WTO-GATS and the Education Sector in India

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Abstract

Education plays a vital role in reducing inequality among nations, promoting social and economic well being, as well as furthering real growth. Classical economist Adam Smith, as early as 1776, had emphasized the importance of human capital as a critical input for economic development. Neoclassical economists like Solow (1956) also laid emphasis on the importance of a large ‘residual’ factor in explaining economic growth, which he called human capital. Ricardo and other trade theorists have also identified that, in addition, to differences in physical endowments and natural resources, it is the comparative advantage in human skills which give an edge to nations in international trade. Thus, knowledge, today, is being recognized as the new engine of growth. More and more countries are keen on developing their education sector as a tradable service. The widening of the WTO-GATS agreement to include education is seen as an important development in this context. Therefore, India has to understand the full implications of the GATS agreement in context to the educational sector, identify opportunities and competitiveness in various sub-sectors, in a bid to chart a future strategy for negotiations under the WTO. This research article attempts to explore India’s position in this regard.

Keywords: WTO, knowledge, India.

Introduction

Education plays a vital role in reducing inequality among nations, promoting social and economic well being, as well as furthering real growth. Classical economist Adam Smith, as early as 1776, had emphasized the importance of human capital as a critical input for economic development. Neoclassical economists like Solow (1956) also laid emphasis on the importance of a large ‘residual’ factor in explaining economic growth, which he called human capital. Ricardo and other trade theorists have also identified that, in addition, to differences in physical endowments and natural resources, it is the comparative advantage in human skills which give an edge to nations in international trade.

Knowledge, today, is being recognised as the new engine of growth world over. More and more countries are keen on developing their education sector as a tradable service. The widening of the WTO-GATS agreement to include education is seen as an important development in this context. Developed countries will benefit from this move as there exists under utilized infrastructure in their educational institutions. Developing countries like India can emerge as the ‘knowledge hub’ but face multiple challenges in the education sector like low levels of literacy, inequity and low quality basic and secondary education, declining public fund for education etc. However, given India’s abundant skilled labour force, English-speaking and technically trained manpower, there exists immense opportunities for India for liberalisation of its education sector under the WTO. Therefore, it is imperative to understand the full implications of the GATS agreement in context to the educational sector, identify opportunities and competitiveness in various sub-sectors, in a bid to chart a future strategy for negotiations under the WTO.

Objectives of Research: This research article attempts to explore India’s position in this regard. Section II focuses on the importance of education as human capital and its increasing importance in world trade. Section II provides an overview of the WTO-GATS Agreement in context to trade in education services. Section III discusses the present status of India’s education sector to assess India’s trade potential in the education sector and highlights some major issues and concerns. The present state of negotiations under WTO-GATS in the education sector and its implications for ‘trade’ in education services for India are outlined in Section IV. Section V provides some policy suggestions.

Overview of the GATS Rules

The General Agreement on Trade in Services (GATS) was a part of the trinity of Agreements agreed upon in the Uruguay Round and which also led to the establishment of the WTO. The General Agreement on Trade in Services (GATS) is a legally binding agreement aimed at deregulating trade in services. In 1996, the coverage of the GATS Agreement was extended to include educational services. Prior to emergence...
of WTO there was no multilateral agreement on services because services invariably are place specific and were considered to be non-tradable. However, with education emerging as a trillion dollar industry, this sector is now at the center-stage of trade policy discussion. On the face of it, GATS excludes government services. Since education in most developing economies is a government service activity, it should thus lie outside the scope of "free trade". However GATS defines government services as those "exercised in the control of governmental authority" and sees government activity as one that is "supplied neither on a commercial basis nor in competition with other suppliers". Because education system in most countries includes both commercial tertiary education providers/ private universities beside government institutions, these have become a part of GATSnegotiations. Like other WTO Agreements, GATS rules apply to governments of all nation states. Most of the GATS rules apply uniformly to all services unless specified in the list of exceptions agreed upon in the Agreement. The GATS Agreement functions on the basis of significant principles:

Market Access: It determines the extent to which markets are liberalized for Foreign Service providers in each sector.

Most Favored Nation: It implies treating one’s trading partners equally. Under GATS, if a country accords an MFN status to any particular nation, equal opportunities should be given to all service providers from all WTO members in that sector, unless those measures were registered at the time GATS came into force.

National Treatment: This requires according equal treatment to both foreign and domestic service providers in a country. Each Member country has to provide the services or service suppliers of other member countries no less favorable treatment than what it accords to its domestic services and service suppliers. It is important to note that the provision of national treatment is another obligation, which is determined through specific commitments. Accordingly, the GATS agreement is divided into 3 main components: Framework Agreement containing General Obligations and Disciplines (29 Articles), Annexes dealing with the Rules for Specific Sectors; and Specific Commitments by member nations, which also includes a list of specific sectors where countries are temporarily not applying the “most-favored-nation” principle of non-discrimination.

Primary and Secondary Education in India: The Annual Status of Education Report (ASER) revealed that in 2012, there were a total of 229 million students enrolled in schools in India. Approximately 96.5% of all children between the ages of 6-14 years in the rural areas were enrolled in schools. India also has a large network of private and government run
schools, at the primary and secondary level. However at present only 29% of students in the age group of 6-14 years is receiving private education as most of the primary education is being sponsored by the GOI under the RTE Act.

Higher Education in India: India today has the third largest higher education system in the world after U.S. and China. The number of higher educational institutions in India has also expanded phenomenally over the years. In 1950-51, there were just 30 universities and 695 colleges in India, which increased to about 700 universities, and 35000 colleges in 2012-13, as per a recent UGC report.

Of the 35000 colleges in India in 2012-13, approximately 90% are affiliated to Universities, while the remaining are constituent/university colleges, PG/off campus or recognized center by the Universities. The private sector is a predominant contributor to professional education at the degree level. During 2007-12, the number of private HEIs increased by more than 60% constituting 64% of all higher educational institutes in India by 2012. The total student enrolment in regular mode in higher education institutes in India is around 241.8 lakhs, consisting of 55.7% male enrolments and 44.2% females. Majority of the student are Under- Graduate (82.69%), as indicative of the demographic dividend, with a few pursuing Ph.D (0.32%) or M.Phil. degrees (0.1%).

In terms of stream preference, most of them students had enrolled for Arts, Humanities and social sciences, followed by Engineering and commerce.

### Table-1

<table>
<thead>
<tr>
<th>Universities in India- By Type (2012-13)</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Public University</td>
<td>281</td>
</tr>
<tr>
<td>Private Deemed University</td>
<td>91</td>
</tr>
<tr>
<td>State Private University</td>
<td>87</td>
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<tr>
<td>Institution of National Importance</td>
<td>59</td>
</tr>
<tr>
<td>Central University</td>
<td>41</td>
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<tr>
<td>Government Deemed University</td>
<td>40</td>
</tr>
<tr>
<td>State Open University</td>
<td>13</td>
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</tbody>
</table>

Source: All India Survey of Higher Education, 2001-11, MHRD

**Figure-1**

All India Student Enrolment at various educational levels in 2011
In addition, there are various bodies regulating the higher education institutions at various levels like NAAC (for quality assessment of higher educational institutions in India), National Board of Accreditation (NBA) under the (AICTE), for accreditation or management and technical institutions, Accreditation Board (AB) of the Indian Council for Agricultural Research (ICAR) for agricultural education in India and Distance Education Council (DEC) established under the Indira Gandhi National Open University (IGNOU) for distance education programmes.

India’s Education Sector: Some issues and Concerns: India’s Higher Education system has grown phenomenally since independence, however there are several issues plaguing the education sector in India.

Access: The Gross Enrolment Rate (GER) is an appropriate indicator to measure access and is expressed by taking the ratio of persons in all age groups enrolled in various programs in a given year to the total population in age group of 16 to 23 years in that year. At present, the Gross Enrolment Ratio (GER) in higher education in India is 19%, which is far below the world average of 23.2 per cent, developed countries average of 54.6 per cent and transition countries average of 36.3 percent.

Equity: There also exists wide diversity and variation among the various population categories based on gender, urban or rural habitation and income status in India. Due to unequal regional development and concentration of institutions of higher education in prime cities and states, there is no equality of opportunity in terms of access to higher education among various socio-economic classes.

Caste-based Reservation: At present, caste-based reservation in the admission process is prevalent in government-funded institutions particularly at higher educational levels. However, these also include institutions of excellence and in some cases are as high as 49 per cent of the total seats. Since more deserving/capable students are deprived from admission in good institutions on the basis of them belonging to general category, it leads to social unrest and disorder.

Poor Quality: There is large quality variation in higher educational institutes in India. The quality of most of the Indian educational institutes can be gauged from the fact that no Indian institution figures in global Top 200 list. Though, in India, most of the higher educational institutes are monitored for quality standards by autonomous bodies like NAAC by UGC, National Board of Accreditation, DEC etc, they suffer from 2 major limitations. First, the quality norms of such councils cannot be compared to their international counterparts. The enforcement process too is not very stringent which dilutes the whole process. Secondly, undue political interference and corruption mitigate the efficacy of these intuitions in ensuring the desired quality standards.

Rising Cost of Education and the move towards Self-financing courses: Public expenditure on higher education has been on a constant decline for more than a decade now. While public expenditure on education has gone up marginally from 2.9% as a percentage of GDP in 2008-09 to 3.3% in 2013-14, it is still quiet low in comparison to international standards. As the grants-in-aid to private colleges are becoming increasingly difficult, public institutions/ universities are granting recognition/ affiliation to unaided colleges and many government colleges have started ‘self-financing’ courses.
taking cue from its private counterparts. The private sector is predominant player in higher education but is mostly unaided involving high cost.

**Shortage of Teachers:** The higher education system in India is in a stage of transition on account of increased privatization and declining government aid. One of the biggest challenges that has emerged for this sector is the difficulty in attracting young talent to take up jobs in the education sector. Lack of qualified and well-trained teachers has emerged as the biggest hurdle for the effective delivery and development of this sector.

**Declining Enrolment in Traditional Fields of Knowledge:** There has also been a discernible shift in choice of courses and subjects being taken up by the students today due to changing structural paradigms coupled with cultural life style changes. Most of the students want to take up jobs quickly and hence are opting for professional courses at the graduation level. Even in terms of higher education and research, these faculties attract the best of the talent with a few wanting to opt for higher research in basic sciences, literature, art and languages.

**Increasing Global Competition:** Since India is a signatory of WTO, it will be in time forced to liberalize its educational services. However, at present, it does not have a well-defined policy for promoting its education sector. Once its educational services are liberalized, it will be difficult to implement and reform its educational policies related to admission, recruitment and salaries of faculty/staff and opening campuses abroad in the best interests of the country.

**Current Commitments under GATS**

Under the WTO, issues related to liberalization of the education sector and other services under GATS have been currently put on a backburner in view of the unfinished Doha Development Agenda, which has been underway in the WTO since 2001. The ninth Ministerial Conference held between 3rd-7th December 2013 primarily focused on trade facilitation and public stockholding for food security purposes.

With regards the GATS agreement, of the 160 members of the WTO, only 43 have made specific commitments to open up its education sector which includes countries like European Community, China, Australia, New Zealand, Japan etc. Only few countries have agreed to fully liberalise its higher education sectors, which includes countries like Congo, Lesotho, Sierra Leone and Jamaica perhaps with the intent of developing their education systems. Developed countries like Australia has committed to liberalising private tertiary educational services, including at the university level. The European Union has allowed full liberalisation on all modes of trade except ‘consumption abroad’, which includes foreign tuition paying students. Most of the WTO members have been more eager to open up trade in educational services in mode 1 and 2 rather than mode 3 and 4. Developed countries like US, Australia, New Zealand and Japan, in their proposal to the WTO, have identified the following generic barrier in relation to trade in education services.

- **Lack of transparency in government regulatory policies and funding frameworks.**
- **Requirement to use local partners.**
- **Imposition of taxes which discriminates against foreign suppliers.**
- **Barriers restricting free movement of natural persons/students such as visa requirements, foreign currency and exchange controls.**
- **Barriers in providing recognition to prior or new qualifications/credentials from foreign countries.**
- **Limitations on the numbers of international students allowed in colleges/universities.**
- **Employment restrictions as a student.**
- **Restrictions on recruitment of foreign teachers.**

At present, India is in full compliance with the WTO –GATS agreement on higher education. The Indian government allows hundred percent FDI in higher education services. It also allows participation of domestic educational institutions with their foreign counterparts through twinning, collaborations, franchising and by setting up subsidiaries. Even though India has made commitments to liberalise higher educational services in its Revised Offer in August 2005, there are a lot of reservations from civil society groups that it would lead to commodification of education, open the floodgates for foreign educational service providers into India and destroy the cultural and educational ethos in India. Against this background, it becomes essential to understand the implications for trade in education services for India with a view to protect India’s interests under the WTO.

**Implications for trade in education services for India:**

The issues and concerns requiring attention and which are likely to emerge at the macro-level in the post-GATS scenario are.

**Erosion of national identity for policy and planning in education:** While the GATS rules encompass both general and specific commitments for trade in services, it requires member countries to liberalize its services sector and increase the number of services included in the agreement. It is evident that with increased liberalization, more and more Indian policies could be put under the scanner i.e. domestic nations would not be allowed to use measures that restrict the number of foreign service providers, or to use local inputs or train local people. Other Indian policies that could be challenged include, i. Public funding of socio-economic services like health and education which could be allowed on the basis of competitive tendering only, ii. Foreign investment limits in specific...
industries like the media, iii. telecommunications, iii. Requirements for promoting Indian culture and jobs in media, iv. Measures requiring foreign investors to use domestic inputs and employ local people

**Shift in public funding:** Since higher education is increasingly being considered a "private good" GATS will necessitate a basic preparedness to compete, sustain and make profit in the international market. This fund substantially will be raised through tuition fees charged from learners both at home and abroad. As has been the trend, more and more universities and colleges are being drawn towards self financing mode of funding. The National institute of Educational Planning and Administration(NIEPA), which is involved in capacity building and providing professional and technical support to the GOI has instructed the higher educational institutions toraise their own resources through higher fees, encouraging private donations, offering consultancy services etc. In time, public funding will be substantially withdrawn and replaced by private funds in the education sector.

**Outflow of students and capital:** The emerging changes in the demographic structures have ensured that the demand for higher education will be greater in 'younger' countries like India as compared to graying nations like US or Japan. If we go by the statistics, at present, America is the world’s largest exporter of education services followed by UK, Australia and New Zealand. While India and China have emerged as the largest importers of education in the world, given their huge population. At present, Indian students make up to 13.1 per cent of total foreign students’ population studying in US. With increased liberalization, there is likely to be a greater out flow of students and capital from the developing countries to the developed countries in the form of admissions aboard as well as enrolment in on-line courses, while there is little possibility of this kind happening in the reverse direction thus putting a strain on the country’s finances.

**Quality Education:** While it is being conjectured that free market mechanisms in education would open up opportunities for students. However, data presents a somewhat contradictory picture. As pointedby Maheshwari(2003) of the 1780 American universities, only 50 are marketing themselves in India and of these only eight features in the toptencategories in their own country. Similarly among the 28 of the 60 British universities that advertise in India, only five have been in the top ten. While the Foreign Education Providers Bill 2013 allows only those Foreign Educational Institutions (FEIs) to set up global universities in India which feature within the top 400 universities of the world, according to the ranking provided by the Times Higher Education, or the Academic Ranking of World Universities by Shanghai Jiao Tong University, however, the issue of quality education continues to be of grave concern for India.

**Implications for teachers**

The implications for teachers in this changing scenario entail a complete redefinition of their roles and responsibilities.

**Fall in Status:** Due to the limited public resources available, teachers particularly schoolteachers are being paid low salaries, working in poor conditions. There is deterioration in the morale and motivation of teachers, as well as levels of absenteeism all of which has lead to a fall in their status. Following the growth of Internet, E-education, teachers have lost his or her monopoly as a supplier of knowledge. Teaching and learning are no longer in the exclusive domain of the teacher but are gradually opening up to other public and private sectors.

**Changes in teaching strategies and delivery systems:** The liberalization of the education sector is likely to pose great challenges for the academic and teaching community. There is a need to re-orient the teaching strategies It is evident that the teachers would have to re-orient their teaching strategies as per the changing needs of education- as we move from book learning to experiential learning, teacher centric to student centric learning, one-time learning to life-long learning and from national level to global education. In order to educate and train an increasingly heterogeneous group of pupils, the teacher will have to be equipped with new ways of acquiring knowledge and different delivery systems and also be prepared to take new tasks like new management styles, varied teaching strategies, adoption offlexi-time, individualization of teaching-learning to meet different requirements of learners, etc. The move towards the credit system in graduate and postgraduate courses in India, as per international standards, is also seen as a move in this direction.

**Policy Suggestions**

Since India is a signatory to the WTO-GATS Agreement, it will, in time, be forced to liberalize its education sector. While it may be difficult to make any commitments in primary, secondary, adult and continuing education, keeping in mind the national needs and ethos, it may have to offer some concessions in higher education due to international compulsions. However, while framing responses under the WTO, it needs to take into account the current status of educational institutes in India particularly higher educational institutes, their ability to compete with foreign competition, the present and future potentiality for trade under different modes, the socio-economic needs of the country, and the domestic policies with regards them. It is important to note that, at present, India has comparative advantage in Mode 1 (Cross Border Supply) and Mode 4 type (Movement of Natural Personnel) of services. The dissemination of education through the Internet or in virtual mode has immense potential, especially in areas like management and trade that have strong global inter-linkages. It is thus important for India and other Asian countries to formulate domestic policies to regulate e-transmission of cross-
border supply of education and discourage joint ventures in this area. Similarly, it has great potential in furthering trade through Mode 4, however the following barriers impede its development and need to be resolved under the WTO: i. Barriers that restrict cross border movement of service providers such as visa requirements immigration barriers, nationality or residence requirements etc. ii. Compulsory Economic needs test for service providers. iii. Excessive taxes or fees imposed for currency conversion in case of repatriation of earnings of NRIs

In addition, there are certain reforms that need to be taken at the domestic level

**Raising public expenditure to 6% of GDP** in view of the rising importance of this sector and its contribution to socio-economic development.

**Increase financial support** for up gradation of infra-structural facilities like building laboratories, computerized libraries, IT for universities / institutions promoting research and development

**Encourage Quality research**, develop expertise, encourage team teaching, provide scholarship and promote long-term, research collaboration for faculty and student development.

**Promote frequent University-Industry interaction**, to enable hands on learning for students, to raise the much-required funds from corporate sources and for modifying the curriculum as per the changing needs of the industry.

**Promote** innovative measures like the establishment of Free Education Zones, akin to the Free Economic Zones in prime cities/ centers of learning like in Delhi, Mumbai, Kolkata, Hyderabad etc.

**Implement** academic reforms like frequent revision of the curriculum, introduction of the course credit system, emphasis on internal assessment, quality research and improved governance of institutions.

**Formulate** a comprehensive realistic policy to promote private participation in higher education. Distance education learning /Open University system that offer quality courses at lower cost need to be encouraged especially for technical and vocation education.

**Recruitment of qualified faculty and promotion of faculty development**: As per an analysis done by Technopak in 2013, India has total faculty strength of 810,000 and requires a faculty totaling 1.16 million for all the Universities. The role of good faculty needs to be recognized in promoting quality education. For continuous teacher quality up gradation, computer-aided teaching and technology led learning should be encouraged.

**Acquire** expertise in e-transmission of knowledge and development of virtual operations to emerge as a regional, if not a global, provider of higher education.

**Conclusion**

It is evident that making liberalization commitments and allowing foreign service providers free entry in domestic markets will have far reaching implications. The internationalization of education will impinge on their rights for domestic policy especially related to free access and equity. At present, there exists both private and public players in he higher education system. But it is evident that the entry of foreign institutions, will lead to the ‘commodification’ of higher education in India, and tilt the balance towards the private sector. Thus comprehensive policy reforms need to be undertaken at the domestic level -such as increasing public expenditure on education, promoting quality research, establish Free Education Zones to enable India to emerge as a global provider of higher education.

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