



## Review Paper

# Globalization and its Impact on Education

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## Abstract

*economic basis of education rests upon the idea of education as goods and services and education as investment. In the advent of globalization the economic basis of education has changed. With the introduction of open economy, international trade in goods and services and the cross border capital movement the relationship between education and economic development has also changed. This review paper has elaborated the change in education as a result of globalization.*

**Keywords:** Globalization, Education, Trade.

## Introduction

One of the main focuses of economics of education is to explore the relationship between education and economic development. According to Schultz, founder of the economics of education-“although education is in some measure a consumption activity rendering satisfaction to the person who receives education, it is predominantly an economic activity undertaken for the purpose of acquiring capability that renders future satisfaction or that enhance the future earnings of persons as a productive agents”. Education is used to be considered as consumer goods in economics of education. On the other hand education is also considered as investment<sup>1</sup>.

The idea of education as consumer goods indicates that it may be public good or private good. When the education of one person gives utility not only to that person but also for others then we are considering education as public good. e.g. one literate person might become useful to other illiterate person in reading letter, pamphlet etc. In that case education is public goods contains positive externalities. The intrinsic and the instrumental role of education in economic development are important. It could be categorized as public good and the provisions of it should be ensured by the welfare state. If we consider education as a private good then supply of and demand for education drives the market of education with Adam Smith's ‘invisible hand’. Education in that sense could be thought of as a big industry which produces educational goods and services that can be traded and marketed.

Increase in production of educational industry will raise national income of a country and induces economic development. Economic development of a country also depends upon the level of capital formation. There exists physical as well as human capital. Education is kind of social investment which develops human resources and induces human capital formation.

## Defining the term globalization

The definition of “globalization” yields more than million “hits” in Google navigator. This indicates the difficulty in defining the term globalization which has multiple meanings and interpretations given by different people for different purposes. Though there is no single definition which can include all the view associated with the term globalization, several common terms like economic globalization, political globalization, technical and socio-cultural globalization have been used synonymously.

**Economic globalization:** Economic globalization could be understood as a globally integrated economy indicated by increased openness and connectedness through international trade of goods, services, capital and labor<sup>2</sup>. The trade in educational goods and services are the manifestation of economic globalization.

**Political globalization:** Political globalization indicates the changes in the political scenario resulting from the establishment of regional and global organizations<sup>3</sup> e.g. United Nation Organization, World Bank etc. The exercise of eco-political power is done by providing certain forms of development assistance, financial assistance through international program e.g. Education for All, Millennium Development Goal declarations, Environmental Treaties etc. This has changed the relationship between “developed” and “developing” countries. The industrialized countries and multinational corporations (MNCs) have developed relation with many of the developing countries via these international organizations through providing financial assistance, foreign aid to these countries.

**Technical and socio-cultural globalization:** Technical and socio-cultural globalization implies the advancement in

information and communication technology e.g. satellite and the internet. These changes have led to major movements of peoples, the rapid dissemination of information and the convergence of cultural and ideological patterns around the world. In a limited way globalization can be defined as the emergence of three global phenomenon viz. trade in goods and services, private cross-border investment and migration.

Trade in goods and services means inflow and outflow of goods and services within countries. In case of educational services trade takes place mainly in the form of cross border trade, consumption abroad, commercial presence and movement of natural person. In cross border trade seller and buyer do not move but services does move across the border e.g. providing virtual education. Consumption abroad means buyer migrates from one country to another e.g. Indian student going to foreign university.

In case of movement of natural person the seller moves temporarily from one country to another e.g. Indian teacher goes to foreign to take class. The movement of buyers and sellers could be termed as migration. Mainly two forms of migration - temporary migration and permanent or long-run migration is attributable to the technical and socio-cultural globalization. Commercial presence involves setting up of firm in other country by the seller, which is seller moves from one country to another e.g. foreign university opens a branch in India. The mechanism which have facilitated this expansion, fragmentation and global value chains. Fragmentation is "relocation of parts of the production process from one country to another". A value chain includes "the full range of activities required bringing a product or service from conception, through the intermediary phases of production to the delivery to final consumers and ultimate disposal after use".

These two processes include more than one country to produce educational goods and services.

Private cross-border investment to developing countries is necessary for such kind of trade in educational services.

### **The levels of education involved in trade**

Education and training can be interpreted as achieving human capabilities. In the context of globalization education and training can be classified as school education- *primary* and secondary education (primary or elementary education is the initial years of education at four to seven years of age on the other hand secondary education given at about twelve years of age upto eighteen years), vocational training/education (skill and training, particularly on-the-job training), tertiary education (domestic higher education) and foreign education (tertiary education abroad, online distance learning from abroad).

The various stages of education are interlinked. Good quality primary and secondary education is vital for tertiary education and provides a good foundation for training.

### **The impact of Globalization on Education**

The process of globalization certainly has affected the human capability by affecting the education system of a country. Trade in goods and services; private cross border investment, migration has affected the schooling, vocational training or education, tertiary education and foreign education both from the supply side and demand side of education. Change in supply of education of a country implies change in total quantity and quality of education related goods and services in the country. Change in demand for education on the other hand means change in the quantity and quality demanded by the consumers of education of a country. These changes may be in macro level i.e. at wide spectrum or it may be in micro level i.e. at narrow spectrum.

### **The effect of trade in goods and services**

Change in demand for education: *Macro level changes*: There exist literature on the relationship between demand for skilled worker and education. In many of the developing and developed countries there has been an increase in the quantity demanded of skilled workers. There are three factors suggested as possible reasons. The factors are unrestricted trade, technical progress and the associated organizational change and the presence of unions.

Unrestricted trade increases the demand for skilled workers thereby raise their wages to unskilled workers. It implies higher returns to human capital and education. These higher returns to education and skilled manpower provided higher incentives to invest in human capital thereby increases demand for education.

*Micro level changes*: The change in demand for education at micro level is manifested in two ways. The returns to education are more in the export firms. Unrestricted trade made import and export firms to become more productive and competitive. Competitiveness impelled investment in more skilled workers and in more training. Which induces more demand for education and training.

Change in supply of education: *Macro level changes*: There are basically two channels. Increased trade can lead to faster growth which should release more economical resources for the supply of education. An increase in trade may increase the trade revenue that leads to increase in the resources available for the provision of education.

*Micro level changes*: Trade in educational goods and services can replace existing education and increase in supply of education<sup>4</sup>. There exist major effects of trade on schooling, on vocational education, on tertiary education and on foreign education. The effect of trade on schooling is positive in well endowed countries. There exist positive incentives to increase supply of vocational training to remain competitive in global market. Globalization provides positive stimulus to tertiary

indigenous education sector because tertiary education needs to move at par with export opportunities. The foreign education became most traded commodity from developed countries (US, UK, Australia) but developing countries are also emerging.

### The effect of private cross border investment

Change in demand for education: *Macro level change:* Foreign direct investment (FDI) has its effects on the demand for education and training. Multilateral organizations with their inflow of FDI affected the demand for skilled worker and education in different way. It affected scale of production thereby increased employment and demand for education. MNCs have employed skilled workforce more than local firms resulting in a rise in demand for education. There exists indirect evidence that multilateral organizations have accelerated SBTC (skill-biased technological change) over the last few years, implies rise in demand for education. Multilateral organizations like IMF, WB persuade the policy of privatization, decentralization in development of nation. This has lead to increase in demand for education. Multilateral organizations like IMF, WB and UNO prescribed the equity issues in education and prioritized it for new world economic order. EFA, MDG'S etc. have lead to increase in demand for education.

*Micro level changes:* As foreign firms needs latest technology to operate thus affects the demand for skills and education in the national economy.

Change in supply of education: *Macro level changes:* It is true that FDI leads to growth in developing countries subject to existence of appropriate policies (education, infrastructure etc.). This can lead to more (private and government) provision of education.

*Micro level changes:* MNCs have affected the supply side through voluntary contributions in official training and informal on-the-job training etc. through which MNCs have affected the supply of skills and education<sup>5</sup>. Some MNCs are involved in setting up general education centers like Business schools. There also exists effect of FDI on schooling, on vocational education, on tertiary education and on foreign education. Effects are more positive in countries already well endowed. With the introduction of training of skills by foreign firms' supply of education has increased. Increased foreign provision of educational good and services induced economic development. Increased demand for education.

### The effect of migration

Change in demand for education: *Macro level effect:* Migration of teachers pushes up their wages in the home country. Many developing countries have a comparative advantage in labor i.e. teacher would be then benefited from migration. The impacts of migration on growth in home countries are complex. Migration leads to investment in human capital. On the other hand the

brain drain appears to have negative growth effects in home countries. If the return to education is higher abroad than at home, the possibility of migration increases.

*Micro level effect:* Macro and micro level effect of migration are more or less same.

Change in supply of education: *Macro level effect:* Migration is associated with remittances or transfer payment from multilateral organization. Migrants can learn valuable skills which could benefit to the home country. Migrants could create connectedness within countries as a middleman that could lead to increase in supply of education. Permanent and temporary migration may raise merchandise trade flows. These will lead to enhancement in supply of education.

*Micro level effect:* Macro and micro level effect of migration are more or less same. There also exists effect of migration on schooling, on vocational education, on tertiary education and on foreign education. Remittances and transfer payment might help to finance education. Short-term migration leads to development of resources for school education. It may also leads to loss in teaching capacity as teacher immigrates to foreign countries<sup>6</sup>. Effects on vocational education are not so prominent. Loss in domestic capacity of teacher thereby reduces supply of education. Education abroad on the other hand leads to increase in demand for education.

### The development in education as a result of globalization

With the development in information and communication technology the barrier of national boundary has broken<sup>7</sup>. As a result there has been considerable development in various fields like education. The development in education at global level resulted from globalization can be stated as - increased practice of international comparison of educational development, mobility of the students from one country to another, mobility of the scholars from one country to another, setting-up of educational arrangement from one country to another, marketing of education worldwide, liberalization, privatization and globalization in education, development of globalized educational framework through GATT (general agreement on tariff and trade) and GATS (general agreement on trade in services) and trade in educational services in the form of cross border trade, consumption abroad, commercial presence and movement of natural person.

GATS in educational services are a multilateral agreement as much as 144 countries have signed. This agreement covers all services (19) including educational services. All the members' country of WTO called most favored nation. There should be no discrimination between nations. Member country has to make request to enter into the market of another member country or a country can give offer to another country to enter into the market. When a member country provides services in a nation

then other member country has to go with consultation of the host country if it wants to eliminate the rival country and enter into the market. Each member country has to ensure judicial/ arbitral/ administrative provision in impartial manner. GATS as of now includes educational services like - Cross border supply of services includes any type of educational courses through distance mode, internet testing service- course material etc., Education of foreign students, Presence of foreign investor in education to host country, mobility of scholars and students between countries, service in primary, secondary and higher education is allowed in host country, privatization in education policy and planning, decentralization in educational administration and private finance is encouraged and FDI under GATS is allowed.

**Conclusion**

The worldwide growth of trade in educational goods and services could be observed from the last one and half decades<sup>8</sup>. United States, United Kingdom and Australia are the top three exporters of educational goods and services since 2000. The large share of this giant volume of trade is attributable to the consumption of educational goods and services abroad. This is shown in the following Table-1.

In India export of educational goods and services could be visible from the large increase in foreign students’ enrollment in Indian universities. The data on volume of exports in value term

is difficult to obtain. In 2003-04 Indian import under trade in educational goods and services was about US\$ 2.37 million, which was increased to US\$ 291 million till September 2004. This is shown in the following figure from the data obtained from RBI.

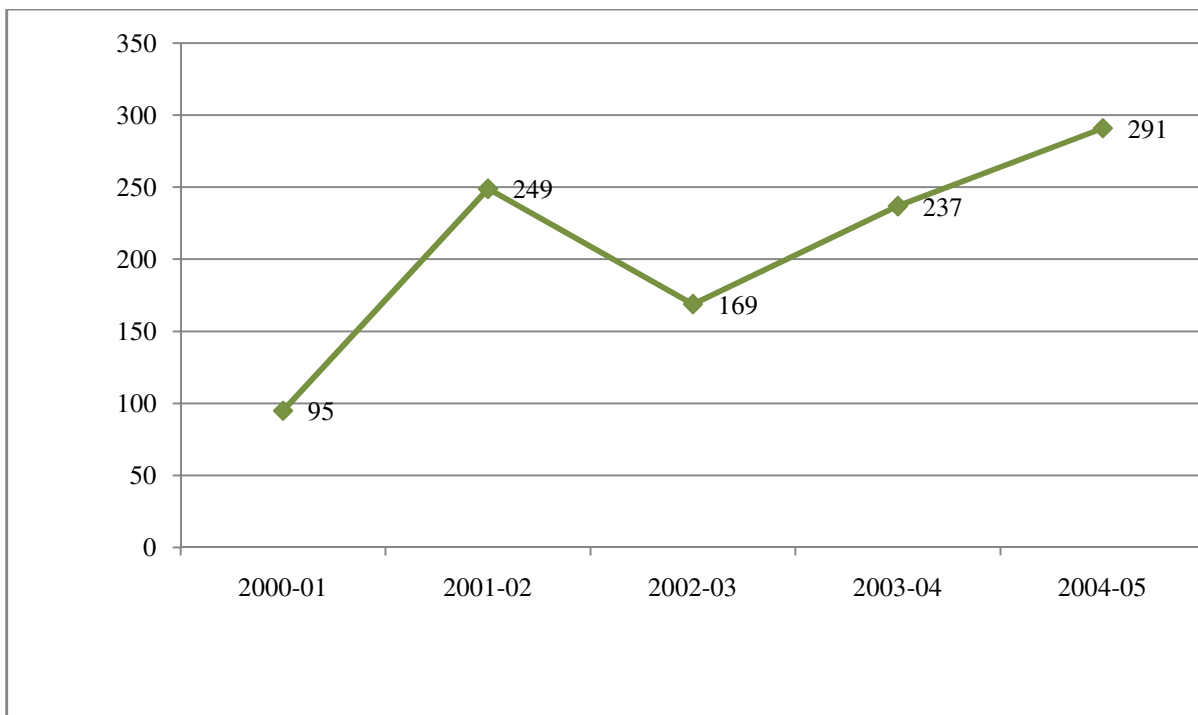
**Table-1**  
**Trade in educational goods and services of top three countries in 2002 (US \$ million)**

Country	Export	Import
United States	10280	2150
United Kingdom	3758	150
Australia	2155	356

Source: OECD – CERI

Figure-1 showing Indian Imports of Educational goods and Services.

Trade in educational goods and services have a favorable effect on education and training. This is both directly and indirectly. The effects of migration are complex. Cross border investment also has a positive effect on economic development. The overall effects of globalization are positive in well endowed countries.



Source: Reserve Bank of India (2005)

**Figure-1**  
**Indian Imports of Educational goods and Services**

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