Trade Liberalisation and Tertiary Education

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The purpose of this paper is to:

- Provide an overview on the current status of the General Agreement on Trade in Services (GATS) and bilateral and regional trade agreements in the context of education services;
- Identify emerging issues in international education;
- Suggest some potential impacts of GATS and bilateral and regional trade agreements on Australia's higher education sector.

1. **INTERNATIONAL FRAMEWORKS FOR TRADE IN EDUCATION**

The growing importance of trade in educational services is reflected in the following points identified by Saner and Fasel (2003):

- The value of annual trade in 1999 in higher education services has been estimated at US$30 billion, reaching 50% of trade in financial services estimated at US$59.3 billion. The estimates of trade in educational services would be higher if estimates were available for the total trade in all education sectors.

- High quality education can positively influence labour factor conditions of a country's economic development. Most countries consider investment in education as being of strategic importance to enhance national competitiveness and to increase opportunities to attract foreign direct investment.

Growth in trade in education services has continued to accelerate and become a key focus of the General Agreement on Trade in Services (GATS) as countries increasingly recognize its potential for export earnings and its strategic importance for economic development.

1.1 **Brief History of GATS**

The General Agreement on Trade in Services (GATS) 'is the first and only set of multilateral rules covering international trade in services'. It dates back to 1995, and is the services counterpart of the General Agreement on Tariffs and Trade (GATT), which has regulated the trade in goods since 1947. Both GATS and GATT are administered by the World Trade Organization (WTO). The GATS addresses twelve categories of services, one of which is education.

From an Australian perspective the implementation of GATS is important for a number of reasons:

- As is the case for other developed economies, services account for the majority of economic activity in Australia, and this proportion is growing as manufacturing industries relocate to countries where labour costs are lower.
- Australia is committed to the establishment of a global trade system because its trade balance is likely to suffer in a world carved up into a series of regional...
free trade agreements. Australia's small size is also a major disadvantage in the negotiation of bilateral free trade agreements with the major economic powers.

- Australia is a major education exporter and sees its interests being best served in an untrammelled international education market.

### 1.2 Key Principles of GATS

The GATS has two parts: the framework agreement containing the general rules and disciplines; and the national "schedules" which list individual countries' specific commitments on access to their domestic markets by foreign suppliers.

The key principles of GATS are threefold:

- The *Market Access* principle, under which 'each Member shall accord services and service suppliers of any other Member treatment no less favourable than that provided for under the terms, limitations and conditions agreed and specified in its Schedule' (XVI.1);

- The *National Treatment* principle, which provides for non-discrimination regarding conditions of competition once a service or a provider is in the market;

- The *Most Favoured Nation* principle, under which there should not be discrimination between the treatment of member countries.

Related to these principles is the requirement that regulations addressing market entry should be transparent.

The GATS classifies trade in services into four numbered modes:

1. **Cross-border supply** (such as distance education)
2. **Consumption abroad** (such as a student travelling abroad to study)
3. **Commercial presence** (such as foreign branch campuses, or foreigners partnering with local providers)
4. **Presence of natural persons** (such as lecturers travelling temporarily abroad to teach)

Some of the barriers to the four modes of supply identified by DEST include\(^1\):

<table>
<thead>
<tr>
<th>Mode</th>
<th>Barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross Border Supply</td>
<td>Importation of educational materials (textbooks and software to support distance education), blanket non-recognition for this mode of supply</td>
</tr>
<tr>
<td>Consumption abroad</td>
<td>Host economy employment rules, visa requirements, foreign exchange requirements</td>
</tr>
<tr>
<td>Commercial presence</td>
<td>Limits on ownership, rules on twinning arrangements</td>
</tr>
<tr>
<td>Presence of natural persons</td>
<td>Visas and immigration requirements</td>
</tr>
</tbody>
</table>

1.3 The Doha Round of Negotiations
The process for negotiation in the early stages of the Uruguay Round (early 1990s) entailed each member country submitting a national schedule, which listed each sub-sector and each mode of supply, and set out whether Market Access or National Treatment was to be offered to foreign service suppliers in each case.

World Trade Organization (WTO) member countries agreed in Doha, Qatar, in November 2001 to launch a new round of WTO negotiations. In 2002, participant countries filed requests asking trading partners to open their markets in service areas. Countries that were the subject of requests then presented offers to open their markets in service areas. Progress in this process was reviewed at the Mexico Conference (Cancun) of the WTO in September 2003, but the talks failed to reach agreement on further multilateral liberalisation of trade in goods and services.

The Doha round of negotiations aimed at cutting tariffs on farm products and manufactured goods, removing impediments to international trade in services, rewriting contentious anti-dumping rules, introducing new rules on investment and competition policy and improving rules in areas such as intellectual property and the dispute settlement system.

The Cancun talks failed primarily because developing countries were unable to convince the US, EU and Japan to lower or eliminate export subsidies and tariffs on agricultural commodities. The General Council of the WTO, on 1 August 2004, reaffirmed members’ commitment to progress in services liberalization in line with the Doha mandate. It adopted the recommendations agreed by the Special Session of the Council for Trade in Services including:
- that revised offers on services should be tabled by May 2005, in accordance with the Doha timetable;
- that “Members shall strive to ensure that a high quality of offers, particularly in sectors and modes of supply of export interest to developing countries”; and
- that “Members shall aim to achieve progressively higher levels of liberalization with no a priori exclusion of any service sector or mode of supply and shall give special attention to sectors and modes of supply of export interest to developing countries” (WTO (2004).

The General Council also decided that the negotiation timeline should extend beyond the timeframe of the Doha Declaration and that a Sixth Session of the Ministerial Conference be held in Hong Kong, China in December 2005.

1.4 GATS and Educational Services
Under GATS, the education sector is divided into five sub-sectors: primary, secondary, higher, adult, and other. The WTO classifies post-secondary technical and vocational education as higher education. Trade in educational services is receiving growing attention and has elicited increasingly heated reactions by various stakeholders ranging from governments, private sector investors, academic unions to student associations and parent organisations in OECD and developing countries.

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EAIR, Barcelona, September 2004
Trade in education services is inherently cross-sectoral affecting trade, economics, education and culture and different international institutions are mandated to deal with its different aspects. Trade in educational services is the focus of WTO while cross-national recognition of educational products is handled through UNESCO.

USA's GATS requests on education provide a good indication of the content of negotiations in the Doha round:

- China: Remove ban on education services provided by foreign companies and organizations via satellite networks. Remove requirements for foreign educational institutions to partner with Chinese universities. Remove ban on for-profit operations in education and training services. Relax other operational limits and restrictions on geographic scope of activities.
- South Africa: Remove burdensome requirements, including non-transparent needs tests, applicable to foreign universities operating, or seeking to operate, in South Africa.
- Turkey, Italy: Remove requirement that foreign entities teach only non-national students.
- Greece: Remove restriction that the granting of degrees is limited to Greek institutions only.
- India, Philippines and Thailand: Remove ownership limitations on joint ventures with local partners.
- Japan, Israel: Recognize degrees issued by accredited institutions of higher education (including those issued by branch campuses of accredited institutions); and adopt a policy of transparency in government licensing and accrediting policy with respect to higher education and training.

According to the OECD, in 2002 the number of countries committing to market access and national treatment in the different education sectors was small but relatively constant: 30 on primary education, 35 on secondary education, 32 on tertiary education and 32 on adult education (OECD, 2002). Although these are 'standstill' commitments, which do not represent any new liberalizing of trade policies, they do bind these policies in an international legal framework and make the introduction of new restrictive measures considerably more difficult. Most countries have more open trade environments than their GATS schedules would suggest, but are unwilling to bind these policies into a legally-enforceable international agreement in which retracting commitments to open markets is difficult and potentially costly.

Members have made commitments in line with their perceived interests. Japan has made offers on adult and other education but not higher education, the USA has made limited commitments, Australia and New Zealand have made no further commitments in the Doha Round, and Canada has made no commitments at all related to education.

A clear relationship has been established between the level of commitments made and the level of private funding of education in a particular country. The pattern identified is that the lower the level of private funding, the more significant the commitments (Mundy and Ika, 2003). For example, New Zealand and Australia have lower levels of

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2 These are permitted exceptions to the national treatment or market access commitments, but cannot be made more restrictive with respect to service suppliers or investors of other treaty participants (DFAT, AUSFTA Briefing No.3, 2003)
private funds directed to higher education than Malaysia and Singapore, and the former countries have made significant commitments to market openness in higher education while the latter countries have not, retaining the right to restrict the number, size and type of foreign providers operating in these lucrative and fiercely competitive markets.

Ultimately the GATS is expected to benefit large US for profit educational providers, particularly those such as Sylvan and Apollo, who have established an early grasp on on-line delivery (King, 2003).

1.5 Australia’s Education Related Commitments Under GATS

Australia is one of 32 WTO members, of a total of 147, to make commitments in regard to tertiary education. In the Uruguay Round of negotiations (1993/94), Australia committed to the following:

<table>
<thead>
<tr>
<th></th>
<th>Market access</th>
<th>National treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cross border supply</strong></td>
<td>Learning via distance education sourced from abroad can be recognised in Australia</td>
<td>No restrictions to recognition based on source country</td>
</tr>
<tr>
<td><strong>Consumption abroad</strong></td>
<td>Australian students’ overseas learning can be recognised</td>
<td>No restrictions on choice of institution based country to which a student travels</td>
</tr>
<tr>
<td><strong>Commercial presence</strong></td>
<td>Foreign providers can establish a presence in Australia</td>
<td>Australia has not committed in order to preclude government funding going to foreign institutions.</td>
</tr>
</tbody>
</table>

Australia agreed to *market access* (to allow foreign providers access to the Australian market) and *national treatment* (not to discriminate between local and foreign providers) of foreign providers in private education only, from the beginning of 1995. Australia has made commitments to allow *market access* to foreign providers in Australia through three modes of supply: *cross-border* (distance education), *consumption abroad* (Australian students travelling to study overseas) and *commercial presence* (establishing a physical presence in Australia). Australia did not commit to *national treatment* for *commercial presence* in order to maintain a capacity to discriminate between local and foreign providers in relation to government funding.

Australia's *national treatment* commitments as they apply to higher education are that Australia must extend equivalent treatment to:

- Local private providers (e.g. Bond University, Notre Dame University\(^3\)).
- Foreign providers via cross-border delivery (e.g. Australian students enrolling in a foreign distance education or online program while in Australia).

\(^3\) Notre Dame is affiliated with its US namesake, but the nature of the relationship in terms of commercial arrangements is unclear. This warrants further examination as any degree of foreign ownership may have implications for domestic government assistance under GATS and FTA rules.

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EAIR, Barcelona, September 2004
• Foreign providers via consumption abroad (e.g. Australian students undertaking study overseas).

1.5.1 Public Procurement
GATS allows for the exclusion from GATS agreements of 'a service supplied in the exercise of governmental authority', which is defined as 'any service which is supplied neither on a commercial basis, nor in competition with one or more service suppliers'. The Australian Minister for Trade referred to this provision in a November 2003 briefing note, where he reiterated that 'it is proposed that all subsidies and grants will be explicitly excluded from the services chapter, along with services supplied in the exercise of governmental authority' (DFAT, 2003a).

Thus education should be excluded although there is some conjecture that Australia's mix of private and public provision where government monies flow to private institutions may allow for more complex interpretations. There continues to be considerable disagreement both in Australia and overseas, about the extent to which different types of subsidies (such as funding of student places and research funding) constitute government procurement, and should thus be exempted from coverage under the GATS.

Australia has not entered national treatment agreements in relation to public education and has committed to the protection of all public research grants in all sectors. USA, Australia and New Zealand have made negotiating proposals to the WTO that explicitly recognize that education is to a large extent a government function and that the private sector should supplement, rather than displace, public provision.

1.5.2 Australian Regulations
Countries sometimes protect incursions into their service sectors through other regulations linked to quality or national interest. Australia has been proactive in developing a regulatory framework to ensure the quality, but also the international openness of the higher education sector. Since 1995 Australian governments have taken steps to formalize processes for approvals and recognition of foreign providers operating in Australia, in line with the standards applying to local providers. The Ministerial Council on Employment, Education, Training and Youth Affairs' National Protocols for Higher Education Approval Processes (MCEETYA, 2000) sets out the standards expected of universities, irrespective of whether they are existing providers or new entrants, locally-based or of international origin.

The development of the Australian Universities Quality Agency (AUQA) has had a positive impact on the accountability and transparency of transnational programs with specific reference to the Australian Vice-Chancellors' Committee's Provision of Education to International Students: Code and Guidelines for Australian Universities. In VET Australia has a nationally consistent approach to quality assurance for products and services which operates under the auspices of the Australian National Training Authority (ANTA) National Training Quality Council. The Australian Quality Training Framework (AQTF) commenced full implementation by States and Territories in 2002.
Other initiatives include Australia's becoming the first non-European country to ratify the Lisbon Recognition Convention, developed by the Council of Europe and UNESCO, which facilitates mutual academic recognition and mobility of qualifications amongst signatory countries. Australia helped frame the *Code of Good Practice in the Provision of Transnational Education*, which is included under the Lisbon Recognition Convention. Australia's multifaceted approach provides an example of the ways in which institutional standards can be ensured in an open international environment.

### 1.6 Outside GATS: Regional and Bilateral Agreements

An important exception to the rule that reductions in trade barriers should be applied, on a most-favoured nation basis, to all WTO members is the ability of members to enter into regional trade agreements (RTAs). Under RTAs, reductions in trade barriers only apply to the countries that form the arrangement. The vast majority of WTO members are party to one or more regional trade agreements. Over 170 RTAs are currently in force while an additional 70 are estimated to be operational although not yet notified to the WTO. By the end of 2005, if RTAs reportedly planned or already under negotiation are concluded, the total number of RTAs in force might well approach 300 (WTO, 2003).

The failure of the Cancun talks in 2003 witnessed a renewed interest in bilateral and regional trade agreements. The EU is reviewing its approach and the US has indicated that it will accelerate its pursuit of bilateral agreements. In October 2003, the Asia-only economic grouping, ASEAN+3 (China, Japan, Korea)\(^4\) reached agreement to establish a European Union-style economic integration zone by 2020. In addition to the broader economic grouping with its "dialogue partners", the October 2003 meeting resulted in a preliminary statement of co-operation between ASEAN and India.

### 1.7 Australia's Free Trade Agreements

The Australian Government pursues a combined multilateral, regional and bilateral approach to trade policy. The Government is on the record that Free Trade Agreements (FTAs) that are comprehensive in scope and coverage can complement and provide momentum to Australia's wider multilateral trade objectives. It is expected that progress in regional trade liberalisation will be multilateralised in due course through WTO negotiations. Australia is a party to free trade agreements or frameworks with Singapore, New Zealand, Thailand, China and the United States, and is negotiating an agreement with Indonesia. All of these include education.

- Australia is also a party to the ASEAN FTA-CER agreement through the agency of the Closer Economic Relations Agreement (entered into force in 1983) between Australia and New Zealand.
- The Singapore-Australia Free Trade Agreement (SAFTA) became operational following an exchange of third person notes in July 2003 and includes *market access* and *national treatment* provisions across the four modes of supply. It provides for expanded recognition of professional qualifications gained in

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\(^4\) ASEAN comprises Singapore, Malaysia, Indonesia, Thailand, the Philippines, Brunei, Laos, Vietnam, Burma and Cambodia.
Australian Institutions. The education-related outcomes of Australia-Singapore FTA have been:

- Number of Australian law degrees recognised in Singapore doubled from four to eight
- Removal/easing of residency requirements for Australian professionals
- Mutual recognition agreements (MRAs) between architects and engineers under way
- National treatment and market access commitments for Australian education providers
- Singapore government overseas scholarships will be tenable at Australian universities
- Australia firms get national treatment in procurement by 47 Singapore agencies
- Protection of intellectual property supplied in government tender processes

- The Australia-Thailand Closer Economic Relations Free Trade Agreement (CER-FTA) was signed in October 2003. It provides for an increase in the limit of Australian ownership of tertiary education institutions from 49.9% to 60%.

- The round of negotiations for an Australia-US Free Trade Agreement (AUSFTA) successfully concluded in January 2004 and passed by the Australian Parliament in August 2004. The negotiations included trade in services including issues of recognition of professional qualifications and experience, *market access* and *national treatment* and intellectual property. The Commonwealth Government's objective in regard to intellectual property is to reaffirm the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), ensuring the rights of Australian holders of IP and ensuring Australia's ability to determine the appropriate legal regime for implementing internationally agreed intellectual property standards. The Department of Foreign Affairs and Trade (DFAT) indicates that government policies in relation to subsidies and grants, including HECS-HELP and FEE-HELP would be excluded from the AUSFTA agreement as they were from the SAFTA.

- A trade and economic framework between Australia and the People's Republic of China (DFAT, 2003b), signed in October 2003, articulates a number of steps that the two parties will take to promote strategic cooperation in key sectors with outstanding potential. These sectors include: energy and mining; textiles, clothing and footwear; agriculture; mechanical and electronic products; tourism; education; inspection and quarantine; customs cooperation; environmental protection; investment; information and communications technology; biotechnology; public health; food safety; and intellectual property rights. On education, the Framework acknowledges the roles of previous memoranda of understanding on cooperation in education and training (1995, 1999 and 2002) in identifying fields of mutual interest and creating opportunities to develop programs for cooperation on the basis of reciprocity and mutual benefit. In addition, the Framework affirms the importance of education and training in removing obstacles to poverty reduction and economic growth and commits the Parties to meet and discuss education
priorities and the expansion of cooperation in education and training. In regard to higher education specifically, the Framework records an intention to further expand the relationship by concluding an Arrangement on Higher Education Qualifications Recognition. While the contents of the Framework are general in nature and it includes few specific commitments, it is apparent that both sides view a free trade agreement as being mutually beneficial. In education, the increased demand for higher education from a growing Chinese middle class opens the way for a complementary relationship with Australia, as a sophisticated exporter of education services, could meet the supply-demand gap both domestically and commercial presence modes.

2. SOCIAL AND ECONOMIC CONTEXT FOR TRADE IN EDUCATION SERVICES

2.1 Effects of Global Social and Economic Change on Demand for Education

A number of international social and economic indicators point to a growing demand for education, particularly in developing countries:

- The world’s population is projected to grow by 1.5 billion over the next two decades (United Nations, 2002). Taken together with rising per capita income, population growth is likely to result in increased participation at all levels of education.

- The stock of foreign direct investment now totals $1.4 trillion. It has risen by a factor of six since 1985 and comes in at 150% of US GDP.

- The proportion of the world’s population living in high-income OECD countries is likely to fall from 32% in 1950 to 13% in the year 2050.

- Today 90% of people in developing countries have a life expectancy beyond sixty years compared with 60% in 1960. The proportion of the population of developing countries which is malnourished has fallen from 37% to 18% in the last thirty years.

Clearly, the trends point to a substantial acceleration in demand for education worldwide. Most of the demand for tertiary education comes from China, Malaysia, and Indonesia, as well as parts of South Asia, Africa, Latin America, and the Middle East that are experiencing a youth bulge. Demand for education places in these areas is growing in line with increasing wealth. Demand for tertiary education worldwide is forecast to grow from just under 100 million student places in 2000 to around 260 million places in 2025. With expanding economic activity and household wealth, it is estimated that up to 7 million students will seek to obtain an international education experience, especially in an English-speaking environment (IDP, 2002).

In addition, the developed world is experiencing a switch in demand growth from young learners to adult learners, as life-long learning becomes more important to meeting labour market needs, and professional and personal development (Ibid).
2.2 Asian Regional Economic Development
Asian output, although dipping during the Asian crisis in 1997, has outstripped average world output. While much of the rise in the share of Asia is due to China, even when China is excluded, the rest of Asia's share still rose from 7.8% to 12.2% over the two decades. The Chinese and Indian economies continue to grow at rates faster than the rest of the world (IMF, 2003).

Thailand's economy is much the same size as Australia's in real terms, after 20 years of very rapid growth (the fifth highest in the world, excluding very small countries). It is now a middle-income country with 62 million people, a thriving manufacturing sector, and its sights set on becoming one of the developed countries (Ibid).

2.3 Australia's Trade with Asia
More than half of Australia's exports go to Asia, and the proportion has not greatly altered over the past two decades. It rose in the 1980s to peak at 59 per cent in 1996/97, then fell back slightly as the Asian crisis took effect, to a figure of 55 per cent in 2001/02. Within this relatively stable range, there has been a clear fall in the share going to Japan, and a commensurate rise in the share going to non-Japan Asia (NJA). The share going to China, while clearly increasing, is quite low at 6.4% of total Australian exports (DFAT 2003c).

However, Australia's share of total imports by Asian countries is quite small - less than 5 per cent in most cases, and only 2 per cent for China. Asia took 54.9 per cent of Australia's merchandise exports including China's 6.4 per cent share (up from 2.6 per cent a decade ago).

Australian direct investment in Asia has always been relatively small and Australia's share of direct investment going to Asia has fallen over the past decade, particularly over the most recent five years. During this period, the share of Australian direct investment going to the United States has risen sharply.

2.4 Asian Trade in Education Services
China's and India's above-average rates of economic growth suggest that they will provide major opportunities for growth in education services provision by foreign providers. This is already particularly evident in the case of China.

2.4.1 China
China's accession to the WTO in 2001 involved it making significant undertakings on education services which have resulted in rapidly growing numbers of Chinese students in Australia.

The China market consists of a population of over one billion and an economy which is growing significantly. China's share of world output has grown from 3.76% in 1982 to 12.67% in 2002 (Macfarlane, 2003). The Chinese Government regards education as a strategic priority. Government spending on education has increased by more than 300% in the last 10 years with a strong focus on expansion of the higher education

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*That is, owning or having a controlling share in Asian companies.*
sector. China is aiming to rapidly expand its higher education sector, undertake major reform of its VET sector and emphasise distance education and high technology solutions to education issues.

China's economic growth has generated great demand for skilled professionals. This demand, combined with the improvement of living standards, the emergence of the new one-child generation coupled with greater expectations by parents for their only child, has resulted in significant demand for education. In 2001 there were 4 million higher education places available to cater for the 150 million people in the 17 to 24 age group. Conservatively, the excess demand for higher education in 2010 is estimated at 17 million, increasing to 27 million by 2020. China estimates that it will have a shortfall of over one million teachers and 100,000 academics by 2005 (People’s Republic of China, Ministry of Education, 2003).

2.4.2 Malaysia
Education and training are high priorities for the Malaysian Government and Malaysia has been a major importer of education services. Currently just over 20% of the relevant age cohort is undertaking higher education, including Vocational and Educational Training (VET). The Government wants to increase this to 30% by 2005 and over 40% by 2010. Government initiatives to support this ambitious growth include a higher education loan scheme, tax deductions for tertiary education expenses and access to the government superannuation fund for parents of students.

2.5 New Educational Technologies

2.5.1 Borderless Education
New technologies are transforming market boundaries, facilitating greater market access for new competitors, reducing the time to market and increasing demand for quality web communications. A "borderless higher education" industry based on the utilisation of new ICT channels is beginning to emerge and is reflected in the formation of a number of global collaborative ventures including Universitas 21, Cardean, E-Higher Education and the Global University alliance (GUA) (Cooper, 2002).

However, global collaborative ventures in cross-border supply of higher education have not been as successful as had been anticipated. Possible reasons for this may include: over-estimation of the current state of the market for e-learning worldwide; problems in organising quality local support for e-learning programs; under-estimation of technical problems; channel conflicts with existing international arrangements and intellectual property issues (Ibid). Historical research indicates that it takes at least ten years or more for organisations to exploit the capacities of new technologies. The high development costs of next generation information and communication technology delivery platforms necessary for the expansion of distance education and the development of high-capability national and global research networks require substantial capital investment.

An attested example is the time taken for organisations to integrate their tracking, planning and accounting systems to take advantage of the dynamic communications that spreadsheet programs make possible (Schwartz, 2003).
The widespread accessibility of broadband to local, national and global consumers is a crucial factor in the commercial feasibility of on-line delivery. It has become apparent that the slow growth of broadband access was the major contributing factor to the bursting of the "dot-com bubble" in 2000 as the anticipated audiences for new media and e-businesses failed to materialise. It was also the major factor in the widespread losses and failures of companies who laid down fibre-optic cable to carry the on-line content to consumers.

2.5.2 Competition for Cross-Border Delivery
The market in on-line delivery is likely to involve greater competition between public and private providers than traditional forms as entry barriers are relatively low and public institutions do not have a regulatory advantage. The Thompson Corporation, for example, provides on-line education services to higher education, corporate, professional and government markets worldwide. In 2002, Thompson's Learning arm achieved revenues of US$2.3bn, operated in 42 countries and employed 12,300 people. Of its US $7.8 bn total revenue, 53% derived from electronic products and services.

In 2003, Massachusetts Institute of Technology piloted its MIT OpenCourseWare (MIT OCW) program which makes the course materials that are used in the teaching of almost all MIT's undergraduate and graduate subjects available on the Web, free of charge. MIT OCW is not a distance-learning initiative and is not a replacement for degree granting higher education or for-credit courses. Recent developments in web-based publication, such as MIT OCW, suggests that the future competitive ground for on-line delivery will be the quality of the interaction between staff and students and the status of the credential gained more so than the form and quality of content.

A more open global economy exposes the international education and training sector to shocks, such as those caused by geo-political uncertainties, terrorism or outbreaks of disease. Such shocks can bring about market downturns associated with economic instability and travel constraints linked to public health measures. These occurrences focus attention on ways of continuing services through periods of shock, such as using online arrangements and in-country supply alliances, to effectively lower commercial risk.

2.5.3 United States Dominance
Trade liberalisation as envisaged by the USA will increase markedly competition in the provision of content for on-line and cross-border delivery of university courses. The competition is likely to be more intense than in traditional forms of education delivery as the competitive advantage of public institutions is less pronounced.

One of Australia's objectives in the AUSFTA negotiations is to rationalise international telecommunications arrangements in order to promote electronic commerce in goods and services. In the negotiations between Australia and the USA on the "digital agenda", the USA is insisting that products delivered through digital technology be treated as distinct: untaxed, unregulated, yet with strict copyright protection. The ultimate impact, according to some industry critics in Australia, would
be to ensure US ownership of the global means of disseminating information through digital technology.

3. AUSTRALIA'S INTERNATIONAL TRADE IN EDUCATION

3.1 Growth in Australia's International Higher Education

In 2002, approximately 385,000 overseas students from more than 200 countries were enrolled with Australian education providers (289,420 onshore and 95,666 offshore) (Nelson, 2003). Australia ranks as the third largest international student destination in the English-speaking world behind the United States and United Kingdom. The number of onshore international students has grown from 10,000 in 1980 when access was moderately increased and partial fees were introduced. In 1986, the Commonwealth Government took a decision to allow public institutions to enrol overseas students and charge fees. The total number of offshore programs provided by Australian institutions increased from 25 in 1993 to 1,009 in 2001. Most of this growth was in Asia-Pacific countries including Singapore (total in 2001 = 285), Malaysia (192), Hong Kong (160) and China (88).

Australia has approximately 3% market share of European students studying in overseas universities. However, enrolments from Europe in Australian institutions are increasing steadily with Australia recording almost 25% annual growth against the traditional destinations of the USA, UK and Canada. In 2002-2003 numbers were almost 11,000. Factors influencing this trend are exchange rates and increased recruitment activity by Australian institutions (RMIT, 2003).

The following graph illustrates the growth in international student enrolments in Australia in the various education sectors (Ibid):

![International student enrolments in Australia 1994-2001]
Clearly, the greatest growth has occurred in higher education enrolments and as the table below indicates, this growth has been concentrated in consumer abroad and commercial presence modes of delivery. The number and proportion of overseas students in Australian universities according to each mode of supply in 2003 are:

<table>
<thead>
<tr>
<th>Mode of Supply</th>
<th>No. of students</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Consumption Abroad</em> (international students in Australia)</td>
<td>111,330</td>
<td>66</td>
</tr>
<tr>
<td><em>Commercial Presence</em> (offshore face-to-face)</td>
<td>46,825</td>
<td>27</td>
</tr>
<tr>
<td><em>Cross Border</em> (offshore distance education)</td>
<td>12,486</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>174,641</td>
<td>100</td>
</tr>
</tbody>
</table>


In mid-2003 the number of overseas students studying in vocational education and training courses was 32,084 or 17% of the total market. Nearly one-third were studying in government owned institutions most of which are TAFE Institutes. There are also significant numbers undertaking English language courses in TAFE Institutes. The international effort by TAFE institutions has been the subject of some criticism on the grounds that numbers of students are small compared with private VET providers and the Higher Education sector.

The Commonwealth Government has reported that while the exact nature and extent of overseas delivery in sectors other than higher education is not yet recorded, initial estimates indicate that at least 20,000 students studied vocational and foundation courses with Australian providers overseas in 2002. DEST estimates that in 2000, export earnings from onshore students in the VET sector were $713 million.

There has been a boom in education tourism in recent years. In 2002, an estimated 37,000 students undertook short English language courses in Australia while travelling on a tourist visa, working holiday-maker visa or other non-student visa (English Australia, 2002).

In 2002, 12.7% or $1.4bn of all university revenue was derived from fee-paying overseas students with RMIT in Victoria (19.3%) and Central Queensland University (23.4%) leading the way (DEST 2003).

While Australia is recognised by the OECD as the world's leading per capita exporter of full fee-paying international education, it has one of the world's lowest rates of its own citizens studying abroad. Of the thirty OECD countries for which data are provided for the year 2000, Australia had the second lowest percentage: 0.6 per cent, compared to the country mean average of 4.1 per cent. Only the USA with 0.3 per cent was lower.
3.2 Recent Australian Government Initiatives Related to International Trade in Education

Australia is one of the most active proponents of trade liberalisation (along with the US and New Zealand) and is a member of the WTO Education Alliance, a group of 21 WTO members which aims to further the discussion of the impact of GATS on education services.

Australia's negotiating position statement to the WTO argues that there is a causal link between liberalising trade in education services, and promoting the broader social, cultural and academic benefits of international education. Australia argues that the liberalisation of trade in education services is the most effective way of encouraging the internationalisation of education and enhancing flows of students between countries. The long-term benefits accruing from internationalising education include:

- Fostering a knowledge and appreciation of other languages, cultures and societies. The skills and knowledge that are acquired will benefit students both professionally and culturally;
- Facilitating an exchange of people, ideas and experiences. These exchanges add a richness of diversity at the national and international levels, as well as contributing to the international cross-fertilisation of academic knowledge;
- Networking relationships among individuals, groups and institutions, which can facilitate future economic, political and socio-cultural alliances (WTO, 2001).

Australia, the US and New Zealand are encouraging "autonomous liberalisation", that is outside the WTO, by WTO and non-WTO (eg Vietnam) countries. Unlike GATS, RTAs and FTAs, autonomous liberalisation is not binding on governments, enabling them to modify their policy positions in the future as circumstances change.

3.2.1 'Backing Australia's Future'

In recent years, the Australian Government has been very active in increasing competition and deregulating for greater flexibility in the domestic higher education sector. As a component of its reforms, the Federal government has legislated for the following:

- A total of 2,500 OS-HELP loans for Australian students studying overseas for one or two semesters of their degree, increasing to a total of 10,000 loans per year by 2008. Loans will be distributed between eligible institutions for allocation to students.

- Some private institutions will receive Commonwealth supported places, through HECS-HELP and FEE-HELP, for students in national priority areas such as nursing and teacher education. For example, Avondale College and the University of Notre Dame Australia will both receive Commonwealth places in teacher education. The government has indicated that it plans to increase the number of places available to students studying in National Priority areas at eligible private higher education institutions (DEST 2003a).
An intention to develop a framework for quality assurance in overseas education and training services which will involve an internationally recognisable quality badge. The Government will provide seed funding for accredited Australian providers to develop a self-sustaining model which will provide the same level of quality assurance and marketing advantage that the ESOS Act (Education Services for Overseas Students Act 2000) provides for services in Australia.

The Commonwealth Government has committed A$113m to support the growth of international education in the 2003/4 Budget. The funding is aimed at: ensuring the quality of international education in Australia; increasing government-to-government promotion in emerging overseas markets; establishing five new Centres of Excellence in education, science and innovation at Australian universities; scholarships to attract high-performing overseas students; development of a self-regulatory framework for offshore provision; streamlining access to Australia's education and training system through improved visa and migration arrangements.

3.2.2 'Engaging the world Through Education'
In October 2003, the Federal Government released a Ministerial Statement, on the policy framework for Australia's engagement in international education over the next decade and beyond. The policy framework is underpinned by four initiatives:

- Growing and diversifying Australia's engagement;
- Ensuring quality and integrity;
- Raising Australia's profile and Australian governments;
- Ensuring government departments working together.

The statement envisions advancing Australia's international education engagement to a broader stage through a strategy for diversification that has four main elements:

- Widening the mix of overseas students in Australia by recruiting more intensely from Europe and the Americas while continuing growth in Asia;
- Extending the participation of international students in fields other than business and information technology;
- Attracting more students to schooling and to postgraduate coursework and research degree programs;
- Increasing Australia's delivery of education and training services in overseas settings and through online arrangements, including through partnerships.

3.2.3 VET provision
The TAFE Directors Association has identified a number of barriers and remedies to the internationalisation of Australian VET provision: harmonising standards with international standards, improving recognition of Australian qualifications, facilitating development of offshore programs and implementing improvements to visa regimes in Australia. GATS and bilateral agreements have the potential to address these issues and improve the international environment for Australian VET providers.

3.3 Possible Impacts of the International Regulatory Framework on Australia's Education
Australian institutions are generally well-equipped to compete in a more liberalised global education market as a result of reforms to the higher education sector in the last two decades. Reforms have encouraged greater autonomy, entrepreneurialism, flexibility and commercial acumen which institutions in highly regulated environments will find difficult to match.

For Australian institutions liberalisation across all modes of supply points to opportunities and possible threats both domestically and offshore. The opportunities for expansion in offshore markets should outweigh the threat of increased domestic competition. A significant potential benefit of GATS is the lowering of risk for exporting institutions and an enhanced ability for institutions to plan effectively. A transparent, non-discriminatory regulatory regime, with recourse to legal redress in case of dispute, can minimize the financial, legal and sovereign risks associated with trans-national operations.

Although government procurement is outside the GATS, it is still not clear whether research funding of institutions and funding of student places would come under this banner. If they do not, there may be pressure on the government to include them in negotiations. As a result of Australia's commitments in relation to private education provision, future governments will have difficulty placing restrictions on the number of providers, the number of students they may enrol, the legal form of new providers (cooperative organisation, for-profit company, statutory organisation, etc.), or levels of foreign ownership.

3.3.1 Government student loan schemes
The extension of government funding to local private institutions through Fee-HELP raises questions about whether overseas providers may also apply for such funds. The implications of the national treatment commitment may be that the Australian Government is seen to be discriminatory in their treatment of foreign providers compared to local providers.

Also Australia's WTO commitments to cross border access may require the government to extend loans to students who are undertaking distance education at foreign universities thus increasing domestic competition for on-line services.

The extension of the government loans scheme to selected Australian students studying overseas (OS-HELP) is consistent with its commitments to market access and national treatment for consumption abroad. However the commitments may require the government to offer loans to all Australian students studying overseas.

3.3.2 Future Prospects for Australia's Trade in Education
A growing number of national governments are encouraging and providing active assistance for their institutions to expand their international operations across all modes of supply. Future competition for international students will be intense as some current suppliers of students (e.g. Singapore and Malaysia) attempt to become net exporters of higher education and other countries (e.g. Germany and Denmark) seek to increase their offshore activities.

The constraints on the capacity of Australian higher education institutions to enrol increasing numbers of foreign students means that much of any future expansion in enrolments will probably be offshore. It also means that enrolling at near or beyond
the capacity of an institution is likely to impact on the quality of the education experience and therefore on the reputation of the institution.

4.2 Further prospects for Australian Universities

The external environment for Australian universities international activities is changing as it is influenced by the continually growing global demand for education, the commitments that Australia and other countries have made within GATS, Australia's recent entry into trade agreements with Singapore, Thailand and the USA and its intention to negotiate bilateral agreements with other APEC and ASEAN countries and the passing of the legislation linked to the Federal government’s agenda. It is likely that the social, cultural and economic exchange between Australia and Asia-Pacific countries in which most Australian universities have a presence will grow.

There will be greater mutual recognition of professional qualification, making overseas study/work or study/work at a foreign institution within another country more attractive. The liberalization of laws pertaining to alliances, joint ventures and partnerships will make it easier for Australian institutions to establish a commercial presence in other countries. However, internal regulations linked to the national interest of the host country and Australia's own quality regulatory frameworks will make offshore provision of educational services more resource intensive (Calderon and Tangas, 2004).

The impact of trade liberalisation will not impact only on Australian universities’ provision of services to international students. It will also open up new alliance possibilities within the Australian market and new competition for domestic students. Increased student mobility resulting from the implementation of OS-HELP for Australian students provides an opportunity for Australian institutions to leverage their established network of relationships, partnerships and alliances with overseas institutions.

The following trends and possibilities will be relevant to Australian universities in the short to medium term:

- Increased Study Abroad activity, both inbound and outbound.
- Greater regulation of offshore provision through alliances with foreign private providers, with continuing new opportunities for further alliances and partnerships.
- Greater competition internationally and domestically in wholly on-line distance education programs from USA private providers.
- Potential for alliances with offshore institutions for provision of programs in Australia to domestic and onshore international students.
- Little easing of Australia's student visa regime for onshore students, as Australia has made no commitments relating to the presence of natural persons.
- As Australia has made no GATS commitments related to the national treatment on commercial presence, the Australian government can choose whether any government funding, including FEE-HELP, maybe directed to
foreign institutions. But the Nelson legislation will encourage further
domestic private provision in VET and ultimately in higher education.

**Conclusion**

The discussion in this paper has focused on the patterns of growth in the demand for international education, particularly higher education, the forces at play and the responses of various developed and developed countries bilaterally, regionally and multilaterally. It has identified the major issues for international education provision generally and for Australian institutions in particular, in the context of increased activity in negotiations for GATS, RTAs and FTAs.

It is evident that Australia has built a reputation as a successful exporter of education and a promoter of international education generally and become a leader in borderless education, with a significant share of the global education trade. To support further growth in Australia’s share of international education, the Australian government has promoted multilateral, regional and bilateral agreements with various countries with a particular focus on Asia and the Pacific. It has successfully negotiated bilateral agreements or frameworks with New Zealand, Thailand, Singapore, the United States and China and is pursuing negotiations with ASEAN while continuing to be a major protagonist in the negotiation of GATS.

The evidence considered in this paper suggests that Australia will continue to expand education abroad but that it faces tighter competition from developing countries which are establishing their tertiary education systems (eg Malaysia) and among APEC country members (eg India and China), which are building scale. These countries and others, which have been active in trade of goods, are now building capacity to ‘host’ institutions and to become education hubs for trade in educational services. In addition, countries with lower capacity historically (eg Thailand) are beginning to be more active in international education, increasing the threat to Australia’s maintenance and growth of education exports.

It is likely that as more countries negotiate FTAs, larger and more financially rich universities will tend to develop educational hubs – a strategy that aims to transform the local university to a global university. The convergence of new technologies and FTAs are making more feasible the opportunity for a rapid increase in cross border education, with institutions developing new alliances and partnerships with offshore partners (including non-traditional education partners) allowing educational delivery using new modes. Singapore is a good example of a country which is adopting an “educational hub” strategy, employing the various modes of delivery in attempting to move from a net importer to a net exporter of education (Calderon and Tangas, 2004).

While liberalisation in education services trade is generally applauded as a way of increasing the scope and efficiency of provision, there is also the perception that including HE in FTAs or GATS may pose a threat to the viability of public universities as private universities leverage their proven capability in low cost delivery. The jury is still out on this as negotiations and implementation of public procurement and anti-competitive behaviour rules are played out.
It is also apparent that an increasingly important consideration in international education is the issue of security. As a consequence of the security measures taken after September 11, there is the beginning of a shift in the mobility of students. Many students are opting to stay put in their home countries rather than travelling abroad (USA universities are on record as experiencing a decrease in the number of incoming overseas students) and favouring education from a foreign provider with either physical presence or partnered with a local provider. There is also some evidence to suggest that students are opting for study in countries which represent a lesser terrorist risk.

In either case, Australia is very well positioned to take advantage of these patterns in demand.

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