

Educational Services

Issues for India in WTO Negotiations

Managing trade in educational services is an important issue for India, and much homework needs to be done before any commitments are made at the negotiating table under WTO's General Agreement on Trade in Services. While making specific proposals, India must also make adequate use of the safeguards provided in GATS to protect its own national interests.

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The General Agreement on Trade in Services [GATS 1995] was one of the agreements signed under the purview of the World Trade Organisation (WTO) in 1995. The central idea of GATS is that progressive liberalisation of trade in commercial services will promote economic growth in WTO member-countries. These commercial services are as diverse as entertainment, e-commerce, and education. The Doha declaration of November 14, 2001 mandates member-countries to submit initial requests for specific commitments in these diverse services by June 30, 2002, and are expected to make initial offers by March 31, 2003. One important issue that will form part of this negotiation process is the trade in educational services. There are important trade-related issues in educational services that India needs to address. This article is an attempt to raise these issues and suggest policy options for strategic management of trade in educational services.

In the first part I examine the precedence, possibility, and need for trade in educational services. The next part elaborates on the two-way classification of trade in educational services – namely, the educational categories and the modes of trade. A qualitative assessment of the competitiveness of the Indian educational system within the two-way classification of trade in education is attempted next and strategic safeguards available to India to counter any strong adverse impact that might be felt by opening up trade in educational services are discussed. Finally I discuss options for negotiating commitments at WTO meetings, and introducing reforms in domestic educational services and institutions.

The precedent for trade in educational services goes back in antiquity. In the Golden Age of India, universities at Nalanda and Takshashila were famous the world over, attracting students from foreign lands. In fact, universities ('vishwa vidyalayas'), by definition, have to be international in character. Prior to independence, children of the rich and students earning fellowships did go to the UK for higher education and returned with a wider world view of things. After independence, students went abroad on Commonwealth and Fulbright scholarships and returned home to transplant their training and experience to domestic conditions. The latest phase began when (post) graduate students started going to the US for higher studies with dollar assistantship in their pockets, never to return, as if they had entered Alibaba's cave! Of late, there are many Indian students going abroad for undergraduate education as well. Moreover, there are many Indian high schools run in various parts of the world where there is significant presence of overseas Indians.

Is there a potential for growth of trade in educational services, especially when significant contribution to this sector comes from the government? Is trade in educational services compatible with WTO norms? As per Article I.3 of GATS, government services remain outside the purview of GATS, provided they are not meant for commercial purpose and do not have any competition from private service suppliers. Hence, as per this article, education does come under the purview of GATS trade liberalisation, since there are already many institutes, colleges, high schools, and coaching classes operating in the private sector in India. These private service providers are in direct competition with government-run institutions. Moreover, one must not forget that leading

public educational institutions like the IITs, IIMs and agricultural universities were funded primarily by foreign funds. Shrinking budgetary resources for education are in no way helping the cause of promoting knowledge in India. The per capita total government expenditure on education for 1995 was less than \$10 per year in India as against \$1,400 in US [UNESCO 1998]. Moreover, the share of higher education in total planned resources has decreased steadily, from 1.24 per cent in the fourth Five-Year Plan to 0.35 per cent in the Eighth Five-Year Plan [Joshi 1998]. As a result, the state of affairs in government educational institutions is pathetic. Even if the government substantially increases its educational spending via deficit financing, it amounts to an inflation tax. Hence, private sector participation and trade in educational services seems imperative.

The paucity of funds highlights the fact that capital is a scarce factor and human resource an abundant factor in India. According to the celebrated Heckscher-Ohlin (1933) theory of trade, products/services that use the abundant factor more intensively get exported and abundant factor gains from such trade. With abundant qualified human resource, India must export educational products that use our human resources intensively. To achieve this, as we discuss a little later, India needs to create favourable circumstances domestically and negotiate effectively at the WTO forum. An argument is always made that India is experiencing a brain drain, that is, although the ownership of the knowledge inputs (read human resource) is Indian, ownership of the generated knowledge is with the west [Khadría 1999]. This is a one-way argument. Hasn't India benefited from the knowledge generated elsewhere? The alarm-clock that wakes one up in the morning to the zero-watt electricity bulb one uses at night, and, everything one uses during the day was mostly developed elsewhere and not by Indians. The Indian concept of zero, scientific principles of Newton, and economic ideas of Keynes and Friedman are available to all. Moreover, those who go abroad to provide educational services on contractual basis contribute to India's gross national product. Similarly, foreign educational institutions operating in India will contribute significantly to India's gross domestic product, and even more so, if the Indian government stipulates a minimum requirement on hiring of Indian faculty and staff.

In the second half of the 20th century, economists like Solow (1957) and Schumpeter (1967) emphasised capital and managerial entrepreneurship respectively, as the critical factors for growth and development of economies. However, later developments in the endogenous growth theory questioned the exogeneity of these critical factors. Romer (1986) and Lucas (1988) questioned the narrow definition of capital and broadened it to include human capital as well. Investment in education and knowledge is being considered as an integral factor of growth. In the past decade, awareness of knowledge as an engine of growth has gained ground and education is now looked upon as a tradable service. Developed countries are also keen to use this opportunity to avoid under-utilisation of infrastructure that exists in their educational institutions.

Empirical studies show that the contribution of total factor productivity (TFP) to GDP growth is quite significant in an open economy. This happens because of competition, and, as the endogenous growth theorist would argue, due to improvement in physical and human capital, and access to knowledge. Table 1 shows that in the post-liberalisation period, India's GDP growth-rate is relatively high, and almost half of this growth-rate is accounted for by increase in total factor productivity. Trade in educational services will further contribute to the total factor productivity leading to a higher growth-rate in GDP.

The efforts of WTO to include education in the GATS agreement should be seen in the above-discussed context. Therefore, India has to pay serious attention to the GATS agreement as applicable to educational services, identify opportunities and competitiveness in various subsectors, and negotiate WTO commitments accordingly. These issues are discussed below.

There is a two-way classification of trade in educational services. First, the WTO Classification List (W/120) describes five categories, namely, primary education, secondary education, higher education, adult education, and other education. It must be understood that GATS does not make it mandatory for member countries to open up all the educational categories. In fact, one can reject opening up of all the categories. Based on a country's assessment of prospective gains, specific categories can be opened up. For example, countries that are substantially dependent on trade have already opened up all categories. These include some of the east

European countries and New Zealand. It must also be noted that at the Doha meeting, formal communications for trade in educational services were put forward by the English-speaking countries New Zealand, US and Australia. New Zealand, in its communication (S/CSS/W/93), seemed to explore opportunities in adult and/or other education services such as driver education. The US, in its communication (S/CSS/W/23), has so far proposed that countries commit to opening up of adult education and other education services such as educational testing services and training. Australia, in its communication (S/CSS/W/110), is suggesting opening up of secondary education. And there are many other countries including India which have not made any commitments yet.

The second classification is based on the nature of trade in (educational) services. Article I.2 of GATS classifies trade into the following four modes.

(1) *Cross-border supply*: It includes courses through distance education, online courses through the Internet, educational testing services, and educational materials that are provided overseas. It will also include sale of paperback editions of books and sale of educational CDs.

(2) *Consumption abroad*: This refers to import of educational services through movement of the consumers/students to other country for pursuing education. A clear example is that of Indian students studying abroad and spending on educational fees and all related expenses of their stay.

(3) *Commercial presence*: It means actual presence of an educational service provider of a country in another country. For example, a foreign university may start a school of journalism in India, giving a foreign degree to the students.

(4) *Movement of natural persons*: As the title suggests, it involves people moving between countries to provide educational services. Indian teachers going abroad to teach in high schools in the US is one such example.

The Table 2 provides a complete listing and possible examples of category-cum-modes of each type. As the table indicates, there are 20 types (5 x 4) of trade in educational services. India will have to make, in its communication, specific requests to other countries, propose changes, and indicate its readiness to commit in select types of trade. While doing this, India must ensure that the safeguard instruments available in the GATS document are credible and enforceable.

Competitiveness of Indian Educational Services

For the negotiations on trade in services, Indian authorities not only need to respond to the proposals and commitments made by others, but put forward India's own proposal and select commitments that are in the best interests of the country. A prerequisite for that is to generate adequate data on the status of educational service providers and users and its aspects related to trade. Based on that, the authorities will be fully able to comprehend India's competitiveness in various sub-sectors of educational services. However, based on the information available at this time, critical observations on India's competitiveness can certainly be made.

Educational testing services: The US hopes educational testing services (and training) to be included in the country commitments. This is not surprising as the US already has well-established educational testing service providers and it would like to utilise the potential outside the country. India too has a long experience of providing educational testing services. The quality of testing services is well demonstrated by all-India qualifying tests such as the Common Admissions Test (CAT) of the IIMs, Joint Entrance Examination (JEE) of IITs, NET examination of CSIR-UGC and Graduate Aptitude Test in Engineering (GATE). If the experience of these services is adapted for various fields and, if such services can be offered on a round-the-year basis with sufficient

Table 1: Contribution to GDP by TFP in a Liberalised Trade Environment

Source	Absolute Contribution (Per Cent)		Relative Contribution	
	1960-85	1985-00	1960-85	1985-00
GDP Growth Rate	3.66	5.95	1.00	1.00
Contribution by:				
Labour	1.62	1.77	0.44	0.30
Land	0.08	0.04	0.02	0.01
Capital	1.17	1.29	0.32	0.22
TFP	0.79	2.85	0.22	0.48

Source: Dholakia (2001).

computerisation and use of Internet facilities, India stands to gain from liberalisation of such services. However, markets for such services will have to be actively sought. Hence, India may commit to liberalise these services, but an adjustment period of at least six years is necessary for upgradation and marketing of these services to potential clients. Moreover, the willingness of stakeholders to conduct this activity in the private sector needs to be assessed. Only then can India become competitive both in the foreign and domestic markets.

Students on foreign campuses: In 1995-96, 31,743 Indian students had enrolled for courses in the US [UNESCO 1998]. Currently, however, the number must have already exceeded 40,000. Moreover, there are a few thousand more Indian students studying in Europe. However, one may not worry too much about such imports of services. A significant proportion of these students would be (post) graduate students on teaching/research assistantships and fee waivers (see 'Teachers and Researchers Working Abroad'). Moreover, value must be attached to foreign educational experience, which certainly widens the horizons of young minds.

As far as export of such service by India is concerned, that is, foreign students coming to India for study, the current prospects are not too bright. India already gets some 5,455 international students from neighbouring developing countries [NIEPA 2001]. However, getting students from developed countries, even from east European countries, would be difficult as our standards of campus facilities are in general poor. However, there is scope for developing high-value niche markets for some of the programmes that India may offer. Marketing of programmes on education in arts and culture, Sanskrit and other languages and literature, and traditional medicinal sciences like ayurveda could be effectively done by upgrading the campus facilities for some of the specialised

institutions in India. A glaring example of this is the programme offered in ayurveda by the department of ayurveda at the University of Pune. It has twinning agreements with universities in Italy, Germany and other countries to send their students here for part of the study.

Moreover, there may be niche markets for management education as well. India has one of the best management schools in the Asia-Pacific region. The Indian Institute of Management, Ahmedabad, although it does not have any foreign students enrolled in its two-year programme, has a successful exchange programme for students. More than 45 students go abroad for a term for which they do not have to pay fees. One must also remember that fees in western countries are much higher than those in India. Promoting such exchange programmes on a reciprocal fee-waiver basis will certainly be useful to India both in terms of not losing foreign exchange and providing Indian students an opportunity to broaden their world view. In doing so, Indian institutes will move towards upgradation of their facilities and infrastructure in the near future. The institutes then can also attract foreign students for their regular postgraduate programmes in the long run.

Establishing schools abroad: At present, many countries including the US are only looking inwards as far as secondary education is concerned. However, an Indian proposal should include scope for commercial presence of institutions in secondary education. India's CBSE system of secondary education is quite robust compared with the state-board systems. In fact, there are more than 100 (Indian) CBSE schools abroad. With Indian diaspora spreading rapidly all over the globe, there would be great demand for CBSE-like schools in the UK, US, Fiji and other parts of the world. Of course, some initial groundwork will have to be done by identifying and bringing together private providers

and the prominent figures from the non-resident Indian community. In the long run, the school system could be expanded away from the ethnic Indian focus that will be required in the short-term. On the import side, India need not worry much as the system of secondary education is both cost and quality competitive. As far as establishing institutions of higher education abroad is concerned, India's competitiveness is in doubt as it needs to address the core issues of capital expenditure requirements. Instead, domestic higher education problems be addressed first to stay import-competitive. However, one exception must be brought to our notice. The Central Institute of English and Foreign Languages (CIEFL), Hyderabad, has successfully launched an English language teaching (ELT) programme in Kyrgyzstan. The institute won the contract although there was strong competition from other countries [Kolhatkar 1999]. India must capitalise on such experiences and duplicate the efforts elsewhere.

As far as the presence of foreign higher-education institutions in India is concerned, India should allow it; however, the process of liberalisation must be gradual so that domestic educational institutions are capable of effectively competing with the foreign institutions. India will need a transition period of at least six years to upgrade campus facilities. Upgrading facilities in all institutions will be difficult; however, select import-competing institutions must be able to upgrade their facilities. Among other things, these facilities will include: availability of course schedules on the Internet, telephone registration system for courses, option of payment of fee through credit cards, well-equipped dormitories, classrooms, libraries and sports facilities of international standards, and facilitating growth of off-campus housing infrastructure in the private sector for faculty, staff and students. Moreover, accreditation system for foreign educational institutions will have to be developed. Indian authori-

Table 2: Two-way Classification of Trade in Educational Services

Trade Mode	Category of Education				
	Primary	Secondary	Higher	Adult	Other
Cross-border supply	Toddler books, cassettes, CDs	Educational CDs, study guides e-gurukul services	Distance learning, educational CDs, study guides, textbooks, e-gurukul	Similar items on self-help, sports dieting, etc. and periodicals	
Consumption abroad	x	x	Pupils studying abroad, twinning programmes	Participants going abroad for training courses	
Commercial presence	x	Indian schools abroad, US schools in India	University presence in foreign land	Training, MDPs facilities offered offered in host countries	
Movement of natural persons	x	Indian math/science teachers working in schools abroad	Professors teaching abroad and vice versa	Trainers working abroad and vice versa	

ties may need to study how developed-country governments manage the accreditation system in their own countries.

Teachers and researchers working abroad: Although the annex to GATS mentions that movement of natural persons is excluded from GATS, it clearly provides scope for negotiating commitments on movement of persons in specific services. India must put in its proposal to include commitments on movement of teachers and researchers both at the secondary and higher education level. Already, about 10,000 secondary school teachers are working outside the country for some time now, and increasingly there is a growing demand for Indian teachers, especially in mathematics, sciences, and English. The trend will continue given the scarcity of teachers in the developed world and the sufficient supply of qualified teachers in India. Nevertheless, there is a need for making projections of export of this educational service. The export of teachers need not be construed to imagine that Indian schools will be deprived of their valuable asset. In fact, a healthy market for teachers will encourage many more to join the profession domestically as well.

Moreover, it must be remembered that many of the Indian (post) graduate students who go abroad for higher studies receive teaching and/or research assistantships and tuition waivers. This is a form of export of educational service in the form of movement of natural persons. The fact that western countries need foreign (post) graduate students to teach independent courses in their universities shows the need for qualified university-level teachers abroad.

While India seeks to liberalise trade in educational services and offer specific commitments in its proposals for negotiations, Indians must understand that they are not trading off their rights and controls on issues that are integral to their nationhood, cultural ethos and security. There are many exemptions and safeguards allowed in GATS which can be effectively utilised to protect Indian interests.

Article II.1 introduces the Most Favoured Nation (MFN) clause by mentioning that a country will accord another member-country treatment no less favourable than that it accords to any other country. However, in the same breath, Article II.2 allows countries to negotiate exemption from this commitment and those exemptions must be mentioned in the schedule of commitments made. For example, India can give special treatment to students of SAARC

and NAM countries without giving the same special treatment to others, provided this is mentioned in the commitment schedules. Another related matter is with respect to 'national treatment'. According to this WTO principle, foreign institutions will have to be accorded the same treatment meted out to domestic institutions. Thus, if there are institutions in India that grant bachelor's degree only in two years instead of the usual norm of three years, India will be unable to prevent foreign institutions from offering degree programmes of two-year duration. This may call for tightening the requirements on domestic institutions.

Article XII.1 allows countries to take measures to control the balance of payments (BoP) problems. This may include restrictions on transfer of payments and foreign exchange until the BoP situation improves. India does not face a BoP problem at this time. However, if it does in the future, India can exercise the option of restricting trade in educational services to prevent flight of foreign exchange from the country. Moreover, Article XIV allows measures to protect public morals, maintain public order and national security, and prevent fraudulent practices. For example, if Indian authorities believe that some of the educational material coming into the country is not in accordance with the mores and values of this land, restrictions may be imposed to protect public morals. In

fact, Article X has even provided for emergency safeguard measures.

Strategies for Proposal, Commitments and Domestic Reforms

India must therefore act in self-interest. The country must manage to send a proposal and commit to areas where there are strategic opportunities to be exploited through trade. It also entails radical reforms in the domestic educational infrastructure. In this context I suggest the following:

India should endorse the US view of including educational testing services to be included in the country commitments. However, India should ask for phased liberalisation. A lead-time of at least six years is necessary to upgrade India's reputed testing services to compete effectively with foreign suppliers in the domestic market, and gather market intelligence to focus on adaptation of services for the export market.

India may commit to all modes of trade in higher education as well. However, it must be borne in mind that India will have to actively seek niche markets for India-specific knowledge programmes. Moreover, infrastructure upgradation of our premier and import competing institutions must be done on a priority basis so that they can effectively compete with foreign institutions based in India. Again, for this purpose, India must propose gradual

Course on Methods in Labour Research

V.V. Giri National Labour Institute invites applications from young and serious research scholars pursuing or intending to pursue their interest in labour studies to participate in the next **Course on Methods in Labour Research** at the Institute from June 20 to July 10, 2002. The participants will go through a rigorous and interactive exercise in conceptualising, designing and operationalising research pertaining to labour studies. The Course offers opportunities for intensive interface with renowned scholars/practitioners in the area of labour studies. The Course will admit only 25 participants. Application giving personal and academic particulars may be forwarded to Dr. Ruma Ghosh, Associate Fellow, V.V. Giri National Labour Institute, Sector-24, NOIDA-201301 (Fax: No.0120-4532974, 0120-4535174, E-Mail: rumaghoshnli@hotmail.com) by **May 31, 2002**.

liberalisation. A transition period of at least six years is needed to bring our priority institutions on par with the foreign ones in terms of infrastructure and facilities.

The country may make a specific proposal to other countries to commit themselves to commercial presence in secondary education. This is in view of the prospect that accredited private high schools of CBSE standard stand a good chance of being exported. More than 100 already exist in other countries. Similar US schools exist in India and elsewhere that are primarily meant for non-resident US citizens.

India may propose a specific commitment on inclusion of teachers and researchers both at the secondary and higher education level under the trade mode, 'movement of natural persons'. With increasing demand for teachers in developed countries India may want to ensure opportunities for its human capital. The commitments will also apply to (post) graduate students who go abroad and earn teaching/research assistantships and tuition waivers. In this respect, India may seek equal pay for these persons, no deduction of social security tax, and no mandatory deduction for teachers/individual retirement accounts. Even if social security tax is deducted, it should be recoverable when a person returns to his/her home country. Moreover, there need not be penalty for withdrawing money from the teachers' retirement account when one returns to his/her home country.

Australia, in its communication, has expressed its desire to screen people desiring temporary immigration. However, it considers restrictions by other countries on foreign equity participation in educational institutions as a deterrent. These expressions are quite asymmetric in nature. If countries wish to have unhindered entry of their capital into other countries, they must also allow legitimate entry of human capital into their own country. Screening of Indian educationists desiring to temporarily immigrate to countries such as Australia is indicative of protectionist trade policy. Such propositions must be opposed during the negotiations.

Indian authorities must request for assistance from UNESCO and/or other world bodies for improving educational infrastructure in the country. This has been done in other WTO agreements such as Agreement on Sanitary and Phytosanitary measures (SPS) and Agreement on Technical Barriers to Trade (TBT). Moreover, such assistance must be provided in a

structured, time-bound fashion. The motivation for such request is that developing countries such as India will find it extremely difficult to cope up with issues that will suddenly arise if commitments were to be adhered to immediately after an agreement is reached.

To compete effectively with developed nations, to upgrade facilities and infrastructural needs, developing countries must have a transition period of at least six years, after which complete implementation of the agreement can be undertaken.

For a smooth transition to the new liberalised environment, encourage WTO member countries to have more student-exchange programmes so that exchange students could become the young ambassadors, messengers and promoters of India's educational services in their respective countries.

Strategies for domestic reform: Authorities must develop a database on all categories of education regarding number of educational institutions, their enrolment (domestic and foreign), faculty strength, financial sources, and quality and accreditations. Further, market intelligence regarding the situation in other countries be sought through diplomatic attache in the Indian embassies abroad.

Existing reputed educational testing services will have to be modernised. To compete with testing service such as say, GRE, GMAT and TOEFL, our reputed testing services such as CAT, GATE, JEE, NET and others must be upgraded and modernised. A committee can be constituted to suggest upgradations and implementation of the suggested upgradation. The upgradation will be in terms of year-round availability of the testing service, computer-aided and Internet-based testing, and universal acceptability of the tests by various academic institutions, including foreign institutions. Moreover, assessment will have to be done on whether or not private providers can take on the mantle of running such services for its efficient functioning.

Improvement in the educational infrastructure must take priority. The following items need to be addressed if the infrastructure of import-competing institutions has to be of international standard: University course schedules must be available on the internet; Automated telephone course registration for every term must be available to students; Payment of fees by credit-card should be a standard option; Classrooms, libraries, dormitories and sports facilities should be of international standards;

Off-campus housing arrangements must be facilitated through the private sector for faculty, staff and students.

The authorities must study the system of regulation and accreditation of educational institutions in foreign countries. Indian accreditation system and laws for foreign institutions must be developed taking into account the treatment given to them in their respective countries.

To sum up, a lot of homework needs to be done to derive mileage from the negotiations on trade in educational services. The WTO framework and structure need not be construed as the Lakshya-Gruha, where Pandavas would have been reduced to ashes by the Kauravas. Instead, it should be considered as the Mayasabha of the Pandavas. Once one manages to figure out where the water is and where the floor, one can certainly enjoy and benefit from the stay. **[E]**

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