain in several knowledge-based industries. According to a report by the New Delhi-based think tank ICRIER, India is home to the world's largest pool of scientific and knowledge workers, and produces 400,000 engineers each year while the United States produces 60,000. According to the same report, in August 2006 India filed 1,312 patent applications, second only to the United States. To sustain these positive trends and an economic growth rate of 7 percent, a report by Venture Intelligence calculates that India's higher education gross enrollment ratio (GER) would need to increase from 12 to 20 percent by 2014.

Until recently, India was winning the twenty-first century knowledge race among emerging economies. It has a large pool of individuals who speak English as a primary language; it has the world's third-largest higher education sector, which enjoys academic freedom and boasts world-renowned centers of learning like the Indian Institutes of Technology (IIT) and Indian Institutes of Management (IIM). Now, countries like China are closing the gap. According to the BBC, India spends 11 percent of its GDP on education, compared with China's 16 percent. China has already achieved near-universal literacy and is investing heavily in higher learning, hoping to create a select number of world-class research universities. India needs to address issues of both quantity and quality.

**The Demand-Supply Gap:** According to ICRIER, in 1950 India had 263,000 students enrolled in 750 colleges, which were affiliated with 30 universities. By 2005, the numbers had grown dramatically: 11 million students in 17,000 colleges affiliated with 230 universities. Another 10 million students were enrolled in 6,500 vocational institutions. Despite this phenomenal growth, India would have to nearly quadruple existing college seats and more than quadruple the number of professors to achieve the 20 percent GER by 2014 cited in the Venture Intelligence report.

Another measure of India's demand for higher learning is the number of Indian students studying abroad. Arvind Panagariya's book on higher education estimates that, in absolute terms, more Indians study abroad than any other nationality, including the Chinese. The total cost of this endeavor is \$3.9 billion. As of November 2009, India had more students studying in the United States—more than 100,000—than did any other foreign country.

**Issues of Quality:** A recent government report finds two-thirds of India's colleges and universities below standard. India's highest-quality institutions have severely limited capacity. India's Institutes of Technology and Management (IIT and IIM) are world-famous; in 2005, 55 members of the U.S. House of Representatives sponsored a resolution honoring "the economic innovation attributable to graduates of the Indian Institute of Technology." According to the *New York Times*, 320,000 students took the IIT entrance exam in 2008 even though only 8,000 slots were available. Employers criticize the curriculum at India's second-tier institutions—and to some extent even at the top schools—for paying insufficient heed to the skills needed in the workplace and to the kind of pedagogical techniques that reward innovation. Some of India's major employers have opted to focus their recruitment on schools below the top rung, but to make a significant investment in staff development for new hires.

**The Research Environment:** Higher education and research are complementary. However, in India only 4 percent of research expenditure is made through universities. In the United States the corresponding figure is 17 percent and in Germany it is 23 percent. Moreover, India's higher education institutions are poorly connected to research centers. China's investment in research manpower, estimated at 708 researchers per 1 million people, is six times that of India's.

**The Policy Environment:** In 2009, Kapil Sibal took over as Union Minister for the Human Resource Development (HRD), responsible as well for the Department of Higher Education. On the advice of the Yash Pal Committee, a committee established in 2008 by the government to investigate how to "renovate and rejuvenate" the higher education structure, he streamlined the organization responsible for managing India's public universities. He replaced the University Grants Commission (UGC) and the All India Council for Technical Education (AICTE) with a combined entity: The National Commission for Higher Education and Research (NCHER). The hope is that the new system will simplify accreditation and improve bureaucratic responsiveness.

Even with these reforms the Indian higher education sector suffers from overregulation. According to Venture Intelligence, the government controls "curriculum content, the intake of students, fee scale, and the terms of employment of the teaching staff." Decisionmaking within the educational bureaucracy is painfully slow. With this kind and level of intrusive government oversight, India will find it difficult to expand its higher education capacity quickly and efficiently.

A telling example is a comparison of the number of engineering colleges in northern and southern states. According to a Chatham House report, Bihar has one engineering college for every 10 million people. On

the other hand, Tamil Nadu has four colleges for every 1 million. This disparity is, at least in part, a function of the lighter regulatory structure present in Tamil Nadu. The difference in regulation may have contributed to Tamil Nadu's better record in economic growth. Southern India has become a hub for the IT industry largely due to the fact that it has a larger pool of engineering graduates. How well Kapil Sibal can restructure and deregulate India's education bureaucracy will have a huge impact on whether India will reap the benefits of its demographic dividend.

**Foreign Universities Bill:** On March 16, 2010, the Union Cabinet cleared the Foreign Universities bill for introduction in parliament. If it passes, the bill will for the first time allow foreign universities to establish themselves in India. The hope is that this will help India expand its capacity more quickly and save the country billions of dollars in foreign exchange outflow.

The bill as proposed would allow 100 percent foreign direct investment (FDI) in higher education. Some of its other features, however, are less attractive to foreign universities. For example, a foreign university will have to invest a minimum of \$11 million before starting operations, and it is not supposed to make a profit or cross-subsidize other university operations from its Indian branch. Fee regulations that apply to Indian institutions would also apply to foreign ones. There would be salary caps, affecting the kind of faculty these institutions could attract. The bill includes a requirement to hire most faculty locally. Especially for elite foreign universities, this may make it hard to meet the bill's requirement that foreign universities provide the same quality of education in India that they provide in their home countries. The universities will also be subject to India's affirmative action programs. The fact that admission could be determined by factors other than merit often makes prospective universities uncomfortable.

In conjunction with efforts to pass the bill, Kapil Sibal has announced the creation of 14 "innovation universities." These universities are supposed to attract talent from across the globe. According to an article in the *Business Standard*, Yale, Harvard, and Princeton have volunteered to collaborate. Actually bringing these institutions into existence would require tackling all the challenges presented by the Foreign Universities Bill.

**FDI and the Sector:** Beyond the establishment of foreign universities, the bill and the government must address the relationship between foreign direct investment and education. In 1995, the Indian government signed the WTO treaty the General Agreement on Trade in Services (GATS). The agreement aimed to give the international community access to the Indian services sector by deregulating markets. According to GATS, the private education sector qualifies as a tradable service, and therefore the Indian government is required to remove any barriers to the trade of that service. Following these stipulations, in 2002, the Indian government liberalized its policy on FDI in services related to education. However, despite the liberalization and great demand for further educational funding, FDI in education in 2006 accounted for only 0.15 percent of all FDI in India. Furthermore, according to Venture Intelligence, "the FDI received has been principally in companies providing professional training courses and at ancillary opportunities in this area, such as private tutorial courses." The lack of significant FDI can be attributed to the restrictive regulations imposed by the government. Considering that the higher education sector is in desperate need of additional resource allocation, the government needs to encourage the influx of not only foreign institutions but also foreign investments in this sector.

**Private Involvement in Higher Education:** Indigenous investment in private universities could provide another source of expanding capacity. The private sector gets little attention in India's education debate, but it makes a significant contribution. In 2001, 42 percent of institutions of higher learning were privately owned; they served 37 percent of the students enrolled in higher education. Their quality varies greatly. A few are among India's most-respected institutions, including the Christian Medical College in Vellore and the Indian School of Business in Hyderabad.

So far, the government's encouragement of private investment in education has been limited. The Indian government is understandably concerned that further deregulation of the sector would allow scams or illegitimate institutions to mushroom. Less justifiably, the government is concerned that for-profit institutions will somehow dilute or pollute the education sphere. Private universities may be able to operate outside some aspects of government regulation, a feature that their founders and students find

valuable but that the education bureaucracy and public sector universities oppose. They may, for example, have more flexibility on curriculum design than their public counterparts do.

The growth of China's higher education sector provides a good example of how private investment can be used to improve the status quo. According to Venture Intelligence, in 2000, the Chinese tertiary enrollment ratio was 6 percent and the regulation on for-profit participation in higher education was murky. In 2002, the government issued a law permitting for-profit participation in the higher education sector. China's higher education enrollment increased from 14.7 million students in 2002 to 23 million by 2006.

**Brain Drain versus Brain Gain:** Of IIT's 140,000 graduates, nearly one-third, or 40,000, reside in the United States. In a global marketplace, what might have been considered "brain drain" can become instead one part of a larger exchange of brainpower around the globe. A larger, better functioning Indian higher education system would not only allow the country to harness its own talent but also attract foreign talent. Higher education reform should be a national priority, one on which economic growth is predicated. The benefits will extend beyond India to the United States and out into the global marketplace.

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