

# **Riding the tiger of growing trade in higher education services: smart regulation needed instead of laissez-faire hyperopia or prohibition policy myopia.<sup>1</sup>**

Raymond Saner

Trade in education is debated between market liberalizers and protectionists and is played out within countries and their different stakeholders, for example between government ministries (e.g. ministry of trade versus ministry of education) and between government and the private sector (privately owned schools versus publically run schools). A balance needs to be struck between consumer protection and the rights of governments to pursue high quality education without falling into the trap of closing market access to foreign education service providers. In other words, policy makers and educational sector experts need to find the right balance between of laissez-faire hyperopia<sup>2</sup> or prohibition policy myopia<sup>3</sup>.

This paper depicts trends in international trade of educational services, particularly of higher education, and how countries- be they developed or developing- use policies which vary between laissez-faire or market liberalising policies or protectionist policies alluding to the title of this paper- ranging between policies that could be grouped in analogy to visual impairments to policies of farsightedness (focused on the future) versus near-sightedness (focused on the past and present). Both policy orientations if taken as rigid ideological positions expose a country's educational system to risks be that in relation to missed growth and development opportunities (if too protectionist) or to loss of accumulated know-how and equity (if too market oriented).

The focus of this paper is the growing thread of internationalisation of higher education, how countries cope with it and what kind of policy options have been applied by different countries. The analysis will use WTO-GATS related trade statistics and draw on previous published documents of the author namely Lim, Aik Hoe & Saner, Raymond ; 2011; "Rethinking Trade in Education Services: A Wake-Up Call for Trade Negotiators", Lim, Hoe & Saner, Raymond (2011), "Trade in Education Services: Market Opportunities and Risks, Life Long Learning in Europe"; and Saner, Raymond & Fasel, Sylvie; "Negotiating Trade in Educational Services within the WTO/GATS context".

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<sup>1</sup> In Sacha Varin and Jean-Louis Chancerel; (2015) "Néolibéralisme et éducation", Academia-L'Harmattan SA, Louvain-la-Neuve, Belgium, ISBN-978-2-8061-0250-8

<sup>2</sup> **Hyperopia**, commonly known as being farsighted is a defect of vision caused by an imperfection in the eye causing difficulty focusing on near objects. People with hyperopia can blurry near vision. It is also sometimes referred to as farsightedness, since in otherwise normally-sighted persons it makes it more difficult to focus on near objects than on far objects, <http://en.wikipedia.org/wiki/Hyperopia>

<sup>3</sup> **Myopia** commonly known as being nearsighted is a defect of vision caused by an imperfection in the eye causing difficulty focusing on distant objects. People with myopia can blurry far vision. It is also sometimes referred to as nearsightedness, since in otherwise normally-sighted persons it makes it more difficult to focus on distant objects than on close objects, <http://en.wikipedia.org/wiki/Myopia>

## ECONOMIC AND DEVELOPMENTAL IMPORTANCE

Education is widely considered as a key factor in promoting economic growth and involves the use of significant resources. In APEC economies, for instance, total spending on education is at least US\$1,600 billion annually or 6.7 per cent of GDP.<sup>4</sup> Economic studies have shown that the impact of education on growth varies according to an economy's level of development.<sup>5</sup> Higher education has been shown to have an important impact on all economies, with primary and secondary education contributing the most to growth in low income economies.<sup>6</sup>

Economic benefits flow not only to the individual but also to society.<sup>7</sup> For OECD members, the net public return from an investment in tertiary education exceeds US\$50,000 on average for each student.<sup>8</sup> In addition to economic effects, education has been shown to bring widespread societal benefits such as lower crime, better governance, better health and interpersonal trust.<sup>9</sup> Taking into account both public and private expenditure, OECD economies spent on average in 2009, 6.1 per cent of their collective GDP on education.<sup>10</sup> In developing countries, public expenditure on education has consistently been within the range of 4.5 to 5 per cent over the period from 2001 to 2008.<sup>11</sup>

The share of private expenditure in education is sizeable. In all OECD members, for which comparable data is available, private funding on educational institutions represents around 15 per cent of all expenditure.<sup>12</sup> In Australia, Canada and the United Kingdom, as well as in Israel, private funds are reported to constitute around 25 per cent of all *educational expenditure*. The proportion exceeds 30 per cent in Japan, Korea and the United States and Chile.<sup>13</sup> In Australia, Canada, Japan, the United States and Israel private funding for *higher education* reaches above 40 per cent, and above 75 per cent in Korea and Chile. In Australia and New Zealand, the high proportion of private expenditure is reportedly accounted for by the large number of international students enrolled on university programmes.

In more than one-half of developing countries, private spending accounts for more than 10 per cent of total education expenditure, with important variations.<sup>14</sup> For instance, the share rises to one-third, or more, in Chile, Colombia and Indonesia.<sup>15</sup> In general, most private spending goes towards private institutions, although a proportion is also spent on public schools.<sup>16</sup> Private returns from education are high for both developed and developing countries, which is why individuals have an incentive to invest in education. In developing

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<sup>4</sup> Centre for International Economics (2008), p. 8.

<sup>5</sup> See studies quoted by Vincent-Lancrin (2007), pp. 62-63.

<sup>6</sup> Ibid.

<sup>7</sup> OECD (2009).

<sup>8</sup> Ibid.

<sup>9</sup> World Bank (2003); and OECD (2009).

<sup>10</sup> OECD (2009), p. 215.

<sup>11</sup> UNESCO database available at [http://www.uis.unesco.org/ev.php?ID=2867\\_201&ID2=DO\\_TOPIC](http://www.uis.unesco.org/ev.php?ID=2867_201&ID2=DO_TOPIC).

<sup>12</sup> Data includes economies with OECD partner status. OECD (2009), p. 226.

<sup>13</sup> OECD (2009), p. 227.

<sup>14</sup> UNESCO Global Education Digest database available at [http://www.uis.unesco.org/ev.php?ID=7628\\_201&ID2=DO\\_TOPIC](http://www.uis.unesco.org/ev.php?ID=7628_201&ID2=DO_TOPIC)

<sup>15</sup> Ibid.

<sup>16</sup> UNESCO (2007), p. 44.

countries, the wage differential between a secondary school leaver and a university graduate has been estimated at about 200 per cent.<sup>17</sup> Education is also generally a good insurance against unemployment, particularly in the context of economic downturns.<sup>18</sup> The growing size of private expenditure has important implications for the structure of the education market and its increasingly international nature.

## **STRUCTURAL CHANGES IN THE EDUCATION MARKET**

In recent decades, significant change has taken place in the structure, governance and financing of public sector institutions, especially with respect to higher education.<sup>19</sup> At the same time, demand for education has grown. In that context, private education has taken a more prominent role, with growing numbers of for-profit institutions, as well as private philanthropic institutions, in the education sector.<sup>20</sup> That being said, in most economies, education at the primary and secondary levels is still predominantly publicly provided. In the OECD area, for instance, on average 91 per cent of primary and 85 per cent of secondary school students are enrolled with public institutions. Similarly high percentages can also be observed in developing countries. Given its importance for human and social development, governments throughout the world tend to consider instruction up to a certain level – commonly primary and secondary education – as a basic entitlement. It is thus normally provided free of charge, or with a nominal fee, by public authorities and, in most economies, participation is mandatory.

The situation changes, however, with respect to higher education. Although students enrolled at publicly funded institutions still outnumber those in private institutions, over the last decade, private providers have made significant inroads at both the national and international level. Today, private institutions globally account for some 30 per cent of all students in higher education.<sup>21</sup> In some regions of the world, private higher education institutions are part of a fast growing international education market. The private sector represents slightly more than 10 per cent of total tertiary enrolments in Spain and France, about 30 per cent in Poland, the US and Mexico.<sup>22</sup> In Asian economies, such as Japan, Korea, Indonesia and the Philippines, over 75 per cent of enrolments are with private education providers, while in Mexico, Brazil, South Africa and Chile it is about 50 per cent.<sup>23</sup> One of the most remarkable developments in the African continent's higher education system is the mushrooming of private colleges. However, the demand for access is still far from being fulfilled, with a total enrolment of rate of about 5 per cent of eligible school leavers in higher education.<sup>24</sup>

A related trend has been the increasing involvement of public universities in revenue generating activities.<sup>25</sup> While higher education in the OECD area continues to be heavily subsidised for domestic students, universities are increasingly expected to generate new sources of revenue. The generation of funds from private sources has given rise to a new generation of government-dependent private institutions, as distinct from the traditional

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<sup>17</sup> OECD (2009), p. 63

<sup>18</sup> *Ibid.*, p. 120.

<sup>19</sup> The Task Force on Higher Education and Society (2000), p. 30.

<sup>20</sup> Private philanthropic institutions are not-for-profit institutions that rely on a combination of gifts and fees.

<sup>21</sup> Altbach, et.al (2009), pp. xi-xiii.

<sup>22</sup> Vincent-Lancrin, (2009b), p. 261.

<sup>23</sup> Altbach, et.al (2009).

<sup>24</sup> *Ibid.*

<sup>25</sup> Besides tuition fees, universities also generate income from research funds, as well as consulting and research fees.

model of a fully government-dependent institution.<sup>26</sup> One consequence of this trend has been greater competition for more fee-paying students, especially international students. In this respect, Australia, New Zealand, United States and the United Kingdom are amongst the market leaders with public universities authorised to provide education services at non-subsidised rates to foreign students.<sup>27</sup> Asian countries, such as Malaysia and Singapore have also started to enter the private education market, and serve as important regional hubs.

## **EDUCATION SERVICES : TRADE LINKAGES AND KEY TRENDS**

An important feature of education services trade has been the increasing international mobility not only of students, but also of programmes and institutions. Abetting that mobility has been the innovative use of information and communication technologies providing alternate ways to deliver education services. New institutional arrangements involving a greater and more diverse number of partners, ranging from educational institutions to corporations, have also created new commercial opportunities such as the franchising and twinning of academic programmes.

Education services are commonly defined by reference to five subsectors, namely:

1. *Primary*: pre-school and other primary education services;
2. *Secondary*: general secondary, higher secondary, technical and vocational secondary, and technical and vocational secondary education services for handicapped students;
3. *Higher*: post-secondary technical and vocational and other higher education services;
4. *Adult*: education services for adults who are not in the regular school and university system and includes education services through radio or television broadcasting or by correspondence;
5. *Other*<sup>9</sup>: education services at the first and second levels in specific subject matters not elsewhere classified and all other education services that are not definable by level (LARSEN et al. 2002, p. 10).

Under the WTO General Agreement on Trade in Services (GATS)<sup>28</sup>, services trade is defined as being conducted under four modes of supply.<sup>29</sup> These four modes capture all possible means by which services can be supplied internationally.

Mode 2 (consumption abroad) has traditionally been the most common way by which trade in education services occurs. This mode covers the situation where a student moves abroad and consumes education services whilst in another territory. In recent years, mode 2 has been supplemented by mode 1 (cross-border supply of education). Under mode 1, services are

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<sup>26</sup> For statistical purposes (see OECD, 2009) a public education institution is defined as one controlled and managed directly by a public education authority or agency, or is controlled and managed either by a government agency directly or by a governing body, most of whose members are appointed by public authority or elected by public franchise. The source of funding is another distinguishing factor. The OECD defines a government-dependent private institution as one where more than 50 per cent of funding comes from government sources. While a fully independent private institution receives less than 50 per cent.

<sup>27</sup> OECD (2004), p. 26. Other examples in the OECD area include universities in Austria, Belgium, Canada, Ireland, Netherlands and the Slovak Republic.

<sup>28</sup> Saner, Raymond; Hauser, Christoph, "Comment fonctionnent les AGCS", *Vie Economique- Revue de Politique Economique*, Berne, Nr. 6, 2004.

<sup>29</sup> The four modes of supply are mode 1 (cross-border supply), mode 2 (consumption abroad), mode 3 (commercial presence) and mode 4 (movement of natural persons).

supplied into a territory without the presence of the supplier. In education services, international distance education would fall under mode 1. The possibilities for such transactions have clearly expanded with the advent of the internet, as well through the use of franchise/twinning arrangements between a foreign provider and local institution.<sup>30</sup> Mode 3 (commercial presence) describes the situation where the service supplier establishes commercial presence in the territory in which it supplies services. The establishment of foreign campuses, for instance, would fall under mode 3. Mode 4 (movement of natural persons)<sup>31</sup> reflects the situation where a natural person supplies services in a foreign territory. Situations falling under mode 4 would include the movement of teaching staff either as the direct supplier of the service or as employees of a foreign institution established in that territory.

**TABLE 1: CORRESPONDENCE BETWEEN MODES OF SUPPLY AND FORMS OF EDUCATION SERVICES TRADED INTERNATIONALLY**

<b>Mode</b>	<b>Education examples/forms</b>
<b>1. Cross-border supply (mode 1)</b>	Distance education Online education Commercial franchising/twinning of a course
<b>2. Consumption abroad (mode 2)</b>	Students going abroad
<b>3. Commercial presence (mode 3)</b>	Establishment of an educational institution or satellite campuses Branch campus, including joint venture with local institutions
<b>4. Presence of natural persons (mode 4)</b>	Professors, lecturers, teachers, researchers providing education services abroad

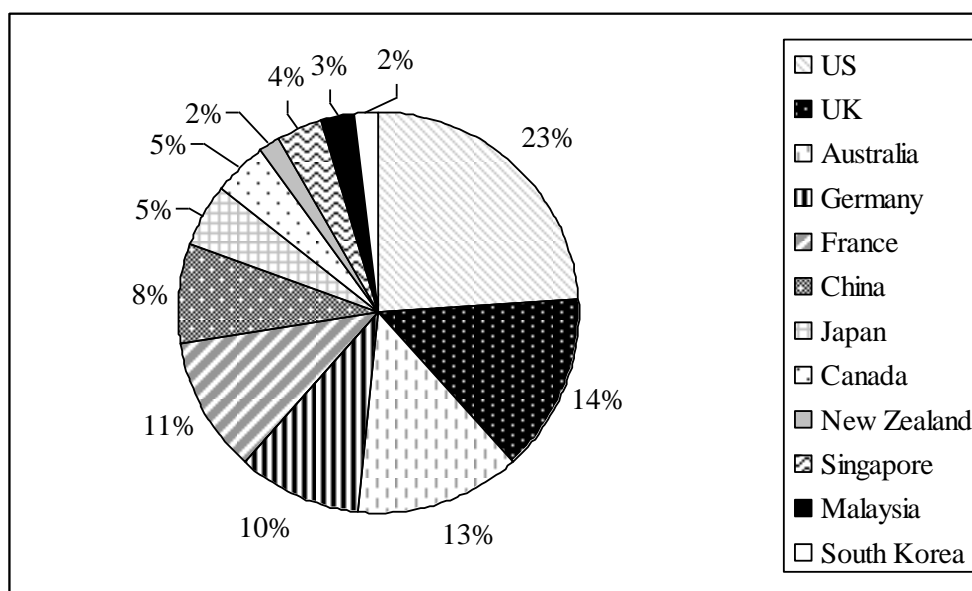
<sup>30</sup> In a franchise/twinning arrangement, the student is enrolled by the foreign institution but completes a substantial part of the study programme at a local institution. In most arrangements, in order to complete the programme the student has to travel abroad and undertake the final year of study at the foreign institution. The local institution, provides the physical facilities and teaches the programme of the foreign institution, but does not confer any degrees or academic qualifications. The foreign institution may ensure quality through on-site supervision and/or the direct involvement of its faculty staff. Through such franchise/twinning arrangements a local institution can dramatically increase the choice of courses available to students in their country of origin. The student has the advantage of obtaining a foreign qualification at significantly reduced cost.

<sup>31</sup> Term used in WTO/GATS relating to a member country's commitment to allow foreign educators teach in their countries. The movement of natural persons is one of the four ways through which services can be supplied internationally. Otherwise known as "Mode 4", it covers natural persons who are either service suppliers (such as independent professionals) or who work for a service supplier and who are present in another WTO member to supply a service. See: [http://www.wto.org/english/tratop\\_e/serv\\_e/mouvement\\_persons\\_e/mouvement\\_persons\\_e.htm](http://www.wto.org/english/tratop_e/serv_e/mouvement_persons_e/mouvement_persons_e.htm)

Table 2 categorises the various ways by which education service transactions fall under the four modes of supply. It should be noted that some of the newer arrangements often involve a combination of two or more modes of supply and are difficult to categorise. For instance, twinning and franchise arrangements have similarities to a branch campus in terms of the face-to-face education provided, but no commercial presence (mode 3) is established by the foreign provider. All physical facilities are owned, and staff recruited, by the local institution while teaching formats, materials, quality control, supervision and evaluation are provided by the foreign institution

While statistics on international trade in education services are limited, various indicators suggest that the main trend over the past several decades has been the rapid expansion of the sector, especially at the tertiary level. This is demonstrated by the increasing international mobility of students, academics and researchers, institutions and programmes. Between 1999 and 2007, the number of international students doubled from 1.75 million to nearly 3 million.<sup>32</sup> Globally, East Asia and the Pacific accounted for over 33 per cent of all students abroad in 2007. In terms of host countries, the bulk of international students has traditionally been concentrated in only a few locations. Collectively, the United States, United Kingdom and Australia attract about 50 per cent of all students abroad (see Figure 1). Other destinations have also experienced significant growth with students increasingly choosing to study in destinations within the region.<sup>33</sup> Although starting from a low base, numbers of foreign students hosted by China grew by 400 per cent between 1999 and 2008.<sup>34</sup> Australia, already one of the top destinations, continued to grow by more than 200 per cent over the same period.<sup>35</sup>

**Figure 1: Distribution of students abroad according to national destination, 2007**



<sup>32</sup> Vincent-Lancrin (2009), p .65.

<sup>33</sup> de Wit (2008), p. 40.

<sup>34</sup> Ibid.

<sup>35</sup> Ibid.

*Source:* Based on figures provided by the Observatory on Borderless Higher Education, June 2009.

Overall, the pattern of student mobility reflects two main trends. One consists of a heavy concentration of students from Asia and the Pacific studying in North America and Western Europe, as well as within the region. The other trend reflects intra-European Union student mobility where the Bologna Process of creating a European Higher Education Area has facilitated regional mobility.<sup>36</sup> Much of this intra-European mobility constitutes a special situation as it is driven by policies and EU sponsored programmes that are aimed at regional and economic integration.<sup>37</sup> However, even excluding intra-EU flows, the number of international students is estimated to have grown by over 80 per cent from 1999 to 2007 .

Based on balance of payments data, the top 10 exporters in 2007 as estimated by the WTO included the United States, Australia, United Kingdom and Canada.<sup>38</sup> The average rate of growth in total exports from 2002 to 2007 was 12 per cent. Top 10 importers included Korea, United States Germany and India. While just outside the top 10, developing countries<sup>39</sup>, such as Malaysia, have emerged as significant exporters. Developing countries are also increasingly major importers of education services, with India, Malaysia and Nigeria featuring among the top 10 importers for 2007.<sup>40</sup> There are, however, significant gaps in the data reported. For instance, although not listed as among the top 10 importers of education services in data collected by the WTO, China (including Hong Kong, China) has by far the most student nationals in higher education abroad, representing 17 per cent of the foreign students in the OECD area in 2007.<sup>41</sup>

One of the most important innovations in higher education has been the growth of offshore programmes either in a pure distance learning format or by way of a franchise/twinning arrangement with a local partner. It is difficult to estimate the number of such programmes as data is often not systematically collected. The few studies available suggest that there are as many as 2,000 such programmes operating internationally with about 500,000 students enrolled, mostly in Asia.<sup>42</sup> The main providers are institutions from the United Kingdom, Australia and the United States. Other significant providers include Japan, Singapore, Canada, France and Germany. Offshore programmes also account for a growing share of the tertiary education sector in Asian economies, as well as in the Middle East.

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<sup>36</sup> See <http://www.coe.int/T/DG4/HigherEducation/EHEA2010/BolognaPedestriansEN.asp>

<sup>37</sup> According to Bashir (2007), p. 12, the European Commission, through the ERASMUS programme, has promoted and financed almost all student flows within the European Union (EU) and into the EU from the candidate countries of Central and Eastern Europe.

<sup>38</sup> These figures are based on information available to the WTO Secretariat and provided to the authors.

<sup>39</sup> Many developing countries are members of the G77. The Group of 77 (G-77) was established on 15 June 1964 by seventy-seven developing countries signatories of the "Joint Declaration of the Seventy-Seven Developing Countries" issued at the end of the first session of the United Nations Conference on Trade and Development UNCTAD in Geneva. Although the members of the G-77 have increased to 133 countries, the original name was retained due to its historic significance.

<http://www.g77.org/doc/>

<sup>40</sup> No figure was reported for China.

<sup>41</sup> Vincent-Lancrin (2009), p. 69.

<sup>42</sup> The estimate on the number of programmes and student is based on a survey by Bashir (2007), in Annex 3.

## PROGRAMME MOBILITY (INCLUDING DISTANCE LEARNING) THROUGH CROSS-BORDER SUPPLY (MODE 1)

One of the most important innovations in higher education has been the mobility of education programmes across borders either in a pure distance learning format or by way of a franchise/twinning arrangement with a local partner. It is difficult to estimate the number of such offshore programmes or the number of students enrolled on them, since data is often not systematically collected. The few studies available suggest that there are as many as 2,000 such programmes operating internationally with about 500,000 students enrolled, mostly in Asia.<sup>43</sup> The main providers are institutions from the United Kingdom, Australia and the United States.

Offshore enrolments in Australian universities grew from around 20,000 in 1996 to over 66,000 in 2008, representing nearly one-third of international enrolments in Australian universities.<sup>44</sup> In 2003, a survey of Australian institutions found that nearly 1,600 programmes were offered abroad: 57 per cent through offshore programmes; 17 per cent through on-line learning; and 16 per cent through a mix of on-line learning and partnerships with local institutions.<sup>45</sup> More than 85 per cent of programmes by Australian institutions are reported to be located in China (including Hong Kong, China), Singapore and Malaysia.<sup>46</sup> The total number of offshore programmes operated by universities from the United Kingdom is not available, though it has been reported that they are found in at least 70 locations with a heavy concentration in South East Asia and Eastern Europe.<sup>47</sup> Various estimates suggest that up to 300,000 students are enrolled on British offshore programmes.<sup>48</sup> It has also been estimated that there are over 200 programmes offered by US institutions worldwide.<sup>49</sup> New Zealand is reported to operate 63 offshore programmes, with an enrolment of some 2,200 students.<sup>50</sup>

Students on offshore programmes are mostly from middle-income Asian economies. In 2007, China re-approved 705 programmes and 126 institutions operated in partnership with a foreign institution.<sup>51</sup> After 20 years of continued growth, one-third of Singapore's higher education students are now enrolled in offshore education programmes.<sup>52</sup> Offshore programmes also account for a growing share of the tertiary education sector in other Asian economies, as well as in the Middle East. Main providers of such programmes are the United States, United Kingdom and Australia. Other significant providers include Japan, Singapore, Canada, France and Germany.

It is difficult to estimate the numbers of students engaged in distance learning, though the expectation is that significant expansion has taken place with the setting-up of large scale "open" and "virtual" universities. The CISAER (Course on the Internet: Survey, Analysis, Evaluation and Recommendation) project estimated that in 2000 there were over one million

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<sup>43</sup> The estimate on the number of programmes and student is based on a survey by Bashir (2007), in Annex 3.

<sup>44</sup> Australian universities publish the most detailed information on offshore programmes. See analysis in McBurnie and Ziguras (2009).

<sup>45</sup> Hatakenaka (2004), p. 12

<sup>46</sup> Quoted by Vincent-Lancrin (2009), p. 71, based on data from IDP Education Australia.

<sup>47</sup> Bashir (2007), p. 33.

<sup>48</sup> Ibid.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

<sup>51</sup> Dong (2008), p. 72.

<sup>52</sup> McBurnie and Ziguras (2009), p. 90.



courses using the Internet worldwide.<sup>53</sup> Examples include the African Virtual University which works across borders and language groups in over 27 countries. The United Kingdom's Open University Worldwide was reported in 2002 to have 30,000 students enrolled outside the UK and a further 10,000 through partnerships with other institutions.<sup>54</sup>

Although data has been compiled from a variety of sources and comparison is not easy, indications are that the number of students on on-line learning and other types of offshore programmes has been growing steadily. New information and communication technologies have created new possibilities for distance learning with the emergence of virtual education platforms. It should be noted, though, that in a survey of 19 tertiary education institutions in 13 countries it was found that fully on-line programmes were still fewer than 5 per cent of total enrolments.<sup>55</sup> Moreover, programmes are often combined with traditional face-to-face teaching involving partnerships with local institutions.

### INSTITUTION MOBILITY THROUGH COMMERCIAL PRESENCE (MODE 3)

The establishment of international branch campuses is not a new phenomenon, however, in recent decades the scale has expanded and there is now greater focus on revenue generation. Since 2006, the number of international branch campuses in the world has increased by 43 per cent, according to a report published in 2009 by the Observatory on Borderless Higher Education (OBHE).<sup>56</sup> In the report, the OBHE identified 162 international branch campuses in the world, most of which were found in Asia-Pacific and the Middle East.<sup>57</sup> The rate of growth has been high, since of all existing campuses, only 35 campuses (22 per cent) were in operation before 1999.<sup>58</sup>

Institutions from the United States continue to account for the largest share of all existing international branch campuses with 78 campuses (48 per cent) (see Table 5). The US is followed by Australia (which has 14 campuses, 9 per cent), the UK (13 campuses, 8 per cent), France and India (each with 11 campuses, 7 per cent). Branch campuses are being established not just by institutions from developed economies, but also by developing country institutions. A number of Asian higher education institutions, notably those from India, China, Malaysia and Singapore have established joint ventures in other Asian economies as well as in Africa.<sup>59</sup> In 2006, only five such cases were recorded as compared to the 26 such campuses in 2009.

**Table 2: Top 10 source economies of international branch campuses, 2009**

Source	Number
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<sup>53</sup> Keegan (2005), p. 23.

<sup>54</sup> OBHE (2002).

<sup>55</sup> OECD (2005), p. 2.

<sup>56</sup> Becker (2009), p. 1. The OBHE is one of the few organizations which systematically collects data on international branch campuses. While, there is no universally agreed definition of an international branch campus, the OBHE report refers to the off-shore entity of a higher education institution operated by the institution or through a joint venture. Upon successful completion of the course programme, which is fully undertaken at the unit abroad, students are awarded a degree from the foreign institution. Some of the international branch campuses listed in the OBHE survey are small centres, rather than extensive campuses.

<sup>57</sup> Becker (2009), p. 6

<sup>58</sup> Ibid.

<sup>59</sup> Bashir (2007), p. 32.

United States	78
Australia	14
United Kingdom	13
France	11
India	11
Mexico	7
Netherlands	5
Malaysia	4
Canada	3
Ireland	3

*Source:* Based on a survey by the Observatory on Borderless Higher Education (2009)

1. In terms of destinations, according to the OBHE survey, the United Arab Emirates (UAE) is the clear leader among host economies with 40 international branch campuses, corresponding to 25 per cent of all international branch campuses in the world (see Table 6).

**Table 3: Host economies for international branch campuses, 2009**

Host economy	Number
United Arab Emirates	40
China	15
Singapore	12
Qatar	9
Canada	6
Malaysia	5
United Kingdom	5
Ecuador	4
Germany	4
Mexico	4
Australia	3
Bahrain	3
Puerto Rico	3
Switzerland	3

*Source:* Based on a survey by the Observatory on Borderless Higher Education (2009)

China is in second position among the host economies, with 15 campuses (9 per cent of all existing campuses). Singapore is in third place with 12 campuses (7 per cent), and Qatar in fourth with 9 ventures (6 per cent). Some examples include the opening of campuses in China and Malaysia by the University of Nottingham (United Kingdom); in Malaysia and South Africa by Monash University (Australia); and Vietnam by the Royal Melbourne Institute of Technology (Australia).<sup>60</sup> While not recorded in the OBHE survey, an increasing number of branch campuses are also being established in parts of Latin America, as well as in Eastern Europe.<sup>61</sup> International providers are also present in Africa though the number of such institutions is not well recorded.

Another important trend has been the acquisition of private education institutions by large corporate groups. In these acquisitions, universities and colleges are brought together under common ownership but each institution maintains its own nationally-accredited programmes.<sup>62</sup> The US Group of Laureate International University is reported in 2009 to be operating 40 campuses located across South and North America (Brazil, Chile, Costa Rica, Ecuador, Honduras, Mexico, Panama, Peru and the United States), Asia-Pacific (Australia, China, Malaysia) and Europe (Germany, Cyprus, Spain, France, Switzerland and Turkey).<sup>63</sup> The Apollo Group, which owns the University of Phoenix has campuses in India, Mexico and a number of locations in South America, as well as in Eastern and Western Europe.<sup>64</sup> The Manipal Education Group from India, which already had presence in Nepal, Malaysia, and Dubai, acquired the entire stake of the American University of Antigua and entered the Caribbean medical education market in 2008. It has announced plans to acquire operations in Oman, Indonesia, and Vietnam.<sup>65</sup> The Manipal Group's international operations contribute to more than 50 per cent of its revenue.<sup>66</sup>

While the establishment of branch campuses has been growing in terms of numbers and location, they have not expanded as quickly as franchise and twinning arrangements in which the education programme is offered through a local partner without requiring a "bricks and mortar" investment by the foreign institution. In general, host economies that have provided support, funding or infrastructure, have experienced the largest growth in branch campus developments and account for the highest number of (new) establishments. The setting up of a branch campus requires heavy initial investment in land, infrastructure and equipment, as well as the recruitment of staff. In addition, branch campuses require a clear policy and regulatory framework providing sufficient stability to encourage the provider to invest capital for long term operations. Since branch campuses are established on a for-profit basis, there is

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<sup>60</sup> Vincent-Lancrin (2009), p. 72

<sup>61</sup> Marginson and Wende, van der (2007), p. 41.

<sup>62</sup> Based on unpublished research by Christopher Ziguras of the Royal Melbourne Institute of Technology.

<sup>63</sup> Vincent-Lancrin (2009), p. 72. The Laureate International group is a company listed on the NASDAQ stock exchange. In 2004, universities owned by the group enrolled 155,000 students and generated 80 per cent of their revenue outside of the US.

<sup>64</sup> Marginson and Wende, van der (2007), p. 41. The Apollo Group owns the largest private university in the United States, the University of Phoenix, as well as the Western International University. Based on unpublished market research by Christopher Ziguras of the Royal Melbourne Institute of Technology other examples include: Kaplan Higher Education, a subsidiary of The Washington Post Company owns: Kaplan University and the Concord Law School in the US; the Dublin Business School, Ireland; and the FTC Business School in the UK; Tribeca Learning in Australia; and the Singapore-based Asia Pacific Management Institute with operations in China (including Hong Kong), Singapore and Chinese Taipei.

<sup>65</sup> Information on the Manipal Group is available at <http://www.manipalgroup.com>.

<sup>66</sup> Agarwal (2010).

also the risk of commercial failure. In 2009, the OBHE reported 11 international branch campus closures, with five within the past three years. That being said, research and longer term benefits rather than immediate revenue generation could play a role in establishing foreign campuses.

In terms of foreign direct investment (FDI), developed economies still account for the majority of inward and outward flows in the education sector. In 2007, developed economies inward FDI stock in education was US\$7.8 billion, while the outward stock was US\$1.5 billion.<sup>67</sup> For developing economies, the inward stock was US\$874 million, while the outward stock was US\$29 million. Thus, while international branch campuses have been expanding in developing country locations, FDI would suggest that mode 3 flows are largely between developed economies. There is clearly a strong economic motivation for establishing abroad. For instance, sales by US-owned education suppliers in foreign locations grew by 36 per cent from 2004 and 2006 and is close to US\$2 billion.<sup>68</sup> Suppliers from the United Kingdom recorded an increase of over 200 per cent (US\$1.4 billion) in inward sales turnover over the same period.

## KEY ISSUES IN TRADE OF EDUCATIONAL SERVICES

Often depicted as « invisible », services are not avoiding particular disturbances in terms of international flows. As it is the case for other GATS categories, they are particularly concerned by the public/private dichotomy and are therefore developing original solutions to manage the whole market and the interferences the coexistence of public and private can cause.

### OBSTACLES TO TRADE IN ES

Various hindrances to trade in ES have been described in the negotiation proposals in education submitted by Australia, the United States, New Zealand and Japan. The most often cited ones have been used as input for the typology listed in table 4.

Barriers to trade	Examples and modes of supply concerned
1 Prohibition for foreign providers	- No possibility for foreign supplier to offer its services (all modes of supply)
2 Administrative burden and lack of transparency	- Domestic laws and regulations unclear and administered in unfair manner (all modes of supply) - When governmental approval required for foreign suppliers, extremely long delays encountered; when approval denied, no explication given, no information about necessary improvements to obtain it in the future (all modes of supply) - Denial of permission for private sector suppliers to enter into and exit from joint ventures with local or non-local partners on a voluntary basis (modes of supply 1 & 3)
3 Fiscal discrimination	- Subsidies for education are not made known in a clear and transparent manner (all modes of supply) - Repatriation of earning is subject to excessively costly fees and/or taxes for currency conversion (all modes of supply) - Excessive fees/taxes imposed on licensing or royalty payments (modes of supply 1 & 3)
4 Accreditation/recognition/discrimination	- No recognition of titles delivered by foreign providers (all modes of supply) - No recognition of foreign diplomas (mode 2 of supply) - No accreditation delivered nationally for foreign providers (modes of supply 1 & 3)

<sup>67</sup> UNCTAD (2009), p. 218-219

<sup>68</sup> Data reported to the WTO Secretariat. Foreign affiliate trade statistics (FATS) describe economic activities of foreign owned firms in the local economy and provides an indicator mode of 3. Outward turnover represents total sales by firms of the reporting country in most economies.

Table 4: Typology of Existing Barriers to Trade in ES, as identified by USA, New Zealand, Australia and Japan

Sources: The authors, using data based on communications submitted to WTO regarding trade in ES by USA (S/CSS/W/23, 18 December 2000), New Zealand (S/CSS/W/93, 26 June 2001), Australia (S/CSS/W/110, 1 October 2001) and Japan (S/CSS/W/137, 15 March 2002). Of these four communications, only Japan raises the issue of quality control of trade in ES.

The main type of barriers could apply to all type of services – except maybe for “accreditation/recognition discrimination” – the way they apply to ES are particular to this GATS sector. Analysis by type and accordingly to mode of supply will give a closer understanding of the possible talks that will be held in the Doha Round.

Even if case 1 (“General prohibition for foreign providers”) is an extreme case, truly impossible under GATS as an official country's commitment<sup>69</sup>, it could nevertheless be possible for one or more of the 102 WTO members who have no commitments in ES. For the three other cases of barriers to trade in ES, the reality shows a mix of the three rather than a clear border between their use. As every one of them can be a measure taken by a different national department or quality agency, overlapping is not unusual, as it is for other sectors governed by the WTO agreements.

Many WTO countries are essentially focused on trade under Mode 2 of supply namely *Consumption abroad*. On the side of the providers - who are by definition abroad -, barriers could only exist in the case of a non-recognition in the importing country of the titles they deliver. This would constitute an example of prohibition<sup>70</sup>. On the other side, for the consumers of the exported service - *education abroad* - the problems are of a more basic nature like difficulties in obtaining visas, funding possibilities, student-related work permits and so on are measures of the exporting countries impeding importers to consume. As these kinds of barriers are linked to national questions of security, immigration and labour market issues, that are currently outside of GATS as sovereign concerns, they are barriers that are much more difficult to lower. Mode 4 - *movement of natural persons* - is less subject to hindrance if the skills and competencies offered by the “self-exporting” experts are scarce in the importing country. However, domestic concerns with immigration and labour market regulation still constitute a formidable hindrance to liberalisation of Mode 4. However, this kind of ES exports will probably expand especially if linked to the provision of English language teaching services, the lingua franca of globalisation. India has expressed strong interest in liberalisation of Mode 4 while other developing countries have so far been less willing to liberalise through Mode 4 processes.

#### COMPETITION BETWEEN PUBLIC AND PRIVATE PROVIDERS OF ES

If trade in ES has become a GATS sector, it is because of the presence of private suppliers. Nevertheless, it causes great tensions with the public providers, which is especially the case in non-English speaking Europe. Even if GATS, in its general preamble – art. I.3 -,

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<sup>69</sup> The commitment “unbound”, used after either MA or NT under every mode, doesn't mean that trade in ES is prohibited, but that there has been no commitment by the respective country. “None”, used after either MA or NT under every mode, indicates that there is no restriction placed on foreign providers.

<sup>70</sup> Article VII of the GATS addresses the issues of recognition and accreditation (World Trade Organization, (1994), “General Agreement on Trade in Services”, Annex 1B, pp. 291.

recognizes the right for governments to regulate the public sector outside of its framework, it is not a sufficient provision to tranquillize the States, themselves acting as negotiators in the Doha Round.

Education has traditionally been attributed to the state based on the view that it is a public good which should not be supplied on a commercial basis in order to guarantee equal access to education for all citizens of a country no matter their background or financial means. Along with this view goes the expectation that the quality of the education provided should be comparable for all students independent of their origin and endowment. Actors rejecting trade in ES in general fear that agreeing to liberalisation of the educational sector would open the backdoor to a dismantling of education as a public service via privatisations, deregulations and finally ending in a loss of sovereign regulatory rights should the educational sector become dominated by foreign and or private suppliers as might be the case if underfunded developing countries open their educational markets to foreign suppliers<sup>71</sup>.

Hill (2006) summarizes succinctly the reservations held against liberalisation of the educational market and proposes options for alternative strategies of educational services namely:

*“... the aim of education policy should be to secure a “race to the top”, rather than a “race to the bottom” with ever poorer conditions for workers, students and general populations. This means it is important to develop schools and education systems with the following characteristics. First, workers’ pay, rights and securities must be levelled up rather than down. Second, access to good education must be widened, by increasing its availability and by broadening access for under-represented and under-achieving groups, to reduce inequalities between groups. Third, local and national democratic control over schooling and education must be enhanced. And fourth, policymakers should recognize and seek to improve education systems that are dedicated to education for wider individual and social purposes than the production of quiescent workers and consumers in a liberalized world. There is more to education than that”.*

In contrast the critical observations stated in previous section, the parties in favour of trade in services highlight the fact that services supplied in the exercise of governmental authority are specifically excluded from the scope of the GATS. GATS article I.3 (b) stipulates that "services" includes “any service in any sector except services supplied in the exercise of governmental authority which is further refined in GATS I.3 (c) which states that “a service supplied in the exercise of governmental authority means any service, which is supplied neither on a commercial basis, nor in competition with one or more service suppliers”<sup>72</sup>.

According to GATS rules, countries do have considerable freedom to choose between liberalising or protecting/ restricting the educational sectors and its four subsections. Choosing when and how far to open their respective educational sector and at what time in their social and economic development path represents a crucial aspect of government competence requiring a know-how in regulation and policy implementation which many

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<sup>71</sup> See “The WTO and the millennium Round: What is at stake for public education?- Common concerns for workers in education and the public sector”, (1999), pp. 25-27, Public Services International, Ferney, France, [www.world-psi.org](http://www.world-psi.org).

<sup>72</sup> World Trade Organization, "General Agreement on Trade in Services", (1994), Annex 1B, p. 286.

countries do not have, especially not in the developing world<sup>73</sup>, the public finance perspective worsening this aspect. It is particularly obvious when reading commitments already taken in ES: high income countries are more likely to restrict their positions in privately funded education especially in primary, secondary and higher education, when compared to low-income countries.

Anyway, even if most advanced countries seem to have a larger scope of action in opening or not the sector, their public finances are also under great pressure and public education competes with other basic sectors (health, for instance). The problem with the opening of ES to private and foreign providers is undoubtedly the formulation of the adequate prognostic of the further development and the probable loss of sovereignty of nations, a particular fear in non-exporters countries, used to homemade problematic and solutions. Nevertheless, a wider opening of ES could not only damage the sector. If loss of power on ES ownership should become a reality, governments would not have said their last word, considering the problematic under another point of view.

### THE ROLE OF ACCREDITATION / QUALITY ASSURANCE

Even if countries open education to foreign providers, the GATS preamble recognizes, *inter alia*, "...the right of Members to regulate, and to introduce new regulations, on the supply of services within their territories in order to meet national policy objectives..."<sup>74</sup>. For ES, it is practically rendered through accreditation/quality assurance practices, under control of or officially recognized by the government. The intention of quality control and accreditations of ES providers is to protect consumers from fraudulent low quality "diploma mills" and to safeguard achievement of educational goals beyond simple skills and knowledge acquisition.

Nevertheless, quality assurance and accreditation of ES providers remains one of the key contentious issue of GATS/ES negotiations since both measures could be seen as a measure to create barriers to trade in ES. Technical barriers to trade have been an ongoing concern to CMPs of WTO and simplification of trade procedures through Trade Facilitation measures have been on the agenda of WTO since the Ministerial meeting in Singapore in 1996.

Reflecting on the importance of quality assurance of educational services, a position paper by the Council of Europe succinctly observes that "... it is important to recall that free trade is not trade in the absence of quality standards. While comparisons between ES and industrial products should not be exaggerated, it may be worth keeping in mind that few countries would allow cars to be imported and sold without an independent verification of whether they meet the quality standard of the importing country."<sup>75</sup>.

A balance has to be achieved between legitimate requests for consumer protection and sovereign right by governments to pursue high quality education without though falling into a trap of closing market access to foreign ES providers.

Defining quality in education and deciding on accreditation of service providers is a complex and contentious issue. Educational services are intellectual goods which are embedded within the cultural and historical context of their native country or continent. Consumer often find it difficult to assess the value and quality of the education offered in other countries and

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<sup>73</sup> For further information on links between education, policy and economic development see: David Bloom (2000) "Social Capitalism and Human Diversity", in *The Creative Society of the 21<sup>st</sup> Century*, OECD, Paris.

<sup>74</sup> World Trade Organization, "General Agreement on Trade in Services", (1994), 285.

<sup>75</sup> CD-ESR- Steering Committee for Higher Education and Research, (2002), "Trade in Higher Education: A Possible CD-ESR Contribution in the Context of GATS, ITEM 9, p.7.

sometimes have difficulties in distinguishing serious ES providers from cheap “diploma mills”.

Accreditation and quality assurance have been developed and applied in mostly developed countries for quite some time including the non-formal education and training sector<sup>76</sup>. For example, in the United States, accrediting schools and regulating recognition of degrees has been a common procedure since the beginning of the 20<sup>th</sup> century. In most of the cases, accreditations are done by professional associations, verifying the subjects taught in their respective skills area. In Europe, this kind of assessment is a more recent concern. In the 1990's, a few countries - most of them in the northern and eastern parts of the European continent - started to evaluate their higher education sector (institutions or educational programmes) often in conjunction with governmental reform efforts, e.g. within the concept of New Public Management, starting in the 1970s and 1980s. Ten years later, with a very few exceptions, the European countries have all created some form of accreditation/ evaluation agencies. The Bologna Declaration (1999), whose aim is to create an integrated education area across the European continent, could lead to, among other, the creation of such accreditation agencies, to make sure that the quality of education supplied in the committed countries is guaranteed at comparable levels<sup>77</sup>.

Because of the Doha Rounds, the issue of quality control and accreditation of ES has become a WTO-wide issue. However, there are no intentions for GATS to create an international infrastructure for assuring quality of the ES. Most national and international stakeholders involved in education and in quality of ES do not want WTO/GATS to organize quality control nor accreditation procedures<sup>78</sup>. This was made clear at the Washington Forum on trade in ES - as well as by WTO representatives and by accreditation/educational professionals - and further reinforced at the UNESCO Forum, which was held in Paris last October.

At the final meeting of the UNESCO forum, some participants expressed the wish to complete article VI.4 of the GATS (domestic regulation)<sup>79</sup> in order to enhance the concept of quality and to clarify why it is necessary to assure it. However many other delegates felt that the term "quality" in ES needed to be first defined beforehand. In this field<sup>80</sup>, UNESCO decided to undertake an action plan to clarify role and importance of quality in education and

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<sup>76</sup> Yiu, Lichia , Saner, Raymond; “Assessment and Accreditation of Non-Formal Management Education and Development Programmes”, The SAGE Handbook of Management Learning, Education and Development Eds. Steven J Armstrong & Cynthia V Fukami, Sage Publ. SF, March 2009, pp 531-546

<sup>77</sup> One of the objectives of the Bologna Declaration is the "Promotion of European co-operation in quality assurance with a view to developing comparable criteria and methodologies.", Joint declaration of the European Ministers of Education, "The European Higher Education Area", 19<sup>th</sup> of June 1999, Bologna, p. 2.

<sup>78</sup> Hirsch Donald, "Report on the OECD/US Forum on Trade in Educational Services", (2002), Washington, DC, p. 10.

<sup>79</sup> World Trade Organization, "General Agreement on Trade in Services", (1994), Annex 1B, pp. 289-290; UNESCO, (2002C), First Global Forum on Quality Assurance, Accreditation and the Recognition of Qualifications, "Final Report", Paris, 5

<sup>80</sup> The UNESCO's Global Forum proposed a general action plan covering the following topics: development of guiding principles, revision of regional/intergovernmental conventions, transborder higher education, better information reflecting new developments in higher education and enhanced internet resources to address new developments (UNESCO (2002B), First Global Forum on Quality Assurance, Accreditation and the Recognition of Qualifications, "Draft Recommendations and Conclusions", pp. 3-5).



possibly negotiate amendments to article VI.4 of the GATS. This won't be an easy step to take, since most of the agencies working in the accreditation field have got their own views and definitions of quality and accreditation.

The development of an international framework for quality assurance/accreditation could take different forms such as for example a meta-accreditation of national agencies by a supranational "clearinghouse" or the development of truly international and relevant accreditation schemes<sup>81</sup>. However, before organising a global framework for accreditation, stakeholders should begin with defining basic concepts like, for example "university", a term without a universally agreed definition. These differences in defining key concepts make it difficult for countries to use a common language which in turn hinders trade in ES. By not agreeing on basic terms and concepts, the chances are high that countries cannot reach agreement and hence run the risk that their current concepts, albeit very different from country to country, will be crowded out by standard terminology used within the GATS context. This in turn would mean that the current richness of terms and practice would be lost and replaced by standard "GATS Talk".

Related to the issues of quality and accreditation is the recognition of academic titles and certificates across countries. It is useless to study at an accredited university when the delivered diplomas are not recognised in the students home country (in the case of Mode 2: consumption abroad) or in other countries. This issue was highlighted at the UNESCO Forum in Paris. Delegates were concerned with updating of existing regional conventions on qualification and recognition. They were also concerned with the lack of co-ordination and integration of accreditation and recognition schemes. There is a need for a comprehensive agreement on quality and accreditation of ES in order to limit the risk of consumer being inundated by low quality ES products offered at dumping prices without minimum quality guarantees.

Even if it seems difficult to find soon a solution to this complex and highly sensitive issue, the liberalization of trade in ES could be in itself an unexpected accelerator for a more coherent and international framework for accreditation/quality assurance. Indeed, the last and less satisfactorily defined fifth sector of ES in GATS labelled as "Other", could also relate to trade in... accreditation services! It is not surprising as international agencies - for instance ABET, ASPHER, EQUIS<sup>82</sup> - are already operating on an international basis. Public accreditation agencies could theoretically do the same and export their accreditation services abroad. Such a globalised conceptualisation of accreditation services would probably foresee the CPMs to go beyond national or regional framework and encourage them to develop a common framework agreement on quality and accreditation earlier than currently seems possible. As shown above, trade in ES is subject to particular hindrances and features, which in turn need adequate solutions. These specificities are obvious and are already quite well known by WTO members.

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<sup>81</sup> Van Damme Dirk, (2002), "Trends and Models in International Quality Assurance and Accreditation in Higher Education in Relation to Trade in Education Services", pp. 32ss.

<sup>82</sup> For further information see [www.abet.org](http://www.abet.org), [www.efmd.be](http://www.efmd.be), [www.ensp.fr/aspher](http://www.ensp.fr/aspher).

## GROWTH FACTORS DRIVING INTERNATIONAL TRADE IN EDUCATION SERVICES

Growth in trade in education services has been driven by a combination of demand and supply factors. These include advances in information and communication technologies, the emergence of new private actors in the provision of education services, government policies towards improving access to post-secondary education, new revenue generating strategies by education providers, individual student choices and requirements of employers for higher level qualifications and language skills.<sup>83</sup> The move towards private actors in education can also be based on ideologically driven governments' determination to neoliberalise education, to marketise and to create and enhance private profit-taking educational actors.

A consistent trend over past decades has been the increasing numbers of secondary school graduates seeking entry to tertiary level education. The expansion has been particularly intense since 2000, with 51.7 million new tertiary students enrolled around the world in just seven years.<sup>84</sup> In OECD economies, tertiary enrolment rose by 43 per cent between 1995 and 2003.<sup>85</sup> In developing countries, the expansion was even bigger. A study by UNESCO and the OECD found that for a selection of 17 developing countries from Latin America, Asia and Africa, the increase during the same period was 77 per cent.<sup>86</sup> The Global Student Mobility 2025 Report foresees that the demand for international education will increase to 7.2 million in 2025.<sup>87</sup> For many economies, the demand for tertiary level education far exceeds domestic capacity.

Factors that have played an important role in fuelling the demand for international education are the returns that accrue from further education.<sup>88</sup> The labour market is demanding new and changing competencies such as adaptability, knowledge of latest technologies, and the ability to acquire new skills independently.<sup>89</sup> The number of jobs requiring high-level skills has grown faster than those requiring only basic skills, thus further stimulating demand for higher education.<sup>90</sup> In an increasingly global economy, English-language qualifications confer a certain competitive advantage, since international transactions are mainly conducted in that language.<sup>91</sup> Study abroad also facilitates international migration and is sometimes supported by host governments as part of a skilled migration policy.<sup>92</sup>

On the supply side, due to technological developments and changes in the structure of the education market, a greater number and variety of study programmes and courses are being offered internationally. Technological progress, for instance, has improved and facilitated various forms of distance education. Due to changes in the financing of higher education, institutions from major education provider economies have put increased emphasis on revenue generation.<sup>93</sup> This has resulted in a drive to offer education services to international

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<sup>83</sup> See OECD (2004), pp. 25-31 for a discussion of the policy rationales and drivers of cross-border education.

<sup>84</sup> UNESCO (2009a).

<sup>85</sup> Teixeira (2009), p. 239.

<sup>86</sup> Ibid.

<sup>87</sup> Böhm, et.al (2002) assumes that based on worldwide economic and demographic growth, the number of international students will rise at a compound rate of 5.8 per cent.

<sup>88</sup> Bashir (2007), p. 51.

<sup>89</sup> Hopper (2007), p. 109.

<sup>90</sup> Ibid.

<sup>91</sup> OECD (2004), p. 30.

<sup>92</sup> Ibid, p. 27.

<sup>93</sup> Ibid, p. 26.

students at commercial rates through student mobility programmes and/or by opening branch campuses and offshore programmes. Demand and supply factors have also combined with deliberate national capacity building objectives, as demonstrated by some South-East Asian economies.<sup>94</sup>

Demand and supply factors have also combined with deliberate national capacity building objectives, as demonstrated by some South-East Asian economies.<sup>95</sup> Initially, while such capacity building approaches were based on students moving abroad for higher education, over the last decade the emphasis has shifted towards opening access for foreign institutions to operate in the territory either through branch campuses or offshore programmes.<sup>96</sup> The advantage of the latter strategy being both costs savings and the potential for rapid expansion since local students can obtain a foreign qualification without having to go abroad. Moreover, since face-to-face instruction is provided through collaboration with a local partner, it is hoped that there will be a positive impact on the higher education sector in general.

## **FACTORS DRIVING INTERNATIONAL TRADE IN EDUCATION SERVICES**

On the demand side, increasing numbers of secondary school graduates seeking entry to tertiary level education has been a consistent trend over past decades. The expansion has been particularly intense since 2000, with 51.7 million new tertiary students enrolled around the world in just seven years.<sup>97</sup> In OECD economies, tertiary enrolment rose by 43 per cent between 1995 and 2003.<sup>98</sup> A study by UNESCO and the OECD found that for a selection of 17 developing countries from Latin America, Asia and Africa, the increase during the same period was 77 per cent.<sup>99</sup> The Global Student Mobility 2025 Report foresees that the demand for international education will increase to 7.2 million in 2025.<sup>100</sup> For many economies, the demand for tertiary level education far exceeds domestic capacity.

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<sup>94</sup> Vincent-Lancrin (2007), p. 49.

<sup>95</sup> Vincent-Lancrin (2007), p. 49.

<sup>96</sup> Tham and Ji (2007); Lancrin-Vincent (2007); and McBurnie and Ziguras (2001).

<sup>97</sup> UNESCO (2009a).

<sup>98</sup> Teixeira (2009), p. 239.

<sup>99</sup> Ibid.

<sup>100</sup> Böhm, et.al (2002) assumes that based on worldwide economic and demographic growth, the number of international students will rise at a compound rate of 5.8 per cent.

<sup>101</sup> Bashir (2007), p. 51.

<sup>102</sup> Hopper (2007), p. 109.

<sup>103</sup> Ibid.

<sup>104</sup> OECD (2004), p. 30.

<sup>105</sup> Ibid, p. 27.

## DIVERGENT AND CONVERGENT INTERESTS OF IMPORTERS AND EXPORTERS<sup>106</sup>

The internationalization of education services has been a politically contested subject. While the majority of the privately owned educational facilities in OECD countries are concerned mostly with regulations which potentially restrict purchasing of educational services, others have invested abroad and are keen on improving investment conditions especially in regard to unhindered market access and non-discriminatory investment conditions in foreign countries. Lobbying groups representing private sector actors with FDI interests in education services have actively attempted to influence governments' negotiation positions on GATS

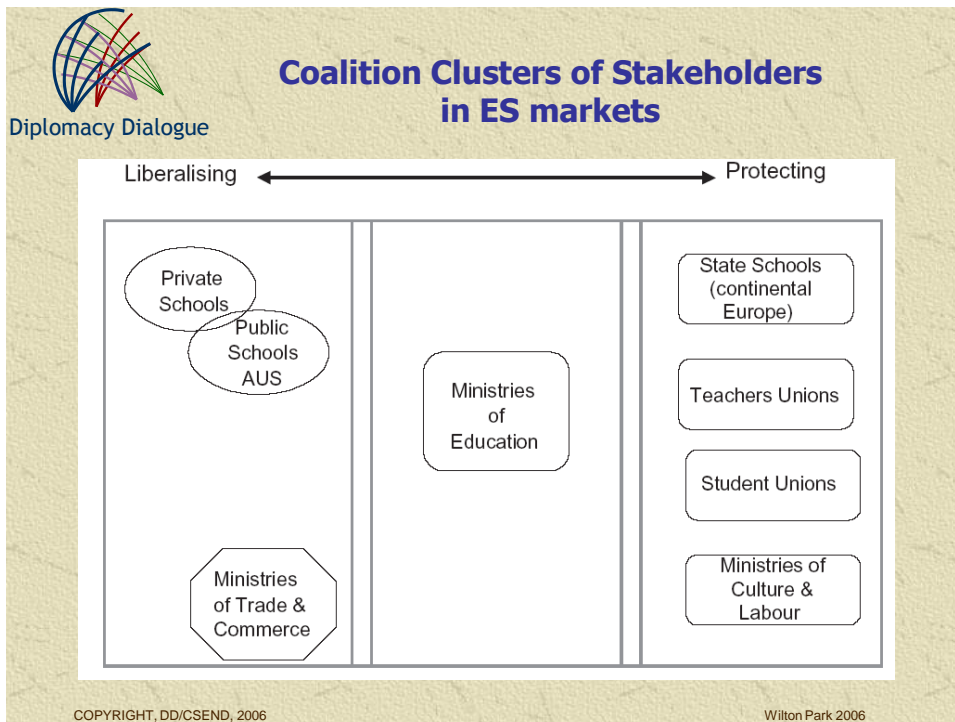
Some of the better known groups like GATE, Sylvan Learning Systems and QA are close to privately held schools and universities with business interests and subsidiaries in multiple countries. While many of these lobby groups emanate from the USA, some are also based elsewhere as, for instance, Monash University of Australia with its many off- and onshore campuses in East Asia. Monash University, like the majority of Australian universities, has developed an interesting strategy as it is a public institution inside Australia but becomes a private provider as soon as it exports its educational services abroad.

The large majority of publicly held schools and universities, particularly in Europe, have lobbied strongly against trade in education services and the negotiations taken under the framework of the GATS. On September 28, 2001, the presidents of the European University Association (EUA), the Association of Universities and Colleges of Canada (AUCC), the American Council on Education (ACE), and the Council for Higher Education Accreditation (CHEA) signed a joint declaration on higher education and trade in education services strongly expressing opposition to the inclusion of higher education services in the GATS negotiations. The joint declaration asks all actors in the GATS negotiations not to make commitments in education services. At the same time, the signatories expressed a willingness to reduce obstacles to international exchange in higher education using conventions and agreements outside of a trade policy regime.

**Figure 2: Coalition Clusters of Stakeholders involved in ES trade favoring liberalization vs protectionism (based on Saner & Fasel, 2003)**

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<sup>106</sup> Saner & Yiu (2008)

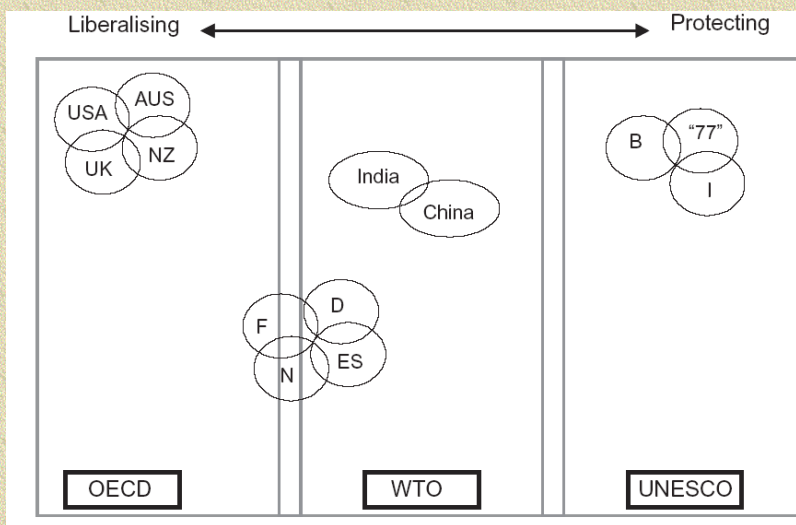


As illustrated in the above figure 2, the negotiation oscillates between stakeholders pushing for the liberalizations of educational market versus other stakeholders wanting to keep education out of any market access negotiations at the WTO, or for that matter, under any other trade regime. The opposition between market liberalizers and protectionists is played out within countries, between government ministries (e.g. ministry of trade vs. ministry of education), between government and private sector (privately owned schools versus public ally held schools), between professional groups and public actors (teachers and student associations versus ministries of finance, education and trade).

Based on these complex interests, coalitions have been formed for or against such positions (liberalization vs protectionism) within countries, at the WTO and outside the WTO eg. at UNESCO, OECD or Council of Europe. Figure 3 below, illustrates how the different coalition clusters of selected countries and their respective preferred institutional governance environment.

**Figure 3: Coalition clusters of selected countries and their respective preferred institutional governance environment (based on Saner & Fasel, 2003)**

## Coalition Clusters of Selected CMPs in ES markets



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### COMPETING INTERESTS: WHAT'S AT STAKE ?

Tensions over trade in education services, at risk of oversimplification, are typically between private suppliers and public providers, especially in non-English speaking European countries. For most of these countries, education is a public good which should not be supplied on a commercial basis in order to guarantee equal access to education for all citizens of a country, no matter of their background or financial means. Along with this view goes the expectation that the quality of the education provided should be comparable for all students independent of their origin and endowment. Stakeholders like teachers and student unions to a large majority reject trade in education services in general fearing that market access commitments under a trade agreement would open the backdoor to privatization and deregulation, and eventually lead to the dismantling of education as a public service.

For these stakeholders, the worst case would be to see that governments lose regulatory control or flexibility to regulate and implement national policies, and that the education sector once opened would be dominated by foreign and/or private suppliers. Interestingly, while this might arguably be a significant policy concern for developing countries with underfunded education systems, much of the anxiety has arisen in certain developed countries with traditionally strong public education providers. Refuting such claims, parties in favour of trade in services highlight the fact that services supplied in the exercise of governmental authority are specifically excluded from the scope of the GATS (Articles I.3 [b] and [c]). Thus, even if commitments had been undertaken on education services, this exclusion would still apply. Moreover, there has, so far, been no legal challenge in the WTO with respect to the scope of the carve-out for governmental services.

For many developing countries, the consideration of whether to undertake commitments and the level of openness to provide will often depend on the country's assessment of its own social and economic development path, and the extent to which it sees trade as being critical to developing the domestic human resource and knowledge base. Market liberalization, however, also requires competence and institutional capacity in regulation and policy implementation. These crucial elements are all too often lacking in many parts of the developing world and have acted as obstacles to either engaging in trade negotiations, or in fully reaping the benefits of liberalisation. That being said, today, some of the most dynamic actors in the internationalization of education services are developing countries, particularly those in Asia-Pacific. There are also growing education markets in other regions, such as the Middle East and Latin America, with middle income developing countries seeking to act as educational hubs offering internationally recognised degrees through franchise or twinning arrangements with developed country institutions.

In contrast, high income OECD countries, such as the US, EU and Switzerland, are more likely to restrict their trade commitments to privately funded education especially in primary, secondary and higher education. This stands in stark contrast to the often virulent criticism by domestic stakeholders in many of these countries, which have accused their respective governments of jeopardizing the monopolies of their public education. Nevertheless, faced with fewer financial resources, a growing number of OECD countries are exploring possibilities of delegating or outsourcing parts of education to private providers who are more cost-efficient service providers which however often means lower salaries for teachers, reduced rights and less favorable teaching conditions. In order to ensure continued delivery of high quality education services by private (national or foreign) education providers, governments need to increase their regulatory supervision and safeguard against unlawful changes of work conditions of the teachers and students alike.

In terms of negotiations, a strategic assessment of opening or protecting their education sectors needs to be done by stakeholders responsible for their respective country's negotiation position on trade in education services. Stakeholders also need to understand the request and offer mechanism of WTO negotiations, as well as the modalities used in free trade agreements, and develop short-term and long-term solutions to key strategic challenges. These might include exporting/importing and/or aggressive/defensive liberalizing strategies. Once sectoral stakeholders have done their homework, internal consultations with their respective national WTO negotiation team might be called for in order to reach a common view and position.

An example of national strategic thinking can be found in China's coastal provinces where private schools (domestically owned) are given permission to offer secondary education to students who failed the entrance exams to the public schools. Since education is a highly esteemed investment in their children's future, Chinese parents are willing to pay the relatively high tuition fees. The private schools are regulated by the authorities in charge of education, they pay taxes and lower the pressure on the governments to provide more remedial education. Foreign schools offering higher education degrees are highly regulated and requested to include local teachers in their teaching faculty, their tuition fees are regulated, the student intake limited, and the authorities often require that higher education degree programmes provided by foreign schools be complemented by a one to two year academic programme in their respective home country. Such one to two years of academic studies offer Chinese students opportunities to become familiar with a foreign country, learn a foreign language, and potentially qualify for jobs in developed countries.

Successful strategic assessments of threats and opportunities of education services and possible opening of trade in education services to foreign providers requires: (i) the formulation of adequate strategies focusing on the future development of the respective national education sector; (ii) the identification of possible export opportunities of national education services and their market access opportunities in other countries; (iii) the corresponding assessment of how to prepare their domestic market for foreign competition; (iv) the clarification of how a country wants to define the role of government – either as a provider or regulator of education services; and (v) concomitantly an agreement with national stakeholders on the flexibility for the education sector, i.e., in terms of activities, measures and policies that should not be brought under the purview of the trade agreement .

## **CONCLUSION**

In conclusion, the following observations appear salient. The internationalization of education, particularly of higher education and adult education, has intensified quite independently of trade in education services within the WTO GATS context. It would be a mistake to expect that the Doha Round of negotiations would either stop this trend towards internationalization or dramatically accelerate the trend. New commitments taken under the GATS framework could at best offer binding guarantees of market access and national treatment for the supply of education services via modes 1, 2, 3 and 4 supply of educational services. Such an agreement, even if it may not lead to new liberalization, could offer predictable market access conditions which in turn would be welcomed by investors (private or public), governments, and consumers alike.

Providing education remains to a large extent the responsibility of governments. Faced with budget cuts and limited spending power, many governments might want to consider participation by private sector providers including foreign investors through foreign direct investment. Private sector providers could alleviate the financial pressures on governments. However, this does not mean that governments should abdicate responsibility. Regulating education at a national level also includes providing students with the highest possible, equal access to education for the benefit of social cohesion and for the most effective development of a skilled manpower with the potential to meet the economic and social challenges of the next generation. Like in other market situations, where competition policy acts to curb the build-up of monopoly positions, regulatory frameworks need to ensure balance in access. The concentration of private education service providers in the most lucrative segments of higher education and adult education, could deepen divisions between wealthy and less privileged social classes, thereby leading to a two-tier society which would not be the best solution to meet the complex challenges of globalisation.

Quality assurance and accreditation of education service providers remain a double edged issue. While it is perfectly legitimate to prevent fraud and limit misleading practices (e.g. “diploma mills without sufficient content nor adequate quality”), it would be too short-sighted to preserve existing positions. Innovation in education is equally needed as much as inventions in industry. Some of the constructive and innovative impulses might be better facilitated through competition of education service providers, be they privately or publicly owned. In addition, some of the technical features of quality assessment, accreditation and recognition of degrees might be better negotiated outside the context of trade negotiations.

Providing and organising education in the most cost efficient and learning effective manner, to ensure the largest possible participation, requires strategic policies, involving the active participation of stakeholders such as employers, labour unions, parent organizations, political



parties and sector competent NGOs. Trade negotiations, not least multilateral trade rounds under the WTO, are complex with wide ranging impacts. The Doha Round is even more complex than the previous Uruguay Round. Trade negotiators are expected to do their best to safeguard the interest of their respective countries. However, it would be unfair to blame these negotiators for any shortcomings if the concerned sector stakeholders do not involve themselves in defining their short-term and long-term interests. It is up to the sectoral stakeholders to consolidate their some times divergent views, and to communicate their strategic interests to the respective national WTO negotiators through constructive discussions, not through threats or tactical stand-off behaviour. With private and public education coexisting in most countries, it is very likely that many markets are already liberal and the question is less about whether the private sector should have a role in the provision of education, but whether foreign providers should also be encouraged. Here, it is important to recall that the GATS flexibility provides wide scope for national solutions that would effectively carve-out any sensitive areas from the agreement's coverage.

Education policy cannot be limited only to the consideration of free choice and price efficiency criteria. Social cohesion and good citizen behavior such as democracy and ethical values are as important as top level scientific research or lucrative business degree programmes. It would be unwise to opt solely for "free trade" positions since important private sector providers might not be willing to invest in low revenue education services such as civics, liberal arts education or basic professional skills training. Governments cannot opt out of such responsibilities. Education requires a multi-faceted approach in order to guarantee adequate provision of education services for various target groups, and to ensure access to education for the less-privileged. Such a multi-developmental perspective is even more necessary for developing countries who often lack financial resources and technical know-how in the field of education. The GATS framework should provide sufficient flexibility to safeguard the multi-functional diversity of education, as well as the fundamental different needs of developing countries without falling into the trap of "managed trade" immobility in education services.

Government regulators have to reach a balance between legitimate requests for consumer protection and the sovereign rights of governments to pursue high quality education without falling into the trap of closing market access to foreign education service providers. A central objective of the GATS is to progressively liberalize trade in services. It is not the intention of the agreement to regulate trade nor is it to deregulate service sectors. The agreement's focus is on improving market access and to discipline discriminatory measures between countries, as well as between domestic and foreign service suppliers. In short, trade agreements provide the opportunity to reduce trade barriers due to a myriad of different norms, standards and requirements which often result in higher transactions costs affecting particularly developing country exporters, who might have neither the technical know-how nor the necessary resources to deal with such measures. No doubt there are risks in opening markets but there also many new opportunities. The challenge is to move from what has been a sterile debate on "private vs. public" and ideological impasses between "neoliberal market (hyperopia) vs protectionist market (myopia) positions" to one which seizes the potential of trade in education services as a tool for capacity development of countries, whether developed, developing or in transition.

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