

# 1 Introduction

## 1.1 Meeting the education challenge

The economic resources devoted to education are significant. The APEC economies spend around 6.7 per cent of their GDP on education, equivalent to around US\$ 1,600 billion, and currently provide tertiary education to around 70 million students (CIE 2008).

The resource requirements are growing. The number of tertiary students has increased by around 4 million a year since around 2000. Between now and 2025, it is likely to increase by at least 2 million a year (Banks, Olsen and Pearce 2007).

The growth in demand for tertiary education is being driven by a number of factors. Within individual economies, these include changing demographics, greater numbers of secondary school graduates, the growth of the knowledge economy, and the associated movement to lifelong learning (OECD 2007).

Global demand is also being driven by the growth of large, dynamic Asian economies. China and India alone may account for more than half of the global demand for higher education by 2025 (IDP Education Australia 2003).

The links between education and economic growth work both ways — while growing economies demand more education, education also contributes to economic growth. For example, it has been estimated that 44 per cent of Australia's economic growth is education-related, while 56 per cent is linked to capital and productivity (Matsushita, Siddique and Giles 2006). Within the education component, 14 per cent of economic growth comes from improvements in the quality of labour, and 30 per cent comes from the provision of technical and higher education. Of course, there are also indirect links between the provision of higher education and productivity.

Governments cannot, or choose not to, provide all of the resources needed to educate their populations. Within APEC, economies such as Indonesia, Japan, the Philippines and the Republic of Korea have more than two thirds of tertiary education privately provided (CIE 2008). Chile, Mexico and Peru have well over a third of their tertiary enrolments privately funded. Economies such as Hong Kong, Australia and New Zealand have very low levels of private provision.

While private provision can increase the resources available for higher education, so too can international exchange. International students movements are by far the most important method by which higher education services are traded, and the numbers are still increasing. In 34 economies, domestic students studying abroad now represent over 20 per cent of domestic tertiary education enrolments (OECD 2007).

International exchange occurs not just through student mobility, but increasingly through program and provider mobility (OECD 2007). The bulk of cross-border post-secondary education delivered through program and institution mobility occurs in the Asia-Pacific region. For example, China has 165 foreign educational institutions operating within its borders. In Hong Kong, the number of non-local courses stood at 1,100 in March 2007, of which Australian educational institutions provided 308 or 28 per cent (AEI 2007a). Indonesia allows foreign vocational institutions to partner with local institutions in five cities (AEI 2007b). In Japan, the Education Minister can designate an educational institution as a 'Foreign University Japan Campus', and there are four foreign entities operating under this structure (AEI 2007c).

Furthermore, Lasanowski and Verbik (2007) report how, by importing institutions and programs, economies such as Singapore, Malaysia and Hong Kong are becoming emerging contenders to export higher education services via the inward movement of foreign students.

The exponential growth in cross-border education is being driven not just by governments, but also by the institutions and students themselves. Factors include the need for English language skills, the growing mobility of students and workers, the mobility of education providers as a result of economic integration and reduced operating costs, and the acknowledgement by governments that a substantial economic benefit exists in having a 'knowledge economy' (Table 1.1).

Removing impediments to international exchange in higher education services can contribute to economic growth and development. For example, barriers to importing education services via the inward movement of foreign campuses appear to boost the number of students seeking enrolment in overseas universities (Dee 2008a), one reason being that these barriers reduce the technical efficiency of the local higher education sector (Dee 2008b). More significantly (though harder to measure), this also reduces the quality of the local workforce and detracts from economic growth.

Yet greater international exchange of higher education services poses its own policy challenges (Knight 2002, OECD 2007). One is to ensure that education meets sufficiently quality standards to contribute to growth and development. Another is to manage the financial contribution of governments in a context where not all providers are local.

**Table 1.1 Drivers of growth in cross-border exchange**

Demand side (importers)	Students	<ul style="list-style-type: none"> <li>• Limited domestic tertiary education capacity resulting in 'excess demand' overall</li> <li>• Low quality domestic education in disciplines in high demand (science, technology, management, business studies)</li> <li>• Higher rate of return on international recognised qualifications (through higher earnings and migration possibilities)</li> </ul>
	Government	<ul style="list-style-type: none"> <li>• Perceived economy-wide benefits from international education and research</li> <li>• Skills development seen as constraint in attracting complementing foreign direct investment</li> </ul>
Supply side (exporters)	Institutions	<ul style="list-style-type: none"> <li>• International students are important sources of revenue</li> </ul>
	Government	<ul style="list-style-type: none"> <li>• Country's brand image in higher education seen as important for sustaining exports</li> <li>• Opportunity to build trade and investment links in other sectors</li> <li>• Proactive approach: creating of marketing agencies, high level coordination between education and trade/investment sectors</li> </ul>

*Source:* Adapted from Bashir (2007).

## 1.2 Rationale for this study

In their 1994 Bogor Declaration, APEC Leaders set a goal of free and open trade and investment in the Asia-Pacific region. This was to be pursued by a range of measures, including promoting the free flow of services. In the 2006 Hanoi Declaration, Leaders affirmed the Bogor Goals and instructed officials to undertake further studies on ways to promote regional economic cooperation.

The APEC Human Resources Development Working Group (HRDWG), one of eleven working groups in the APEC forum, is dedicated to promoting the well-being of all people in the region through economic growth and development. It has an important role to play in achieving the liberalisation and facilitation of trade and investment that was emphasised in the Bogor Declaration. The group derives its mandate from APEC Leaders and Ministers, including its Education Ministers.

The group conducts work programs to develop human resources on issues ranging from education to labour to capacity building. Its priorities include quality basic education; improved labour market information and analysis; enhancing skills in key sectors; lifelong learning; improved curricula, teaching methods and instruction materials; and enhanced quality, productivity and efficiency of the workforce. The group conducts its work program through three networks — the Education Network (EdNET), the Capacity Building Network and the Labour and Social Protection Network.

This study fulfils one of the objectives of the HRDWG — facilitating the international exchange of education and training services. That objective establishes the importance of sharing knowledge and skills across the APEC region. In particular, this study contributes to several of the specific aims for the HRDWG in undertaking that objective:

- promoting student and academic mobility;
- developing common understandings about qualifications, skills, and professional recognition;
- working to eliminate measures affecting the trade in education and training; and
- cooperating to open education and training markets.

This study addresses these aims and objectives by seeking to identify positive and negative measures affecting cross-border exchange and investment in higher education to facilitate expansion and acceleration of this sector.

This study builds on previous work by the APEC Human Resources Development Working Group, including its (2004) study that investigated the capacity of joint schools to improve the institutional capacity of higher education under globalisation.

The study also contributes to other APEC priorities. Among these are the 2003 ECOTECH (Economic and Technical Cooperation) key priority of promoting the development of knowledge-based economies, and the Manila Declaration priority of developing human capital through addressing barriers to the mobility of students and academics and to the efficient allocation of financial and human resources to education.

The study helps to address one of the four priority areas of the Third APEC Education Ministers Meeting of 2004. Under the Governance sub-theme, the study provides governing bodies with information on other economies' approaches to positive and negative measures affecting exchange and investment in education services, thereby contributing to transparent and accountable government systems.

This study builds on the outcomes of an earlier project by the APEC Group on Services (2000) that contributed to an understanding of regulatory and other impediments to the flow of education services between member economies. That project covered all education services (primary, secondary, higher and 'other'), as well as the different modes of exchanging education services.

That study did not list specific measures implemented by individual economies. However, it highlighted the prevalence of barriers to student mobility, imposed mainly by exporting economies. It also highlighted the prevalence of foreign equity limits and other

regulatory restrictions on establishing a commercial presence, imposed by importing economies. Finally, it highlighted lack of transparency as a potential inhibitor of international exchange.

Since 2000, the APEC landscape has changed significantly. The number of internationally mobile students in the higher education sector has grown rapidly. Several economies in the region have emerged as education hubs and others are increasing their numbers of students from other economies. The Asia-Pacific region has also been the focus of growing program and provider mobility, with the increased adoption of twinning, franchising and other partnership arrangements. Thus the methods of international exchange have become more varied and complex, even as the amount of information available to students and individual providers has increased.

APEC's broader program of liberalisation of trade and investment has also proceeded. Several APEC economies have submitted negotiating proposals to the World Trade Organisation (WTO) and some have made offers in the Doha Round of multilateral negotiations, although pending a Doha Round settlement, not all offers are publicly available. Other APEC members have entered into bilateral or regional trade agreements that include education components. The most recent and comprehensive of these is the newly-signed ASEAN-Australia-New Zealand Free Trade Area Agreement. While these trade commitments have bound increasing levels of openness in the Asia-Pacific region, their relationship to actual policies on the ground remains unclear.

### **1.3 Scope of this study**

The scope of the study includes:

- a survey of actual policy measures affecting cross-border exchange and investment in higher education services across all modes of supply for APEC economies;
- a comprehensive and up-to-date reassessment of policies and practices affecting cross-border exchange and investment in higher education services;
- recommendations for facilitating the expansion of free and open cross-border exchange and investment in higher education services in the APEC region.

This study has used the Education Network (EdNET) of the HRDWG, with support from the APEC Group on Services, to complete a survey of actual regulatory policies currently affecting the delivery and exchange of higher education services in a number of APEC member economies. The full list of contacts used for this study is given in Appendix 1. The survey questionnaire instrument is reproduced in Appendix 2.

The survey questionnaire goes further than previous surveys by covering some of the newly emerging methods by which higher education services are being exchanged. These include the twinning and other partnership arrangements that have developed, partly as a response to the bans or foreign equity limits placed in the establishment of foreign campuses in some economies.

The survey also goes further than previous surveys by including more detail on measures that inhibit exchange and investment, measures that facilitate it, and measures that constitute part of the general regulatory environment governing the provision of higher education in each economy.

In this respect, the survey goes further than measures that would be regarded by trade experts as trade barriers, in a narrow sense. Indeed, trade experts and educators often talk a different language when discussing measures affecting cross-border exchange and investment in higher education. Chapter 2 introduces some of the key concepts used by both sides to describe how the exchange of higher education services occurs, and to describe the various measures affecting that exchange. This chapter goes further than a glossary, by establishing correspondences between the various concepts. The survey instrument itself is described in more detail in Chapter 3.

The survey responses, and the accompanying explanatory notes that were provided by EdNET members, have been compiled in a spreadsheet, which is an integral part of the output of this project. It makes transparent and publicly available the detailed qualitative information contained in the survey responses. It is anticipated that scrutiny of this detailed information by higher education stakeholders in the APEC region will lead to greater general understanding of the policies and practices affecting higher education in each economy. The survey responses are also discussed in more detail in Chapter 3.

In order to compare actual regulatory practice with developments in trade negotiations, the study also surveys recent scheduled commitments and offers under the General Agreement on Trade in Services under the WTO. This is done in Chapter 4. It also gives brief consideration to commitments in recent preferential trade agreements, although a full survey of these is beyond the resources devoted to this study.

Finally, the study develops recommendations for facilitating cross-border exchange and investment in higher education services in the APEC region. The recommendations emerge from an assessment of how the measures that inhibit or facilitate the cross-border exchange of higher education services interact with the general regulatory environment affecting higher education. This assessment is undertaken in Chapter 5, and is designed to ensure that any steps taken to promote cross-border exchange and investment do not undercut any of the objectives that the general regulatory environment is designed to

achieve. Thus the study guards against 'trade creep' (Knight 2002) by remaining mindful of the policy challenges posed by greater international exchange and investment in higher education services. This assessment also ensures that APEC initiatives are complementary to those currently under way in the WTO.