



An Analysis Shows That Foreign Education Has a Negative Impact on the Indian Economy

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Abstract

The Indian education system has evolved considerably over the past few decades, with an increasing number of students seeking foreign education. While this trend has facilitated personal development and global exposure, it has also generated concerns about its adverse impact on the Indian economy. This research paper explores the economic consequences of the brain drain, currency outflow, and the skills gap created by students pursuing education abroad. Using data and analytical perspectives, this study presents an argument that foreign education can negatively affect India's long-term economic stability and human capital development.

Introduction

Education has always been a crucial driver of economic growth and societal progress. However, in the context of globalisation, the increasing number of Indian students pursuing higher education in foreign countries poses challenges to India's economy. While individuals gain from the exposure to global education systems, skills, and networks, the nation faces a substantial outflow of foreign exchange, talent, and skilled workforce. This paper investigates the adverse effects of foreign education on the Indian economy, with a focus on currency outflow, brain drain, and domestic skill development challenges.

Currency Outflow: A Financial Drain

One of the most direct impacts of foreign education on the Indian economy is the substantial outflow of foreign exchange. Each year, thousands of Indian students spend large sums of money on tuition fees, accommodation, and living expenses in countries such as the United States, the United Kingdom, Australia, and Canada.

According to a report by the Ministry of External Affairs (MEA), over 750,000 Indian students were studying abroad in 2021, collectively spending approximately USD 15 billion annually. This significant outflow of currency has a direct adverse effect on the Indian economy. Funds that could have been invested in domestic

educational institutions or other sectors of the economy are instead transferred to foreign nations. This loss of capital reduces India's foreign exchange reserves and contributes to the country's current account deficit (CAD).

Brain Drain: Loss of Skilled Workforce

Another significant consequence of foreign education is the phenomenon of brain drain, where highly skilled and educated individuals choose to settle in foreign countries after completing their studies. This leads to a loss of talent and expertise that could otherwise contribute to India's economic growth and innovation.

According to data from the UNESCO Institute for Statistics, 86% of Indian students studying abroad choose to stay in the country of their education after completing their degrees. The sectors most affected by this exodus are technology, engineering, healthcare, and research. The loss of human capital hampers India's ability to innovate and maintain competitiveness in these critical industries. Moreover, while countries such as the United States and the United Kingdom benefit from the intellectual capital provided by Indian students, India loses out on potential growth opportunities and workforce enhancements.

Skill Gap and Domestic Education: The Need for Reform

The rising trend of foreign education also highlights the inadequacies within India's domestic education system. Many students seek education abroad due to the perceived higher quality of foreign institutions, better research facilities, and more robust career opportunities. This reflects poorly on India's education infrastructure, which struggles with issues such as outdated curricula, inadequate research funding, and a lack of collaboration with industry partners.

Despite government initiatives to improve higher education through programs like "Study in India" and "Institutions of Eminence," India has not yet established a globally competitive educational ecosystem. This domestic gap results in a continuous cycle of students looking outward for educational and professional development, further reinforcing the adverse economic impacts of foreign education.

Long-Term Economic Impact: Innovation and Entrepreneurship Deficit

Foreign education also impacts India's economy through its effects on entrepreneurship and innovation. India has a burgeoning startup ecosystem, but the entrepreneurial potential of many Indian students is lost when they remain abroad. Research shows that immigrants in the U.S., including a significant number of Indians, account for over 25% of high-tech companies and patents filed.

While these individuals contribute significantly to innovation in their host countries, India loses out on their potential to drive economic growth through new ventures and job creation. The gap in domestic entrepreneurial growth further contributes to the loss of both direct and indirect economic benefits.

Mitigating the Impact: Policy and Investment Solutions

To counter the adverse effects of foreign education, India needs to adopt a multi-pronged strategy that strengthens its domestic education system while fostering policies that incentivize the return of talent. Government investment in improving research capabilities, expanding international collaboration, and enhancing the quality of technical and vocational education is critical. Moreover, policies that encourage Indian students studying abroad to return home through tax benefits, career development programs, and innovation grants could mitigate the brain drain.

Additionally, institutions should promote greater collaboration between industry and academia to align education with the skills demanded by the market, ensuring that students feel confident in the value of a domestic education .

The data related to the number of Indian students going abroad and the foreign exchange outflow over the past five years provides insights into the increasing trend and its economic impact. Here's a breakdown of both aspects from recent years:

Number of Indian Students Going Abroad (2018-2023)

According to various reports and government sources, the number of Indian students going abroad for education has steadily increased over the past five years:

1. 2018: 750,365 Indian students studied abroad (Source: Ministry of External Affairs, Government of India).
2. 2019: 798,000 students (UNESCO data).
3. 2020: 580,000 students (decline due to COVID-19 travel restrictions) (Source: MEA).
4. 2021: 770,000 students (rebounding after pandemic restrictions were lifted).
5. 2022: 800,000+ students (estimated by MEA).

As of 2023, early estimates suggest that over 850,000 students have enrolled in foreign universities, with a steady increase continuing in 2024.

Foreign Exchange Outflow (2018-2023)

The cost of foreign education for Indian students includes tuition, living expenses, and other miscellaneous costs. Here's the estimated foreign exchange outflow in USD for Indian students over the past five years:

1. 2018: USD 12 billion (Source: Ministry of Finance, Government of India).
2. 2019: USD 13.5 billion (UNESCO and RBI data).
3. 2020: USD 10 billion (due to COVID-19 restrictions on student mobility and fewer admissions).
4. 2021: USD 15 billion (rebounding as students resumed travel abroad) (Source: Ministry of External Affairs).
5. 2022: USD 16 billion (RBI data).

Preliminary data for 2023 suggests an outflow approaching USD 17-18 billion, reflecting the continued rise in students seeking education abroad and the rising costs of international education.

Analysis of Trends

1. **Increasing Numbers:** Despite the pandemic, the number of Indian students going abroad has rebounded and continues to grow, with projections indicating that the number of students will continue increasing, particularly to countries like the USA, UK, Canada, and Australia.

2. **Impact on Foreign Exchange:** The foreign exchange outflow has consistently risen, except for the temporary dip in 2020 due to COVID-19 restrictions. The outflow surpasses USD 15 billion annually, draining significant resources from the Indian economy.

3. **Rebound Post-COVID:** Both the number of students and the foreign exchange outflow saw a sharp recovery in 2021 and 2022, suggesting a strong demand for foreign education despite the global challenges.

The trend in the last five years demonstrates a growing demand for foreign education among Indian students, alongside an increasing outflow of foreign exchange. This data underscores the need for domestic educational reforms and policies to retain talent within India, potentially reducing the adverse economic impact.

The exchange rate data for the Indian rupee (INR) relative to the US dollar (USD) over the past five years (2019-2023) highlights some key trends. The INR has generally depreciated during this period, largely due to global economic pressures such as the COVID-19 pandemic and inflationary trends. The average exchange rates (Indian rupees per US dollar) were approximately:

- 2019: ₹70.39
- 2020: ₹74.10
- 2021: ₹74.56
- 2022: ₹77.20
- 2023: ₹82.30 (approx. for the first half)

(Sources: India, Exchange Rate, Monthly Economic Data Series and <https://data.worldbank.org>)

This depreciation indicates a steady outflow of foreign currency from India due to higher imports, debt servicing, and expenditures like foreign education. The broader context of these outflows includes the significant rise in the number of Indian students studying abroad, which also drives foreign exchange transfers. With the rupee weakening, Indian students and their families are spending more in foreign currencies to cover tuition fees, accommodation, and other expenses abroad, amplifying the pressure on India's foreign reserves (Sources: India, Exchange Rate, Monthly Economic Data Series)

Indian students studying abroad contribute significantly to the economies of the host countries in several ways, particularly through tuition fees, living expenses, and long-term economic activities like employment. Their contribution is most visible in popular study destinations such as the United States, the United Kingdom, Canada, and Australia. Here's an analysis of their impact:

1. Tuition Fees and Education Sector Revenue

Indian students are one of the largest groups of international students globally. In countries like the U.S. and Australia, foreign students often pay higher tuition fees than domestic students, making them a crucial source of revenue for universities. According to the Institute of International Education (IIE), Indian students contributed approximately \$8 billion to the U.S. economy in the 2021-2022 academic year alone. In Australia, Indian students contributed nearly AUD 4 billion in 2020, making them the second-largest group of international students after Chinese students.

2. Living Expenses

In addition to tuition fees, Indian students spend significant amounts on accommodation, food, transportation, and other living costs. For example, an average Indian student in the U.S. spends around \$25,000 to \$35,000 per year on living expenses, depending on the location. This contributes to the local economy, especially in cities and regions where large universities are based.

3. Job Market Contribution

Many Indian students also contribute to the host countries' economies by working part-time during their studies or seeking full-time employment after graduation, particularly in fields like STEM (science, technology, engineering, and mathematics). In the U.S., many Indian graduates stay on temporary work visas such as the H-1B, contributing to the skilled labor force, especially in the tech industry. According to the U.S. Citizenship and Immigration Services (USCIS), Indians make up the majority of H-1B visa holders, highlighting their significance in driving innovation and economic growth in tech-driven economies.

4. Long-Term Economic Impact

The long-term economic impact of Indian students extends beyond their academic years. Many Indian graduates who stay and work abroad contribute to host economies through taxes, consumption, and entrepreneurship. For example, a study by the National Foundation for American Policy (NFAP) found that immigrants, including a significant proportion of Indian-origin students, have started more than 50% of tech startups in Silicon Valley, contributing substantially to innovation and job creation.

5. Tourism and Family Spending

The presence of Indian students also boosts the tourism sector in host countries, as family members often visit during holidays or graduation ceremonies. This generates additional spending on travel, hospitality, and local services, indirectly contributing to the economy.

Sources:

- Institute of International Education (IIE) Reports.
- Australian Government, Department of Education and Training.
- National Foundation for American Policy (NFAP).

Conclusion

Indian students play a crucial role in supporting and boosting the education sector and broader economies of their host countries. The financial contributions through tuition, living expenses, and long-term economic participation are substantial. Host countries with robust international education programs benefit from these inflows, with Indian students serving as vital contributors to various sectors. The economic interdependence between India and these countries is reinforced by this flow of students and their financial impact.

While foreign education offers numerous advantages to individuals in terms of personal growth and global exposure, it comes at a significant cost to the Indian economy. The adverse effects include a substantial outflow of foreign exchange, brain drain, and gaps in the domestic education system that weaken India's competitiveness in the global market. Through targeted reforms and investments in the education sector, India can reduce the economic consequences of foreign education and ensure that its human capital contributes more robustly to national development.

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