

EXECUTIVE SUMMARY

Across the world, more people than ever before are choosing to undertake an international education. Since 1980, the number of students enrolled outside their home country in courses of higher education has almost doubled. There were around 1.8 million international students in 2002 and recent projections suggest that the world's demand for international higher education could increase to eight million student places by 2025.

This report analyses the emergence of a global education market and the impact of rapid growth in Asia upon global demand. It examines reforms to higher education in Australia's key export markets, Australia's success as an exporter of education services and the benefits for Australia's trade in education from liberalisation within the World Trade Organization (WTO) and Australia's free trade agreements (FTAs).

GROWTH INCREASES DEMAND FOR HIGHER LEVELS OF EDUCATION

The world's best developed higher education systems are not found in the countries with the fastest growing demand for student places. Rising participation in higher education is a worldwide trend, but the pressure on developing and middle-income countries to provide greater access to post-secondary education is more extreme than that faced by high-income countries.

Economic development alters a country's demand profile for education. In high-income economies (the member states of the Organisation for Economic Cooperation and Development or OECD), the highest returns on all expenditure on education, measured by average incomes per capita for each level of education attained, accrue to graduates of higher education. In developing and middle-income countries, the highest economic returns on education are generally earned from expenditure on the primary and secondary levels. However, as countries develop and diversify their economies away from labour intensive activities, most notably agriculture, the need to direct more resources to human capital development becomes apparent in line with rising productivity from greater investment in physical capital.

The substitution of capital for labour as countries develop adds demand for new skills. Broadly speaking, in this way, economic growth increases returns to higher education, which in turn fuels demand for both student places and a wider range of courses suited to the labour force requirements of value-added manufacturing and service industries.

ASIA AND THE GLOBAL EDUCATION MARKET

Rapid economic growth in Asia has been the most important cause of the growth of trade in education over the past quarter century. Enrolments in higher education across Asia are growing as countries direct more public and private resources to the expansion of places in higher education. However,

decades of insufficient public investment in higher education in Asia's developing and middle-income countries mean that enrolment ratios remain low compared with those in the member states of the OECD, and that skill shortages persist. Over the medium term, this means that demand for higher education will continue to outstrip these countries' capacity to provide it.

The pressure for more tertiary level places in Asia, for higher quality education and greater choice of studies has also created the momentum for the large-scale reform and restructuring of higher education now under way in several economies. Governments across the region welcome trade in education and the introduction of private education as a means to raise participation in higher education.

Expanding access to higher education

In the short to medium term, recent increases in public expenditure on higher education in China and South-East Asia are unlikely to be sufficient to meet the burgeoning demand for university places. Malaysia, for example, commits a higher than average share of public expenditure to higher education but this is inadequate in light of Malaysia's young and growing population. It is no accident that Malaysia has been one of Asia's most high profile participants in international trade in education; more students from Malaysia are enrolled offshore as a share of all students in higher education than is the case for any other country in Asia.

Turning to private education

There are varying degrees of private participation in higher education across Asia, from Japan and the Republic of Korea, which have the world's most highly privatised higher education systems, to Malaysia and Singapore, where higher education until recently has been provided almost entirely by the state. Attitudes to private education in China and South-East Asia are changing. Private higher education increasingly is valued by governments in Asia, as it alleviates pressure on publicly funded higher education and delivers subjects not yet taught widely or to a high standard in local universities.

The participation of foreign universities in domestic higher education presents unprecedented opportunities to Australian institutions that are willing to be proactive in the delivery of courses in students' home countries. Singapore's invitation to universities from overseas to deliver courses in Singapore in partnership with its top-tier universities (the 'Global Schoolhouse' initiative), does more than expand access to higher education for Singaporeans. It is also developing Singapore into a regional hub for higher education that attracts large numbers of international students from neighbouring countries, particularly China.

AUSTRALIA'S TRADE IN EDUCATION

Education is Australia's fourth largest export. In 2003–04, education services were worth A\$5.9 billion to the Australian economy, a 13 per cent increase on 2002–03.

Australia's trade in education and education linkages with many countries in Asia have their origin in aid-sponsored scholarship programs, notably the Commonwealth's Colombo Plan. This tradition continues with the Australian Development Scholarships scheme, which is the principal mechanism by which Australia provides scholarship assistance for individuals from developing countries to undertake studies in Australia.

The commercialisation of higher education as an export is a more recent development in Australian higher education. Onshore enrolments of international students in higher education dominate Australia's international trade in education. Between 1994 and 2004, the number of international students undertaking courses in higher education in Australia increased at an average rate of 15 per cent per year. In 1994, 35 290 international students were enrolled in higher education in Australia. In 2004, this figure had grown to 151 798.

Australia's onshore enrolments constitute the largest share of international students to total enrolments in higher education of any OECD country. In 2004, higher education accounted for almost 70 per cent of a total A\$3.4 billion earned in fees from international education by Australian institutions. Growth in onshore enrolments continues to be strong.

Asia will continue to be the most important region for growth in Australia's export of education services. Degrees in business, law and the social sciences comprise the majority of studies undertaken by international students in Australia.

Australian universities and the Australian Government have a role to play in the evolution of higher education in Asia. Australia has experience in course design and delivery, quality assurance and policy development for higher education that is being shared with countries in the Asia Pacific region. This happens by memoranda of understanding between Australia and governments in the region and through skills transfer between Australian universities with an offshore presence and their partner institutions.

Australian institutions active in students' home countries

While Australia has been especially successful among OECD countries in attracting students to study onshore, changing circumstances in Australia's key markets will require greater offshore participation by Australian institutions.

Singapore's aim to establish itself as a regional hub for international education has opened the way for a number of joint-ventures between foreign institutions and the country's own top-tier universities. UNSW Asia, scheduled to commence operations in 2007, will be Singapore's first foreign-owned university, and the first wholly Australian-owned and operated research and teaching campus to be established overseas.

In China, there are numerous Australian institutions working with Chinese partners to deliver courses across a wide spectrum of disciplines and to strengthen Chinese universities' capacity to conduct basic research.

Monash University is the first international university to have established a campus in Malaysia. Of the five private international universities in Malaysia, three are Australian. In Vietnam, too, Australian institutions have been at the vanguard of that country's introduction of private education. RMIT International is Vietnam's first international private university.

Australia's education exports and trade liberalisation

This report highlights the benefits for Australia's trade in education from ongoing services negotiations in the World Trade Organization and from FTAs concluded or proposed between Australia and key trading partners.

In the WTO, the 2001 Doha Ministerial Declaration launched a new round of multilateral trade negotiations. Market access negotiations under the General Agreement on Trade in Services (GATS) are an integral part of the Doha Round. Under the Agreement, WTO Member countries are able to make requests of other members to provide market access to their education sectors and address specific restrictions on trade in education services.

The Australia–US Free Trade Agreement represents a significant outcome for Australia's exporters of education services. Australia is already a net exporter of education services to the United States, and the FTA should provide a robust framework to support the continued growth in our education exports to the United States.

The Singapore–Australia Free Trade Agreement (SAFTA) has also achieved a number of important outcomes for education, going beyond the GATS on market access and national treatment, to the benefit of Australian exporters of education services. The Agreement provides for national treatment and greater market access for Australian education providers seeking to establish their presence in Singapore. Singapore Government overseas scholarships are now tenable at Australian universities under SAFTA and the number of Australian law degrees recognised in Singapore has increased to ten.

Education is an important and growing sector in bilateral services trade between Australia and China. Several Australian universities have strong links with Chinese institutions dating back to the 1980s.

China was Australia's leading source country for international student enrolments in 2004, with a total of 68 857 Chinese nationals enrolled in courses in all Australian education sectors, and there are an estimated 30 000 students studying Australian programs in China.

At present, foreign education service suppliers meeting qualification requirements may provide education services in China if they are invited or employed by Chinese schools and other education institutions. However, Australian education service providers and investors face a range of challenges operating in or conducting business with China. These include licence and market access restrictions and limits on foreign equity and joint-venture partnerships with Chinese investors.

An FTA between Australia and China could enhance existing Australian participation in Chinese education. It could also open the way for additional modes of delivery by removing regulatory or other barriers that restrict the cross-border supply of education. This would facilitate investment and the commercial presence and movement of education professionals; and accelerate the mutual recognition of academic qualifications.

There could be few more compelling examples of the benefits and challenges of globalisation than the emergence of the global education market over the past quarter century. Asia's rapid economic development has been the key driver of global demand for international education. The rise in per capita incomes has afforded the citizens of Asian countries opportunities to access higher education through international education that were, for the most part, unavailable to previous generations. Development, however, has also exposed capacity constraints in higher education across Asia.

Importantly for Australia's onshore enrolments of international students and Australian institutions' delivery of education services offshore, Asian countries continue to embrace international education as populations grow and as national incomes increase. The liberalisation of services trade is enabling Australian institutions to meet this growing demand, both in Australia and overseas.