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International Trade in Education Services: Its Scope and Challenges Associated with Liberalisation.

Abstract

This paper explains that the impact of the GATS on the geographical mobility of students must be very limited for two essential reasons. First, the current contents of the GATS does not address the real obstacles to trade in education services, namely quality assurance, accreditation, recognition of diplomas, and visitors' visas, to name but a few. One may even wonder whether any international agreement can eliminate all of these hurdles. Second, in light of various factors of competitiveness, choices made by countries in the area of education and development are strong determinants of students's international mobility in time and space.

Keywords

education, international trade, gats, barriers

Cover Page Footnote

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Introduction

The year 1994 is notable because that is when the Uruguay Round was concluded, integrating services into the General Agreement on Tariffs and Trade (GATT)¹. Since then, discussions of international interdependence have dominated the news. Policy makers in areas once considered “domestic” - such as education, healthcare, the financial system, telecommunications, and transportation - must now account for an international Accord - General Agreement on Trade in Services (GATS). Cooperation between countries is complicated by their different regulatory environments. This is particularly the case in education, which remains one of the least committed sectors in the GATS. In fact, there were concerns that trade liberalisation might negatively affect postsecondary education in terms of quality, public funding, and equality of access. Paradoxically, several indices clearly show that globalisation, or the closer integration of national economies, is now leading to expanded enrolment of foreign students. Hence, the expression “the globalisation of higher education” is frequently heard. In a world of globalised economies and knowledge, institutions of higher education play a key role in facilitating cross-border relationships and continuous global flows of people, information, technologies, new products, and financial capital (OECD, 2007, p. 3).

The objective of this paper is precisely to shed some light on certain issues raised by trade liberalisation in education services. First, we begin by addressing the definition of what constitutes education, and particularly its various modes of supply. Secondly the paper examines data on cross-border trade in education, assessing their accuracy and reporting the relative performance of countries as exporters or importers on the basis of their values. Thirdly, competitive advantage in the export of education services is examined by drawing on international trade theory as well as stylised facts. Finally, we proceed to evaluating the impact of trade liberalisation and its distribution among the principal host countries.

¹ The Uruguay Round was the 8th round of multilateral trade negotiations conducted within the framework of the General Agreement on Tariffs and Trade (GATT). The round was launched in Punta del Este, Uruguay in September 1986, transformed the GATT into the World Trade Organization (WTO) and came into effect in 1995.

Definition and Modes of Supply

Education services embody a wide variety of activities that are relatively easy to define. The International Standard Industrial Classification (ISIC) of all economic activities distinguishes between 17 main categories of activities. These are called sections and identified with an alphabetical letter. The section “M” refers to education and includes four divisions; namely:

- Primary education (801)
- Secondary education (802)
 - o General secondary education (8021)
 - o Technical and vocational secondary education (8022)
- Higher education (803)
- Other education (809)

The subgroup “Other education” (outside the regular education system) refers to specialised training and includes adult education and instruction such as driving schools, flying schools, art schools, cooking schools, etc. During the Uruguay Round of negotiations, a classification list for education was provided by the United Nations Provisional Central Product Classification (CPC) with reference to the four categories: Primary, Secondary, Higher (Tertiary), and Adult education. According to the World Trade Organisation (WTO), “members are not legally bound to determine the sectoral scope of their commitments according to this classification, but a large majority has done so” (WTO, 1998, p. 9). Also, although countries have similar denominations of categories of education, the content may differ. Overall, it appears that there is little controversy around the definition and classification of education services, unlike in the case of other sub-items of services, such as digitized products (printed matters, film, software) which can be as well considered as goods, (OECD, 2001, p. 4).

The four modes of supply

Negotiation of the GATS created a need for a consistent conceptual framework within which countries can structure the statistics they collect and disseminate on international trade in services. Thus, services have been defined according to four modes of supply. In the case of education, these four modes correspond to the cross-border supply of programs, students, and providers of education (Table 1) (OECD, 2004, p. 340).

Table 1: Modes of Supply of Educational Services in GATS

Mode of Supply according to GATS	GATS Definitions	Examples in Education
Mode 1: Cross-border supply	The supply of a service “from the territory of one member into the territory of any other member”. The service travels, but both the provider and the consumer stay home. Comparable to the export of a good.	<ul style="list-style-type: none"> • Distance education • Virtual education institutions • Education software • Corporate training through ICT delivery
Mode 2: Consumption abroad	The supply of a service “in the territory of one member to the service consumer of any other member”. Comparable to tourism or business travel by the consumer.	<ul style="list-style-type: none"> • A student travels to another country to enrol in a school for a course or study/degree programme
Mode 3: Commercial presence	The supply of a service “by a service supplier of one member, through commercial presence in the territory of any other member”. GATS-speak for foreign direct investment.	<ul style="list-style-type: none"> • Local university or satellite campuses • Language training companies • Private training companies, e.g. Microsoft, CISCO, etc.
Mode 4: Movement of natural persons	The supply of a service “by a service supplier of one member, through presence of natural persons of a member in the territory of any other member”. Comparable to temporary emigration or business travel by the service provider.	<ul style="list-style-type: none"> • Professors, teachers, researchers working abroad on a temporary basis

Source: Knight (2006, p. 30).

Generally, reporting the trade in services creates particular challenges as confirmed by the Organisation for Economic Co-operation and Development (OECD).

Measurement of trade in services is inherently more difficult than measurement of trade in goods. The intangibility of services makes them difficult to define. Although some services may be defined through their physical function – e.g., transport or hotel services – others are conceptually more abstract such as consultancy or education. Unlike trade in goods, trade in services involves no package crossing the customs frontier with accompanying documentation showing an internationally recognised commodity code; a description of the contents, information on quantity, origin, and destination; an invoice; and an administrative system based on customs duty collection which facilitates data compilation... (OECD, 2001, p. 4).

Consequently, the availability and accuracy of statistics on the international trade in services leaves much to be desired, particularly in the field of education. From this characterisation of mode of supply, one can see that the expression “export of education services” captures a complex phenomenon.

It should be no surprise that data on the trade in education services from the publications of international organisations such as the International Monetary Fund (IMF), the United Nations (UN), the OECD, and the WTO present several gaps. For instance, although the balance of payments manual (5th edition) singles out “education services”, data on this group are missing for many countries. The WTO publishes Statistics on International Trade with data on commercial services (made up of three main sub-groups: transportation, travel, other commercial services). This annual WTO publication does not cover education services. The OECD’s Statistics on International Trade in Services contains detailed tables by service category. However, this publication only covers member countries, and not all of them report data on education services.

While it is relatively easy to define education services by reference to four categories (primary, secondary, tertiary (higher), adult education), the same cannot be said of the task of recording and measuring trade data.

International Trade in Education Services: An Empirical Glimpse

Although data on international trade in education services are limited, some facts can be derived on the structure of this trade from two main sources: United Nations Educational, Scientific and Cultural Organisation (UNESCO) and the OECD. In its annual report, UNESCO publishes data on the international mobility of students. The OECD (2008a) also publishes a special report “Education at a Glance”, which includes a chapter on “Who studies abroad and where”. This study will first examine data on the international mobility of students, and then integrates other modes of supply of education services.

International Student Mobility: A Growing Phenomenon

The OECD, together with Eurostat and the UNESCO Institute for Statistics, cooperated to gather data on student mobility and provide better measures. Firstly however, two expressions should be clarified: i) foreign students, who are non-citizens of the country in which they study; and ii) international students, who have crossed borders expressly with the intention of studying (OECD, 2008a, p. 351). The convention adopted by the OECD and UNESCO is to use the term “international student” when referring to student mobility and ‘foreign student’ for non-citizens enrolled in a country”.²

As Figure 1 shows, the total number of foreign students grew from 0.6 million in 1975 to 2.9 million in 2006. According to the OECD, this spectacular rise in the number of students enrolled abroad over the three decades stems, on one hand, from public policies aimed at promoting and nurturing academic, cultural, social and political ties between countries (process of building the European Union and NAFTA) and, on the other hand, from economic factors such as decreasing transportation costs, the spread of new technologies, and cheaper communications (OECD, 2008a, pp. 352–353).

Tables 2 to 4 present the leading host countries and countries of origin of foreign students. These tables show that the OECD region is the main destination for foreign students, though some countries in Asia, Africa, and East Europe host foreign students as well. Further, in 2006, nearly 84% of foreign students were hosted by the OECD region (Table 4). During the period from 2000 to 2006, the average annual rate of increase of foreign students was above 7.5% in the OECD

² There is a need for caution in using these two terms because they may overlap and because of country-specific immigration legislation. Data on foreign students are reported by the host country who communicates them to UNESCO. Therefore, they measure inflows instead of outflows.

region. This substantial and uninterrupted growth in the number of foreign students in the OECD region saw the numbers of these students in this region grow from 1.59 million in 2000 to 2.4 million in 2006. There are considerable differences between OECD countries in terms of attracting foreign students. First, seven of thirty countries in the OECD have a dominant position, namely: the United States, the United Kingdom, Germany, France, Australia, Canada, and Japan. These seven countries together accounted for 64.5% of total foreign students in 2006. The United States is not only the world leader in merchandise and service exports, but also the world leading host country of foreign students with a 20% share in 2006, followed by the United Kingdom (11.3%) as shown in Table 2.

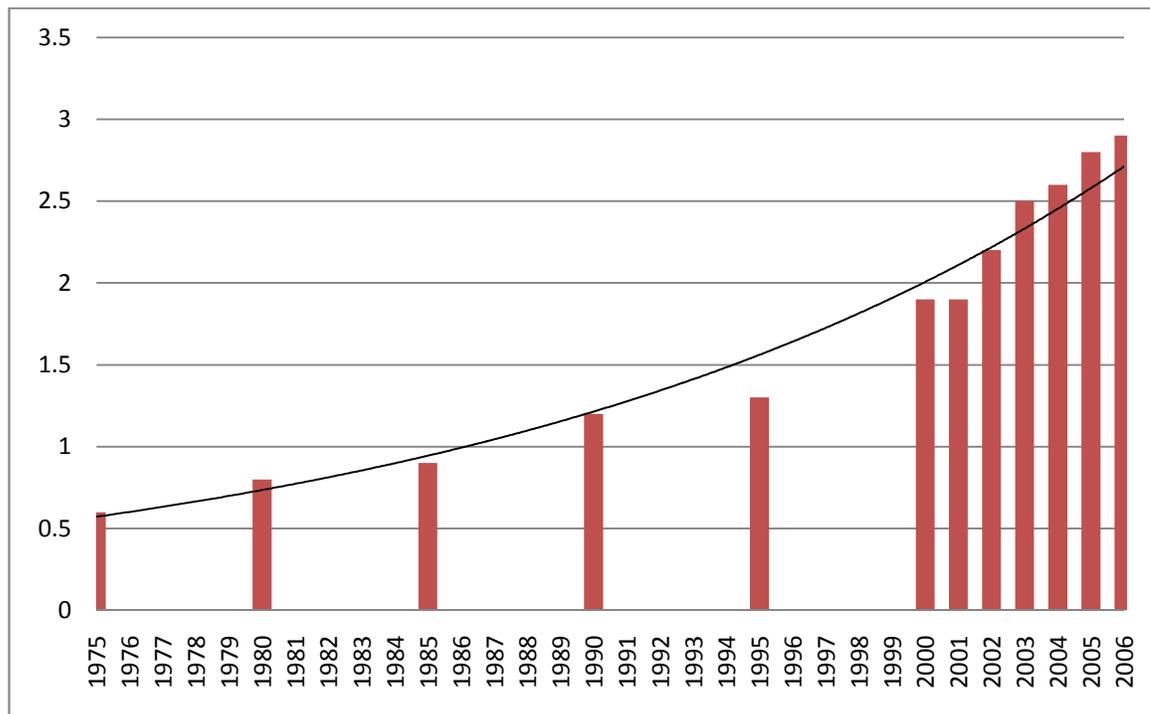


Figure 1: Total Number of Foreign Students Enrolled Outside Their Country of Origin (In Millions)

Source: OECD (2008a).

The proportion of foreign students hosted by the United States, which peaked between 30% and 40% in the 1990, decreased to 25% by 2000 and then to 20% by 2006 (Mundy and Iga, 2003). This decline in foreign students choosing to study in the United States suggests “the tightening of the conditions of entry for international students in the aftermath of the events of 11 September 2001” has had an impact (OECD 2008a, p. 355).

Conversely, the share of international students studying in France, Australia and Japan increased between 2000 and 2006. Canada’s share as a preferred destination is relatively stable at 5%. Only few non-OECD countries attract foreign students, namely: Russia (2.6%), South Africa (1.8%), and Malaysia (1.4%).

A country that receives international students (host country) is actually exporting service education. Likewise, a country that sends students abroad is importing service education (country of origin). Table 3 demonstrates that close to 50% of total foreign students come from Asia and 25% from Europe. Contrary to the highly concentrated distribution of host countries, there is a diversity of countries of origin. China is the world leading importer with a share of 15.4% in 2006, followed from a distance by India (5%) (Table 3). However, a significant number of foreign students come from the OECD member countries, particularly Germany, France, Japan, Canada, the United Kingdom and the United States; the same OECD countries that are listed as preferred destinations. The data suggests that the international mobility of students flows, on one hand, from South (developing countries) to North (industrialised countries) and, on the other hand, from North to North. Table 4 shows the network of total foreign students by major areas. In 2006, approximately 97% of foreign students who left OECD countries were hosted by other OECD countries (North to North). Only 22% of foreign students from non-OECD members studied in other non-OECD countries (South to South), while 78% headed to the OECD (South to North). The data suggests that the OECD region is the preferred destination for students from both developing and developed countries. For example, of the 43 582 Canadian students registered abroad in 2006, 67% are in the United States, 10.6% in the United Kingdom, 3% in France, 8.7% in Australia (for a sub-total of 89.3% for these 4 OECD countries). Alternatively, of the 148 164 enrolled in Canada in 2006, 78% are from non-OECD countries, particularly China (20%), India (4.7%), Iran (3.0%), Morocco (2.8%), and Pakistan (2.5%).

Altback (2004), observes that many foreign students originating from developing countries are enrolled in master’s, doctoral and professional degrees, and do not return home at the end of their studies. According to Altback, this is the case for approximately 80% of Chinese and Indian students, who choose to stay in the

United States, where they studied. On the other hand “students from industrialised countries who study abroad typically do not earn a degree but rather spend a year or two in the country to broaden their horizons, learn a language or gain knowledge that they could not acquire at home” (Altback, 2004, p. 12).

The expansion of cross-border studies appears to be a prelude to an international migration of academic talent, predominantly from South to North. Varghese (2008, p. 11) states that there are projections indicating that the demand for cross-border education by 2025 will increase to 7.2 million people, suggesting that the market is expanding. An alternative approach to studying the magnitude of cross-border education is to relate it to total enrolment in a country. Table 5 shows that foreign students as a percentage of all tertiary enrolment is quite high in several OECD countries, particularly in advanced research programs.

Placing a value on this cross-border movement is a difficult task. Although there are no statistics, it is widely acknowledged that most international students pay for their studies, generating income for the host countries (Altback 2004, p. 12). This author is of the opinion that “the money spent abroad by students from some developing countries more than equals incoming foreign aid.” The United States is the world leading preferred destination for international students. And according to the Institute of International Education (2009), in 2007/2008, the net contribution from foreign students and their families to the U.S. economy was approximately US\$15 billion. This institute estimates that, each year, 700 000 students from around the world come to the United States and Canada to study.

A difficulty in assessing the value of the international trade in education services is the fact that many countries do not report this service separately from other personal, cultural and recreational services.

Table 2: Distribution of Foreign Students in Tertiary Education by Host Country

Host country	2006 (%)	2000 (%)
United-States	20.0	25.1
United-Kingdom	11.3	11.8
Germany	8.9	9.9
France	8.5	7.2
Australia	6.3	5.6
Canada	5.1	5.0
Japan	4.4	3.5
Russia	2.6	2.2
New Zealand	2.3	0.4
Spain	1.7	1.3
Italy	1.7	1.3
Belgium	1.6	2.0
Sweden	1.4	1.3
Austria	1.3	1.6
Netherlands	1.2	0.7
Other OECD countries	6.3	
Total from OECD	83.5	83.6
Total from non-OECD countries	16.5	16.4

Source: OECD (2008a).

The Statistics on International Trade in Services manual, like the Balance of Payments Manual edition 5 (BPM5), defines the category “other personal, cultural and recreational services” as being composed of two sub-items: i) audiovisual and related services; ii) other personal, cultural and recreational services. This latter group, in turn, comprises services such as those associated with museums, libraries, archives, other cultural, sporting and recreational activities and also includes education services and health services. Excluded is all expenditure by travellers on education and health, which are included in travel (IMF 1993; UN, 2002).

Table 3: Distribution of Foreign Students in Tertiary Education by Country or Region of Origin. 2006

Country/Region	Number	%
ASIA	1 416 263	48.4
China	451 526	15.4
India	148 116	5.0
Korea	103 825	3.5
Japan	61 035	2.1
Turkey	56 984	1.9
Malaysia	43 969	1.5
Indonesia	34 768	1.2
Hong-Kong	33 261	1.1
Iran	28 811	1.0
EUROPE	745 756	25.5
France	65 780	2.2
Germany	78 242	2.6
Russia	49 200	1.7
Uzbekistan	40 977	1.4
Greece	40 654	1.4
Italy	46 265	1.6
Kazakhstan	36 628	1.2
Poland	36 129	1.2
Ukraine	32 881	1.1
United Kingdom	35 027	1.2
NORTH AMERICA	119 647	4.1
Canada	43 582	1.5
United States	49 325	1.7
Mexico	29 740	0.9
SOUTH AMERICA	182 261	6.2
Brazil	21 297	0.7
Colombia	21 839	0.7
Chile		
AFRICA	361 191	12.3
Algeria	25 753	0.8
Nigeria	23 579	0.8
Zimbabwe	19 773	0.6
Cameroon	18 293	0.6
Tunisia	17 967	0.6
Kenya	14 653	0.5
Senegal	12 292	0.4
Morocco	55 189	1.9
OCEANIA	18 756	0.6
New Zealand	4 193	0.1
Australia	10 048	0.3
All countries	2 924 679	100.0

Source: OECD (2008a) Dates are rounded

Table 4: Number of Foreign Students in Tertiary Education by Country of Origin and Destinations. 2006

Dest'n Origin	OECD									Non- OECD	All Dest'ns
	Australia	Canada	France	Germany	Japan	New Zealand	UK	USA	Total OECD		
OECD countries											
Australia	-	645	256	329	333	2 781	1 607	2 906	9 805	243	10 048
Canada	3 785	-	1 293	603	299	425	4 640	29 203	42 870	712	43 582
France	711	7 863	-	6 346	377	320	12 456	6 876	65 224	556	65 780
Germany	1 601	1 584	6 585	-	353	1 185	13 267	9 142	77 071	1 171	78 242
Japan	3 305	1 812	2 122	2 377	-	1 036	6 200	40 086	60 209	826	61 035
NZ	1 998	153	55	64	76	-	560	962	4 065	128	4 193
UK	1 545	2 847	2 570	1 871	350	419	-	8 568	24 398	629	25 027
USA	2 931	9 495	2 771	3 205	1708	2078	14 755	-	45 585	3 940	49 325
Total OECD	25 742	32 799	48 836	107 125	27 100	9 082	136 287	213 416	818 076	27 121	845 198
Non- OECD countries	158 968	116 365	198 674	154 238	103 824	27 342	193 891	371 401	1 622 581	456 901	2 079 481
Russia	442	1 581	3 083	12 643	366	251	2 187	4 971	34 740	14 460	49 200
All countries	184 710	148 164	247 510	261 363	130124	36 427	330 078	584 817	2 440 657	484 022	2 924 679

Source: OECD (2008a)

Table 5: Foreign Students as Percentage of All Tertiary Enrolment

Country	Total tertiary	Advanced research programs
Australia	20.9	29.7
Austria	15.5	20.9
Belgium	12.1	31.0
Canada	14.6	38.3
France	11.2	35.8
Germany	11.4	-
Luxembourg	42.2	-
New-Zealand	28.5	42.8
Switzerland	19.2	44.2
United Kingdom	17.9	42.7
United States	-	-
OECD average	9.6	18.5

Source: OECD (2008a p. 366).

Table 6 presents the value of education services exports and imports for OECD member countries that report services in separate accounts. Note the absence of world leaders in hosting foreign students, such as: the United States, France, Germany, Austria, Belgium, and the Netherlands. Among the reporting countries, three stand out for the high value of trade in education: Australia, Canada, and the United Kingdom. In fact, Australia is one of the few OECD members having reported trade in education over a long period of time. Australia has a positive trade balance in education that grew from US\$2 billion in 2000 to nearly \$8 billion in 2006. Although the United Kingdom posted a positive trade balance of \$547 million in 2005, this figure fell well below what one might expect, given this country's reputation as a preferred destination for foreign students as shown in Table 2. Overall, data on the value of trade in education services are scarce and not very reliable. Currently, the cross-border mobility of students remains the best indicator of international trade in education. For this reason the following sections of this paper are centered on cross-border travel, starting with the issue of comparative advantage.

Table 6: International Trade in Education Services (in Millions of US\$)

Australia		2000	2006
	Export	2 376	7 810
	Import	342	587
	Net	2 034	7 223
Canada		2000	2005
	Export	254	155
	Import	38	118
	Net	115	38
Czech Republic		2004	2005
	Export	27	32
	Import	21	18
	Net	6	14
Denmark		2005	-
	Export	30	
	Import	62	
	Net	-32	
Hungary		2004	2005
	Export	16	19
	Import	23	23
	Net	-7	-4
Italy		2001	2005
	Export	43	90
	Import	79	96
	Net	-3.6	-6
Korea		-	2006
	Export		23
	Import		113
	Net		-91
New Zealand		2003	2006
	Export	9	16
	Import	12	15
	Net	-3	1
Poland		2004	2005
	Export	26	21
	Import	34	28
	Net	-9	-7
Portugal		2001	2003
	Export	11	16
	Import	18	18
	Net	-7	-8
Slovak Republic		-	2005
	Export		15
	Import		47
	Net		-32
UK		-	2005
	Export		573
	Import		25
	Net		547

Source : OECD (2008c)

Comparative Advantage: Theory and Facts

The preceding section shows that certain countries are successful in attracting students from around the world. The issue now is identifying the main factors behind this success. If we refer to the theory of international trade or the Heckscher-Ohlin (HO) model, a country's comparative advantage is assumed to be determined by relative factor scarcity.³ More specifically, a country will export the good that uses its abundant factor most intensively, assuming there are no barriers to international trade. Therefore, tests of the HO-model generally consist of identifying factors that are intensive in the production of a good or service, and then measuring the extent of their impact on national exports of the good. This approach was applied in the empirical studies of Sapir and Lutz (1981), Marvasti (1994), and Schulze (1999) as well as the theoretical studies of Hindley and Smith (1984), and Deardoff (1985) in their work on generalizing the H-O model to services. Most of these tests of the H-O model seem to indicate that the theory is sufficiently robust to apply to any good or service. Reviewing the applicability of the HO-model to education, firstly it is appropriate to identify the factors intensive in the delivery of education services, particularly at the tertiary level, which is the most affected by cross-border mobility.

Any institution of higher education operating within the legal framework of a country is tasked with disseminating knowledge and moulding people's minds. Obviously, besides the infrastructures in place (buildings, furniture, electronic and communication equipment) it is particularly the presence of the body of professors that incarnates and defines the supply of education of this learning institution. Without neglecting other factors, one can reasonably assume that a learning institution is intensive in human capital (qualified labour as professor). It follows that the more a nation is abundant in human capital, the more it can provide education services and eventually export these services to other countries. However, this conclusion on export performance appears premature for various reasons. Firstly, it is not easy to competently measure this human capital variable. Neither the ratio of university and college graduates to the active population, nor the Harbison-Myers index is a good proxy for human capital, since these ratios are too aggregate. Additionally, like other services, education presents the characteristics of simultaneous supply (production) and demand (consumption). (Hill 1977). Therefore, it is not enough for an institution to be abundant in factors required to supply education service - it must also be able to generate demand.

³ Other assumptions of this theory include: no factor intensity reversal; similarity of production functions across countries; constant returns to scale; homogeneous and identical tastes across countries, and no factor mobility between countries.

But the demand for education frequently reflects subjective as well as objective evaluations from the consumer. It is a well established fact that the choice of a learning institution is based on its reputation⁴, which is literally created over time (Roberts and Thompson, 2007; Varghese, 2008). This problem of subjective evaluation is exacerbated in the choice of institutions from different countries. Aharoni (2000) and Grosse (2000) suggest that, in general, competitive factors and reputation are more important than cost factors in the supply of services.

The availability of human capital is a necessary condition for the supply of education services, but not sufficient to generate either domestic or international demand. The models for analysing trade among countries have evolved, from the Heckscher-Ohlin-Samuelson model to the industrial organisation approach and Dunning's eclectic theory emphasising the internal assets multinational firms possess (Dunning 1980).

Indeed, the presence of reciprocal flows in international trade statistics (exports and imports of the same good) has prompted economists to explain this growing phenomenon of intra-industry trade. Most economic studies identify economies of scale and product differentiation as the crucial factors explaining intra-industry trade (Grubel and Lloyd, 1975). Intra-industry specialisation is, in fact, nothing more than an increased division of labour attributable to expanded market size. Thus, trade theorists have introduced imperfect competition, economies of scale, and the product cycle into their analyses. The focus has been on vertical specialisation, i.e. the setting of different stages of production in different countries. Dunning's eclectic approach explores ownership-specific advantages that multinationals possess as assets, such as: brands, technological knowledgebase and reputation (Dunning, 1980). Most of these trade theories, based on imperfectly competitive markets or industrial organisation, do provide a rigorous analysis of trade among countries (Vernon 1966; Balassa 1986; Krugman 1991; Leamer 1984).

It follows that the competitive advantage of a country exporting education services is to be sought in the industrial organisation approach or imperfectly competitive markets and the particularities of the country itself. This is exactly what the OECD has been doing in its regular publication *Education at a Glance*.

⁴ A survey conducted by the Forum for the Future, shows that: "Reputation is still king, especially for younger respondents. Two-thirds of under -19s claim league tables were important or very important in their choice of course (University), compared to half of over -30s. For overseas students this is even more important: 76% of African and 84% of Far Eastern students identified it as of high significance". <http://www.forumforthefuture.org/node/1295>

The OECD (2008) study clearly reveals that many factors collude to create competitive advantage in education services. These factors reflect economic and political conditions as well as sociological and cultural affinity.

In fact, one of the main attractions of cross-border education is the language of instruction (OECD 2008a). This is the reason for the increasing flow of foreign students to English-speaking countries such as the United States, the United Kingdom, Australia, Canada, and New Zealand. OECD countries whose language of instruction is widely spoken and read (French, German) are also leading destinations of cross-border students. As a way to take advantage of the growing international market, countries such as Belgium, France, Germany, Hungary, Japan, have introduced programs and courses in English, especially in the areas of business studies (Varghese, 2008). The cost of education and other financial considerations are key factors in the decision of where to study, simply because studying abroad is expensive. This factor however has an indeterminate impact. For instance, countries like Denmark, Finland, Iceland, Norway, and Sweden, which do not distinguish between national and international students and do not charge tuition fees for higher education, are not yet among the leading host countries of foreign students. On the other hand, “tuition costs do not necessary discourage foreign student as long as the quality of education provided and its likely returns make the investment worthwhile” (OECD, 2008a, p. 357). Some studies support the hypothesis that the cross-border flow is greater toward countries where the cost of higher education is low (Varghese, 2008, p. 22). There is a noticeable decline of the flow from higher cost countries (UK, USA) to low cost countries (Australia, Ireland, New Zealand) (Table 2). Another important element related to costs is the number of students enrolled in an institution. As the financing of a university depends on the number of students it has enrolled, universities could benefit from attracting more international students, which could result in more resources and more competitive costs, leading to a virtuous cycle for the universities (UNESCO, 2007).

Immigration policies and visa formalities are key considerations in the choice of host country for higher education. According to Varghese (2008), ever since 9/11 there have been severe visa restrictions on travel to Europe and the USA. Finally, as observed by the OECD, many other factors influence student flows in cross-border education.

Other important factors for foreign students include the academic reputation of particular institutions or programmes; the flexibility of programmes with respect to counting time spent abroad towards degree requirements; the limitations of tertiary education provision in the home country; restrictive university admission policies at home; geographical,

trade or historical links between countries; future job opportunities; cultural aspirations; and government policies to facilitate transfer of credits between home and host institutions. The transparency and flexibility of courses and degree requirements also count (OECD, 2008a, p. 379).

As Varghese (2008) observes, there is a positive association between the global ranking of universities and the preferred destination of students. One reason for the USA as well as other OECD countries being preferred destinations is the perceived academic superiority of their institutions.

The overall conclusion is that there are many competitive factors influencing student flow and it is unlikely that any host country would feature most of them. It now remains to establish whether freeing trade in services, by removing existing barriers to trade, would induce an increase in the flow of cross-border students, and which countries would be the preferred destination. We begin tracking this issue by outlining the various barriers to trade in education service and discussing the GATS provisions.

The Parameters of Education Market Openness: A Minefield

The presence of subtle and concealed barriers

There is a plethora of nontariff barriers affecting trade in education services. Indeed, along with healthcare, education is not only one of the most regulated sectors of economic activity, but also one in which the government is a major actor, both as a legislator and a provider.

Measures liable to have an impact on the delivery of education services include immigration and residency policies, funding arrangements for educational institutions, and regulations governing the closing and opening of such institutions throughout the nation and its regions. We can group all these various obstacles to exports into two broad categories. The first - which may be considered a domestic barrier - relates to the specific factors that condition the supply of education services and its perceived quality. In particular, these will include the size of the institution, the program offered, the reputation, and tuition fees. The second category comprises external barriers, to wit those erected by the country with the specific intent of limiting or eliminating exports. Among such external barriers, we observe practices designed to limit access to markets, preferential treatment

given to local institutions, the obligation on foreign institutions to teach foreigners, and the refusal to recognise diplomas from foreign countries.

We may obtain a better understanding of on these various obstacles if we examine the means by which education services are delivered. The following sample of barriers may include:

Mode 1: Cross-border supply

- Restriction on imports of educational material
- Restriction on electronic transmission of course material
- Non-recognition of degree obtained through distance mode

Mode 2: Consumption abroad

- Restriction on travel abroad based on discipline or area of study
- Restriction on export of currency and exchange
- Quota on the number of students proceeding to a country or institution
- Prescription of minimum or standards attainments

Mode 3: Commercial presence

- Insistence on a local partner
- Insistence that the provider be accredited in the home country
- Insistence on partner/collaborator being from the formal academic stream
- Insistence on equal academic participation by foreign and local partner
- Disapproval of franchise operations
- Restrictions on certain disciplines/areas/programs that are deemed to be against national interest
- Limitations on foreign direct investment by education providers
- Difficulty in approval of joint ventures

Mode 4: Presence of natural persons

- Visa and entry restrictions
- Restriction on basis of quota for countries and disciplines
- Nationality or residence requirement
- Restriction on repatriation of earnings (Knight, 2006, pp. 33–35)

These barriers appear to be subjective and heterogeneous with a preponderance of regulatory norms. Of greater concern is that these barriers to trade vary greatly from one country to the next, as we see on Table 7. Given these circumstances, it

is difficult to ascertain to what extent a free trade agreement would be able to fully address these obstacles. To explore this we now turn our attention to the GATS.

GATS: Lack of focus and limited impact

The GATS extended the following principles with a view to liberalising services:

- Most-favoured nation clause
- National treatment
- Transparency
- Incremental liberalisation
- Market access
- Restrictions on subsidies
- Exception clause: list of commitments for reasons of balance of payments equilibrium, public health, public morals, compliance with laws, etc.

The applicability of GATS to education is first and foremost determined by its coverage. In fact, Article 1 limits the scope of the agreement's field of application, specifying:

“Services” includes any service in any sector except services supplied in the exercise of governmental authority;
“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 (WTO, 1993, p. 286).

Services delivered by the public sector do not fall under the agreement, which is a matter of some controversy. Some maintain that the definition of services provided “on a commercial basis” is vague, leaving room for its extension to education (Sinclair and Grieshaber-Otto, 2002, pp. V and VI). According to the executive of the WTO, education provided and funded by the government is exempted from the Agreement (Knight, 2006, p. 36). Consequently, in the matter of the applicability of the Agreement to the education sector, there appears to be some ambiguity.

With regard to this confusion over the aegis of the GATS, the OECD's Pierre Sauvé (2002, p. 48) observes that “public/private frontiers are inherently murky, vary significantly across countries and sectors, and are subject to change as markets, political dynamics and technology evolves”. In short, detractors from GATS will in this ambiguity find fodder for their criticisms.

If we set aside this controversy over the field of coverage of the GATS and assume that it does extend to education, it is of some importance to examine how the Agreement actually works. The question is straightforward: How might general principles reflected in clauses determining most-favoured nation status, national treatment, rules governing access to markets, and rules on subsidies and countervailing action play out in the case of education?

It is of some interest here to refer to the analysis by Grieshaber-Otto and Sanger (2002), who paid particular attention to the contribution of the GATS, especially in Canada. First of all, these two authors maintain that the classification of education services in the GATS is not accurate, and that some relevant services are omitted from this category, such as extracurricular activities, libraries, and daycares. This classification problem appears to be a serious issue, to the extent that it determines which rules and obligations of the GATS are applicable.

The authors also maintain that some principles specific to the WTO are applicable to all services, creating substantial administrative costs for governments. Thus, the principle of transparency applies just as much to the education sector as to all other services. Every school commission, every level of government must thus ensure that its activities are compliant with international rules promulgated by the GATS. However, since this Agreement is in constant change, will schools be able to keep up with these changes?

Even though no decision concerning education has been made, it is observed that the Canadian government is eager to export some education services while filtering the entry of foreign service providers into Canada (Grieshaber-Otto and Sanger, 2002). A unilateral practice of this type runs the risk of increasing pressures on the Canadian government and could lead to an opening of the borders to foreign distributors and participation in GATS negotiations.

Commercialising or privatising education services would erode the fundamental values underlying the Canadian education system, to wit universality and accessibility. Commercialisation tends to promote narrow interests and does harm to the principles of equity, diversity, and openness on which the Canadian education system is based. Several measures initially designed to promote specific goals in the field of education could be construed as barriers to the Commercialisation of education services. The list of obstacles in this area is quite long and they are essentially designed to preserve fundamental values shared by the entire society (Grieshaber-Otto and Sanger, 2002).

Grieshaber-Otto and Sanger also emphasise that, aside from any implications for fundamental values, Commercialisation of the services creates a risk of limiting the government's ability to regulate. Already, the private sector has shown an ability to insinuate itself into public schools in the form of fundraisers and sponsorships. Strong lobbies are agitating for the development of public/private partnerships within schools. Multinationals see education as potentially representing a large source of revenues. These firms could seek to use the GATS to sway government policy in their favour in areas such as educational television channels, private tutoring services, and readiness tests (Grieshaber-Otto and Sanger, 2002).

Several flaws in the arguments advanced by Grieshaber-Otto and Sanger are worth mentioning. Conclusions drawn by these two authors with respect to the repercussions of GATS for the Canadian educational system reflect their personal understanding of this Agreement and not a survey or quantitative data. Their conclusions should be construed as speculative, since Canada has not yet made any decisions with regard to this matter.

Table 6: Example of One Country's Requests to Remove Trade Barriers to Education

Request to Remove Barrier	Targeted Countries
- Remove nationality requirements for certain executives and directors of educational institutions	Taiwan, China
- Remove ownership limitations on joint ventures with local partners	Egypt, India, Mexico, Philippines, Thailand
- Remove prohibition on joint ventures with local partners	El Salvador
- Remove requirement that foreign entities teach only non-national students	Turkey
- Remove ban on education services provided by foreign companies and organisation via satellite networks - Remove requirements for foreign educational institutions to partner with national universities - Remove ban on for-profit operation in education and training services - Relax other operational limits and restriction on geographic scope of activities	China
- Recognise degrees issued by accredited institutions of higher education (including those issued by branch campuses of accredited institutions) - Adopt policy of transparency in government licensing and accredited policy with respect to higher education and training	Israel, Japan
- Remove burdensome requirements, including non-transparent need tests, applicable to foreign universities operating or seeking to operate in the country	South Africa
- Remove restrictions that the granting of degrees is limited to national institutions only	Greece
- Remove requirement that foreign entities teach only non-national students	Italy
- Remove quantitative limitation of education institutions	Ireland
- Adopt a policy of transparency in government licensing and accrediting policy with respect to higher education and training	Spain, Sweden

Source: Knight (2006, p. 35).

Grieshaber-Otto and Sanger (2002) attempt to paint the GATS as sinister, but they do not clearly explain how it would impede the supply of educational services. In essence, they strive to demonstrate that the government should not launch negotiations in this area by reference to the fact that the governmental authority clause would not be sufficiently inclusive. The authors could have done more to explain the potential repercussions of Commercialising and liberalising education services on the quality of services delivered.

For now, let us assume that a country undertakes to liberalise its education service in compliance with the provisions of the GATS on its own initiative. According to the national treatment, transparency, and market access clauses, the government of this country would be obligated to extend the same treatment to foreign and domestic suppliers of education services. For example, should Harvard University of Boston desire to set up a campus in Montreal, it would be entitled to the same financial assistance from the government of Quebec as any other university in the province. Similarly, this Harvard campus would be subject to regulations governing the Quebec school system (in particular, the ceiling on tuition fees). Under these conditions, the Montreal campus of Harvard would be unable to levy the same high tuition fees as the main campus in Boston. Students would certainly opt to study at the Montreal campus, where costs would be much lower. However, to what extent would Harvard be able to practice regional price discrimination in the supply of its service? The requirements of profitability and service-quality certification leave some room for scepticism. In short, this example reveals that the potential for expansion of institutions of higher education abroad (local presence) is necessarily quite limited. The preferred mode of exporting to foreign students must remain attracting them to the national territory.

Even though this code, initially adopted during the Tokyo Round (1973–1979) and strengthened during the Uruguay Round, was designed to limit recourse to subsidies by member countries, it remains ineffectual for several reasons. First, the legal text of the Agreement is replete with ambiguity and provides for numerous exceptions. Second, the efficiency with which litigation is settled is debatable, owing to the complexity and length of the process and mechanisms of appeal that are frequently invoked. This is amply demonstrated by the challenges to subsidies in the aeronautics sector, Canada versus Brazil on one hand and the European Union versus the United States on the other. Finally, we should point out that application of the code to subsidising services, in particular education, proves quite delicate. Indeed, to date most trade litigation has been concentrated in manufacturing industries, such as: aeronautics, automotive, steel, leather, softwood, and pure and alloyed magnesium. Therefore, we should not be surprised that countries continue to financially support their domestic educational institutions while remaining sheltered from the provisions of the Dispute Settlement Body (DSB).

In the final analysis, the general principles of the GATS (most-favoured nation status, national treatment, market access, restrictions on subsidies, etc.) do not cover the full gamut of barriers in education according to the mode of delivery previously presented. For example, neither most-favoured nation status (MFN) nor national treatment (NT) can stop a country from requiring a partnership

relationship between the foreign and domestic institutions. Barriers related to mode 3 (visa restrictions, repatriation of profits) are still far from being addressed directly by MFN or NT. Even if GATS can contribute to removing some barriers specifically related to mode 3 (commercial presence), such as discriminatory financing rules, the government can always find some ingenious way to circumvent these measures to achieve its goal. Knight (2006, p. 37) observes:

Trade policy analysts are quick to give assurances that the role of national governments in setting their own policy objectives and regulations will not change, but more clarification of Article 1.3 is needed and of Article 6.4 which addresses domestic regulations and a country's ability to set qualifications, quality standards and licences.

As stated in Article 6.4 "qualifications, requirements and procedures, technical standards and licensing are not more burdensome than necessary to ensure the quality of the service". The language is purposely vague and there are no definitions for terms such as "more burdensome than necessary" or "quality of services".

Besides, the scope of the GATS is further limited by its approach of incremental and commitment-based liberalisation.⁵ Indeed, few countries have committed themselves to liberalisation. As at March 6, 2006, only 47 of 149 OECD member countries (counting the EU as a country) had made commitments in the area of education - 38 of them were related to higher education. Personal, cultural and recreational services, education, health are services in which the countries made the fewest commitments. The United States, a country that frequently calls for greater market openness, has failed to make commitments outside of the adult and other education subsector.

As Knight (2006) observes, a particular problem with modes 1 and 4 of supplying education services, involving the international mobility of students, is registration and quality certification on one hand, and recognition of qualifications on the other hand. Finding a common basis for registration and certification and for educational quality, especially between countries at different stages of development, poses a clear conundrum. Confronted with this reality, UNESCO (2005) collaborated with the Commonwealth of Learning to prepare a guide to oversee the implementation of national policies governing registration, certification, and quality, as well as recognition of qualifications in higher

⁵ Specific commitments can be implemented in four subsectors: primary education, secondary education, higher education, and adult and other education.

education⁶. It should be underscored, however, that we are dealing with guidelines and not obligations.

Furthermore, even though the question of mutual recognition of qualifications was discussed during the Uruguay Round, the corresponding Agreement included in the GATS remains vague and is not particularly constraining. Indeed, Article VII of the GATS is only an invitation to member countries to collaborate with intergovernmental and designated nongovernmental organisations to establish standards for recognising qualifications for the exercise of a profession.

Finally, as the OECD (2004, p. 261) observes, “The GATS does not prevent members from maintaining monopoly or exclusive suppliers; in fact, it specifically recognises that these are likely to exist or that members might introduce them”.

In summary, barriers affecting the supply of education services are both so common and so complex that it seems unlikely that any international agreement whatsoever will be able to fully overcome them. The international mobility of students will thus remain circumscribed geographically by policies implemented in each country, by the prestige that some establishments have acquired with the years, and by many factors involving cultural and political affinity, to name but a few.

Conclusion

Over the course of the past thirty years, educational establishments around the world have developed a large number of student and professorial exchange programs, long-distance learning programs, and research partnerships. As a consequence, hundreds of offshore programs are offered, universities are establishing new campuses or offering foreign studies programs, private firms in the field of education are offering educational software, in-house training modules, and online courses. Also, in particular, the international mobility of students is becoming more widespread. The total number of foreign students in the world was approximately 0.6 million in 1975. In the following years this number rose steadily, reaching 2.9 million in 2006. However, this international mobility follows the pattern of South to North, or North to North, with the OECD

⁶ The Commonwealth of Learning (COL) is an intergovernmental organisation created by Commonwealth Heads of Government to encourage the development and sharing of open learning and distance education knowledge, resources and technologies. COL is headquartered in Vancouver, Canada.

zone functioning as a key attractor, especially the United States and the United Kingdom.

Available studies conducted by the OECD and UNESCO on the competitive advantages presented by the countries hosting foreign studies are unambiguous. Many factors come into play, reflecting economic, political, sociological, and cultural considerations, such as: the language of instruction, tuition, visa and residency policies, the prestige of the establishments, professional prospects, and the conditions for awarding diplomas.

Under these conditions, this paper explains that the impact of the GATS on the geographical mobility of students must be very limited for two essential reasons. First, the principal barriers to trade in education primarily involve quality assurance, accreditation, the recognition of diplomas, and residency visas. The current contents of the GATS does not directly address these various barriers and we may even be justified in doubting that any international agreement would be up to the task. Furthermore, the choices made by individual countries in the field of education and development are compelling contributors to students' international mobility.

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