International Trade in Educational Services: Good or Bad?

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ABSTRACT

International trade in post-secondary educational services has grown substantially over the past decade. Traditionally it takes the form of international student/teacher mobility but also, and increasingly, foreign investment by educational institutions or e-learning services. These developments in international trade in post-secondary educational services, which have come to the fore with the inclusion of educational services in the World Trade Organisation's negotiations on the General Agreement on Trade in Services, are causing great concern in the teaching and student community. This paper analyses the challenges and opportunities that international trade in educational services represents for higher education systems in industrialised and developing countries, and shows the importance of international quality assurance in education. Breaking with studies that view the international education market as homogeneous, the paper argues that traditional higher education will be less affected by these developments than the lifelong-learning sector, and that trade in such services will expand more in the developing countries than in the industrialised world.

INTRODUCTION

Until recently, it was incongruous to refer to international student mobility as *international trade in educational services*. Today in some OECD countries, there are clearly commercial motives as well as the usual cultural and political rationales behind policies to internationalise higher education. The inclusion of "educational services" in the General Agreement on Trade in Services (GATS) negotiations now under way in the World Trade Organisation (WTO) has raised awareness of the trends and issues relating to international trade in educational services in higher and, more broadly, post-secondary education. Two separate but key policies to

promote the internationalisation of higher education, one taking a cultural approach and the other a commercial approach, have fuelled the growth in trade in educational services over the past decade. International trade in educational services has accordingly increased substantially in the OECD area, and in some cases taken new forms.

The potential implications of this development of international trade in educational services are raising numerous concerns in the educational community. The recent Washington Forum on Trade in Educational Services, hosted by the OECD and the United States Department of Commerce (23-24 May 2002), showed that the debate on trade in educational services was less about conflicting country positions than about conflicting professional groups, each with their own culture and interests. Within a single country, private-sector providers of technical or vocational training (particularly in new technology), testing companies, quality assurance agencies and the business world viewed the liberalisation of trade in educational services in a fairly favourable light, whereas students, traditional universities and traditional educational circles appeared to be less in favour of such liberalisation, or the very idea of *trade* in education. To some extent, these differences of opinion reflect opposing interests. Universities, for instance, may not be convinced of the benefits of liberalising higher education, yet it would probably increase the turnover of quality assurance agencies and create new opportunities for vocational training providers. But the differences of opinion also stem from a cultural misunderstanding: even when they do adopt business practices, universities – whose identity is usually based on non-commercial values – remain suspicious of trade, whereas private enterprise often finds it hard to view the culture and specificity of university services other than in a commercial light – or as protectionism.

This paper analyses the beneficial and adverse implications that international trade in educational services might have for higher education systems in the industrialised and developing world. It argues that traditional higher education will be less affected by these developments than lifelong learning, and that there will be more growth in this trade in developing countries than in the industrialised world. Although some of the arguments apply to all types of education, this paper is confined to educational services at post-secondary level. The first section looks at recent developments in international trade in education services, identifying the policies and factors that have contributed to it. Analysing the concerns raised by international trade in education services with regard to cost funding, educational quality and economic expansion, Section Two highlights the complexity of the issues involved in the internationalisation and liberalisation of the education sector. However, it does not specifically address the GATS, nor the cultural and pedagogical issues relating to internationalisation. Section Three takes a forward-looking approach to see what impact international trade in educational services

will have on various types of economy (industrialised, emerging, developing), educational sector (traditional, lifelong learning) and service provision (involving some or no physical mobility). The conclusion summarises the leading insights set out in this paper and looks at some of the policy issues raised by the development of international trade in educational services.

INTERNATIONAL TRADE IN EDUCATIONAL SERVICES AT POST-SECONDARY LEVEL

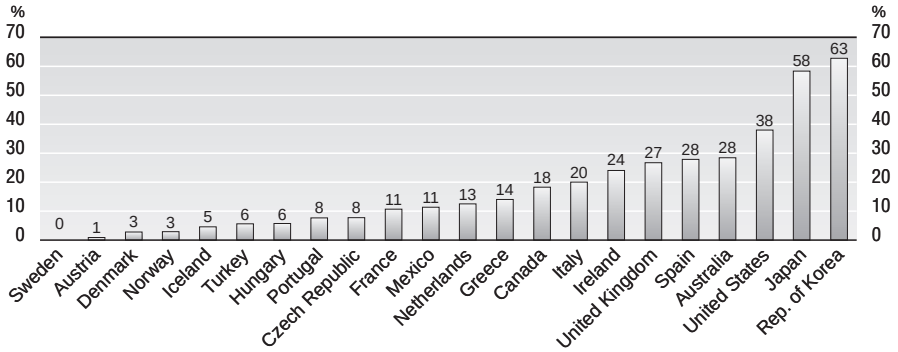
International exchanges in educational services: commerce and cultural exchanges

While international exchanges in the field of education have long been promoted on cultural, political and economic grounds, countries such as Australia, the United Kingdom and the United States are increasingly viewing them as trade. What is international trade in educational services? Under the GATS classification, it covers any international trade in the field of education, divided into four "modes of delivery": cross-border supply of educational services (on line learning, distance education, videoconferencing, etc.) (Mode 1); consumption abroad (international student mobility) (Mode 2); foreign investment by educational institutions (Mode 3); movement of natural persons (international teacher mobility) (Mode 4) (see next article, Table 2, p. 53).

Today student and teacher mobility is the leading form of international trade in educational services. It has always been supported by OECD countries on cultural, economic and political grounds. Every OECD country finances these movements to some extent via university bursary schemes, bilateral or multilateral agreements and, increasingly, ambitious regional policies to promote mobility. The European Union, for instance, used its Erasmus programme to fund over a million student exchanges within the EU between 1987 and 2002. For the sake of convenience, these programmes can be said to take *a cultural approach* to international trade in higher education.

With the end of the cold war, problems encountered in the funding of higher education as a result of its massification, and the growing number of international students, some countries have opted for *a commercial approach* to the internationalisation of higher education. Although the extent to which higher education is subsidised varies considerably across countries, domestic or home students pay over 30% of the real cost of their education in only three of the OECD countries for which data are available (Figure 1). Higher education is therefore heavily subsidised in the OECD area. The main feature of the commercial approach is to offer educational services to international students at unsubsidised rates covering at least the cost of their education (Table 1). As with any other market service, the

Figure 1. **Percentage of direct expenditure for tertiary educational institutions coming from students' households, 1998**



Note: The indicator expresses direct expenditures for tertiary educational institutions coming privately from households as a percentage of direct expenditures from all sources for tertiary educational institutions.
Source: OECD Education Database.

Table 1. **Level of tuition fees in public universities for international students compared to domestic students**

Tuition fee structure	Countries
Higher tuition fees for international students than domestic students	Australia, Austria,* Belgium,* Canada, Ireland,* New Zealand, Netherlands,* Slovak Republic, Switzerland,* United Kingdom,* United States
Same tuition fees for international and domestic students	France, Greece, Hungary, Iceland, Italy, Japan, Korea, Portugal, Spain
No tuition fees for either international or domestic students	Czech Republic, Denmark, Finland, Germany, Norway, Poland, Sweden

* For non-European Union or European Economic Area students.
Source: Eurydice; European Society for Engineering Education (SEFI); OECD.

second feature of this commercial approach to the internationalisation of higher education is the drive to attract a large number of international students or corner a large share of the market. On that basis, the United States, the United Kingdom, Australia, Canada and New Zealand can be said to have adopted a commercial approach to the internationalisation of higher education. They have all set up international agencies to promote their higher education systems abroad, and authorise their universities to provide education services at other than subsidised rates. Australia and New Zealand have rules that actually prevent universities from

providing subsidised educational services to international students. These countries differ from those which seek to attract international students by subsidising their education (*e.g.* Germany and France) and those which do not subsidise very much (if at all) but do not make a special effort to recruit international students either (*e.g.* Korea). Other countries such as Belgium restrict subsidised access to their universities by imposing a quota on subsidised international students – which is in fact seldom attained.

The distinction between the commercial and the cultural approach is criticised by both advocates and opponents of trade in education, and yet it does prove useful. On the one hand, refusing to redistribute taxation to non-taxpayers may be construed simply as fiscal equity or a domestic policy requirement rather than trade. On the other hand, because the export value of educational services in a country's balance of payments is not confined to just tuition fees but extends to all the living and travel costs of international students in the host country, the cultural approach actually does have commercial implications. Although the export value of educational services is lower in countries that subsidise international students than in countries that do not, it will be positive in both cases – and so both approaches make a positive contribution to the balance of payments. This, however, should not mask the fact that the two approaches bring into play some entirely different financial incentives and situations where universities and international students are concerned. Distinguishing between the commercial and the cultural approach also helps to grasp how countries stand in relation to policy issues or the GATS negotiations on educational services. For instance, the lack of statistical data on exports and imports of commercial services for most of the countries taking a "cultural approach" to internationalisation merely reflects the fact that they do not treat student mobility as commercial services.

But two misunderstandings need to be clarified. Cultural and commercial approaches to the internationalisation of tertiary education are not mutually exclusive, nor do they necessarily conflict. First, any country that authorises or compels its universities to market their educational services to international students at cost price also has public and private funding programmes for the more gifted and/or less wealthy international students. Second, just as international student mobility corresponds to exports and imports of educational services in countries with a cultural approach to internationalisation, international trade in educational services is bound to have a cultural impact in countries taking a more commercial approach. A cultural approach promotes international student mobility for the intellectual and cultural enrichment it affords the country's universities, the stimulus it gives to academic programmes, and the way it brings together the political and economic *élites* of the host and sending countries. Largely unrelated to the issue of how international students finance their education, the anticipated and likely effects will be just the same whether the approach to internationalisa-

tion is commercial or cultural. Consequently, although their motives and implications are different, the cultural and the commercial approaches are by no means conflicting or exclusive. In fact part of the problems and challenges they face are identical, including quality assurance and the international recognition of qualifications.

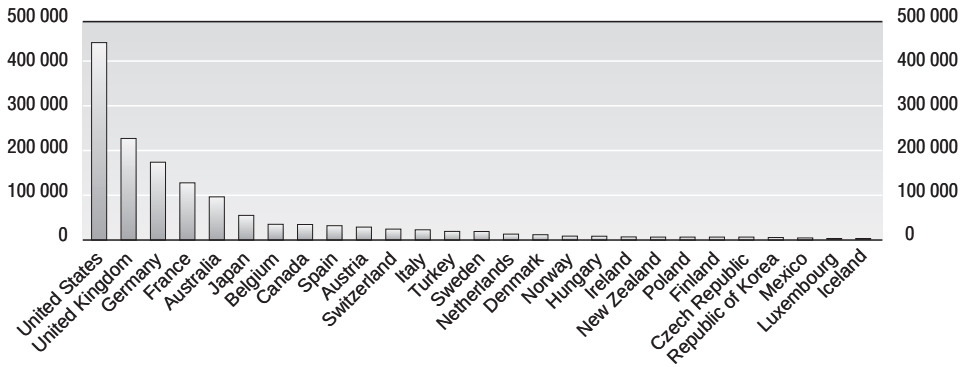
Development of international trade in educational services

Three signs reflect the growing importance of international trade in post-secondary educational services:[1] the significant rise in international student mobility, the development of new forms of educational service provision and the emergence of new players in the education sector.

International student mobility

International student mobility to OECD countries has doubled over the past 20 years. Between 1995 and 1999, the number of foreign students rose almost twice as fast as the total number of tertiary-level students in OECD countries (9% for the former as against 5% for the latter). Most international trade in higher

Figure 2. **Number of foreign tertiary students in OECD countries, by host country, 1999**



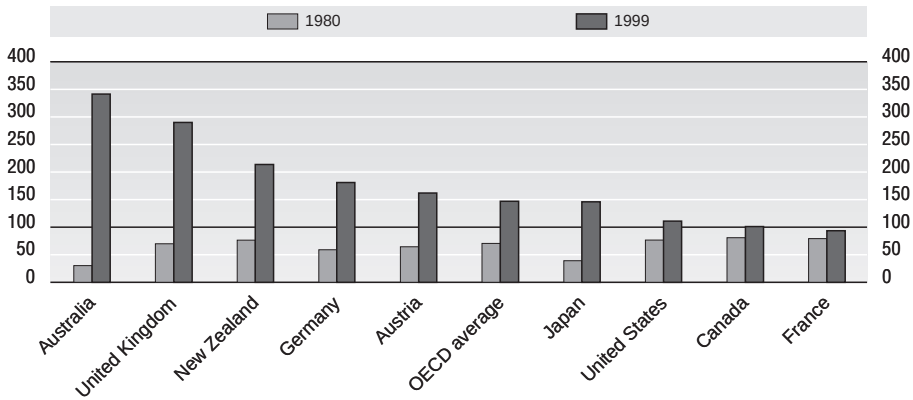
Note: Apart from Canada, Korea, Turkey and the United Kingdom for which the data refer only to non-resident international students who came to that country to study, the other countries' data include both resident and non-resident foreign tertiary students (ISCED 5A, 5B and 6). Thus, the number of overseas students is generally overestimated, especially in countries like Germany and Switzerland where the access of foreigners to citizenship is (or was) limited. For example, 34% of foreign students in Germany were resident foreigners in 1999. In 1999, 50% of foreign students in Switzerland and Sweden were resident foreigners. However, the data for New Zealand exclude most Australian students, and are thus underestimated.

Source: OECD Education Database.

education services took place within the OECD area, which received 85% of the world's foreign students. Six countries – the United States, the United Kingdom, Germany, France, Australia and Japan – account for over three-quarters of all the foreign students recruited to the OECD area. Among them, Australia stands out: the number of foreign students there has tripled since 1990 and multiplied more than thirteen-fold since 1980. The number of foreign students is on the decline in France, however, which moved down from second to fourth place between 1990 and 1999, and has remained relatively stable in Canada and the United States (Figures 2 and 3). But the four leading English-speaking countries alone account for 54% of all foreign students in the OECD area (Table 2). The majority of higher-education service exports are thus from countries with a commercial approach to internationalisation.

Over half of the 1.5 million foreign students studying in the OECD area come from non-member countries. With 45% of all international tertiary-level students in the OECD area, Asia heads the list of regions importing higher education services, followed by Europe (34%), Africa (11%), North America (7%), South America (3%)

Figure 3. **Increase of foreign tertiary students in OECD countries 1980-1999 (1990 = 100)**



Note: "Foreign students" are defined in the note to Figure 2. The "OECD average" is the mean average of all OECD countries for which data are available for the years concerned. The countries shown are those which enrol substantial numbers of overseas students and which have data for the three years. Data for Germany do not include the former East Germany in 1980 and 1990, but 1999 data include the former East Germany, which accounts for part of the apparent enrolment growth since 1980.
The ISCED classification on educational levels was changed in 1997, so that data from before and after 1997 are not fully comparable. Tertiary education corresponds to ISCED levels 5A, 5B, 6 in the new classification, which might not cover exactly the same programmes as ISCED 5, 6 and 7 in the former classification; see *www.uis.unesco.org/en/act/act_p/isced.html* for details.

Source: UNESCO for 1980 and 1990, except for Japan (Ministry of Education); OECD for 1999.

Table 2. **English-speaking countries' shares of foreign tertiary students by origin, 1995 and 1999 (%)**

Origin of students	United States		United Kingdom		Australia		Canada		New Zealand		Ireland		Total of the 6 countries	
	1995	1999	1995	1999	1995	1999	1995	1999	1995	1999	1995	1999	1995	1999
Asia/ Oceania	49	44	7	11	12	13	5	2	1	1	0	0	74	73
Americas	56	49	9	15	1	3	6	5	0.2	0.3	1	1	72	71
Europe	19	14	17	24	1	1	2	2	0.1	0.1	1	1	39	41
European Union	16	12	20	28	1	1	5	2	0.1	0.1	1	1	42	44
OECD countries	35	31	12	14	6	7	4	2	0.5	0.5	0.4	0.5	58	56

Note: The table shows that 49% of the foreign students coming from the Asia/Oceania region in 1995 were studying in the United States, and 74% of the students from this region were studying in the six English-speaking countries concerned in 1995.
Source: OECD Education Database.

and Oceania (1%). China, accounting with Hong Kong for 9% of all international students in the OECD area, has the highest demand in the world, followed by Korea (5%) and Japan (4%). India (3%), Turkey (3%), Malaysia (2%) and the South-East Asian countries (5%) also account for a substantial share of the market. In Europe, Greece, Germany, France and Italy head the list with regard to demand for international education services (Table 3). In Europe and (to a lesser extent) America, international student mobility remains largely intra-continental. Conversely, while student mobility is increasingly "regional" in the Pacific area (Table 4), almost half of all Asian students opt to study in America. Nearly three-quarters of these students choose Anglo-Saxon countries where, again, institutions take a more commercial approach to the internationalisation of higher education (Table 2). Educational service provision by Anglo-Saxon universities to Asian students thus accounts for much of the business income from student mobility.

The international market for student mobility alone amounted to USD 30 billion in exports in 1998, or 3% of global service exports (Larsen, Martin and Morris, 2002). Yet the world market for post-secondary education is not confined to Mode 2 trade in tertiary education and the figure would be far higher if data were available for all forms of lifelong learning and education service provision. In Australia and New Zealand, educational services rank respectively third and fourth in terms of service exports, and fourteenth and fifteenth in terms of exports as a whole. Hence the importance of this trade today in their economies. The United States is the leading exporter of educational services, and also the leading importer among countries for which data are available in this field (Tables 5 and 6).

Table 3. **Number of tertiary foreign students in OECD countries from the 30 top sending countries (1999)**

		Number of students sent to OECD countries	Share of tertiary students abroad within the OECD area (%)
1	China	98 813	7
2	Korea	69 840	5
3	Japan	63 340	4
4	Greece	57 825	4
5	Germany	52 239	4
6	France	48 764	3
7	India	48 515	3
8	Turkey	44 009	3
9	Malaysia	40 873	3
10	Italy	39 487	3
11	Morocco	36 504	3
12	Hong Kong, China	32 476	2
13	USA	32 122	2
14	Indonesia	30 741	2
15	Canada	27 181	2
16	Spain	25 809	2
17	Singapore	24 504	2
18	United Kingdom	23 136	2
19	Thailand	21 337	1
20	Ireland	19 100	1
21	Russia	18 574	1
22	Algeria	16 490	1
23	Netherlands	15 351	1
24	Poland	15 341	1
25	Brazil	14 475	1
26	Sweden	14 036	1
27	Mexico	13 585	1
28	Norway	12 806	1
29	Austria	11 437	1
30	Pakistan	10 229	1

Source: OECD Education database.

Figure 4 compares the number of foreign students in a particular country with the number of that country's students abroad. The indicator shows that Australia, the United States, the United Kingdom and New Zealand "import" far more students than they "export".[2] But it cannot give us a "balance of payments" for educational services, because foreign students may be residents of the host country rather than mobile, because international student expenditure is not identical in every OECD country, and because this mobility is partly funded by the host country. However, it does give an idea of the relative ranking of the different OECD countries if these were private financial flows. In relation to their size, Australia, the United States, the United Kingdom and New Zealand would be the world's largest net exporters of educational services.

Table 4. **Distribution of foreign students enrolled in OECD countries by region, 1995 and 1999 (%)**

Origin of students	1995				1999			
	OECD countries in				OECD countries in			
	Europe	EU	Americas	Asia-Oceania	Europe	EU	Americas	Asia-Oceania
Europe	77	69	21	2	83	74	16	2
European Union	78	70	21	1	84	77	15	1
Americas	34	32	62	4	40	38	55	5
Asia-Oceania	25	23	54	21	30	28	47	23
OECD countries	50	46	39	11	54	49	34	12

Note: The table shows that 77% of European foreign students in OECD countries in 1995 were studying in OECD member countries located in Europe, and 62% of foreign students from the Americas who were studying in OECD countries were studying in OECD member countries located in America (*i.e.* the USA, Canada and Mexico).
Source: OECD Education database.

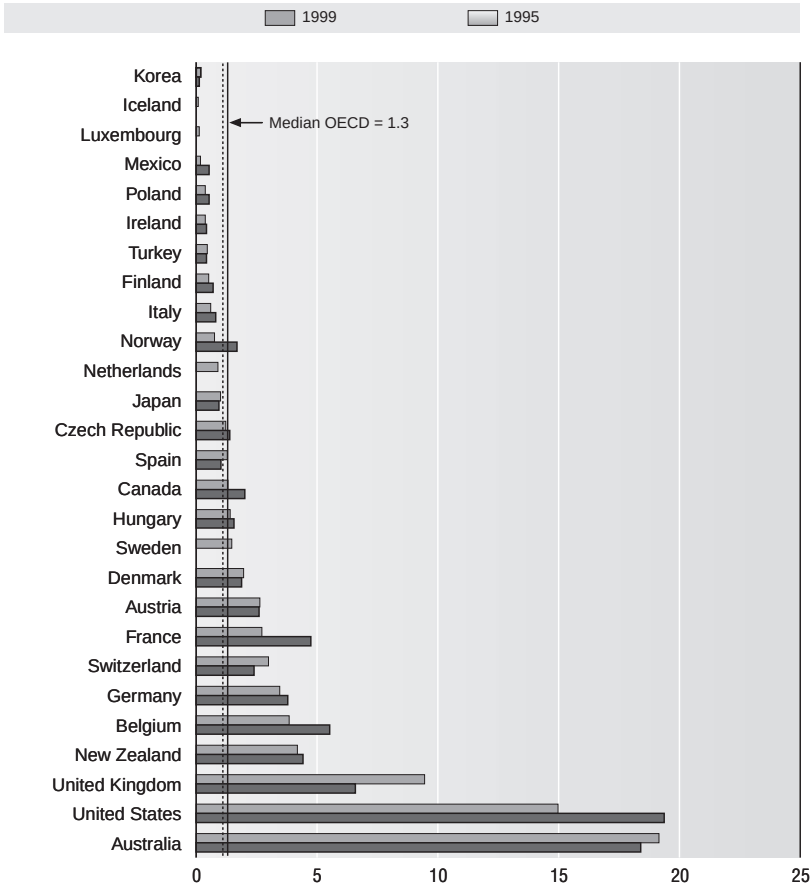
New forms of supply in post-secondary education

Far from being confined to student mobility, for which the most data are available, the growing importance of international trade in educational services is also reflected in the development of new forms of cross-border supply and the emergence of new players in the post-secondary market.

Private universities and educational service providers have developed two new modes of supply for international students in recent years, namely distance education and offshore campuses. Both are a way of avoiding the high cost of student mobility.

Distance education has been available for a long time in OECD countries in the form of correspondence courses. But the development of new information and communication technologies (including Internet, satellite, videoconferencing, video-cassettes and CD-ROM) has changed the nature of distance learning – now often e-learning – and broadened the market for it. In addition to the programmes offered by virtual universities, many conventional universities are now delivering their courses virtually. From a very low starting-point, this market has experienced the ups and downs of the e-economy. After very sharp growth in supply and a host of initiatives, few e-learning start-ups have proved to be profitable. Nevertheless, the market has great potential for the cross-border supply of educational services, as the example of Australia shows. While distance education there still accounts for only 6% of international student enrolment in higher education, it has been growing steadily since 1996. The development of the market and new virtual

Figure 4. **Number of foreign students per domestic student abroad in tertiary education by OECD country, 1995 and 1999**



Note: In 1999, Australia was receiving 19 international students per Australian student abroad. The "median OECD" figure indicates that in 1999 half of the OECD countries had a ratio of more than 1.3. In 1999, the mean average ratio for OECD countries was 2.9.
Source: OECD Education Database.

learning techniques relies heavily on traditional face-to-face teaching, increasingly supplemented with various forms of e-learning.

Offshore education is also a growing market for international students, where the main providers are British and Australian educational institutions. These are opening subsidiaries abroad or offering their educational programmes and qualifications via

Table 5. **Export earnings from foreign students and as a percentage of total export earnings from services, 1989, 1997 and 2000**

	1989		1997		2000	
	USD million	% of total service exports	USD million	% of total service exports	USD million	% of total service exports
Australia	584	6.6	2 190	11.8	2 155	11.8
Canada	530	3.0	595	1.9	796	2.1
Mexico	..	..	52	0.5	29	0.2
New Zealand	..	..	280	6.6	199	4.7
Poland	..	..	16	0.2	..	..
United Kingdom	2 214	4.5	4 080	4.3	3 758	3.2
United States	4 575	4.4	8 346	3.5	10 280	3.5
Greece	..	..	..	..	80	0.4
Italy	..	..	..	..	1 170	2.1

Notes: The USD figures are expressed in terms of current prices. The earnings figures are estimates based on samples of businesses and institutions, and are therefore subject to sampling error and the range of non-sampling errors involved in survey work. Australia, Italy and New Zealand include students from levels other than tertiary education in the trade in educational services data. For all other countries, the data correspond to tertiary students only.

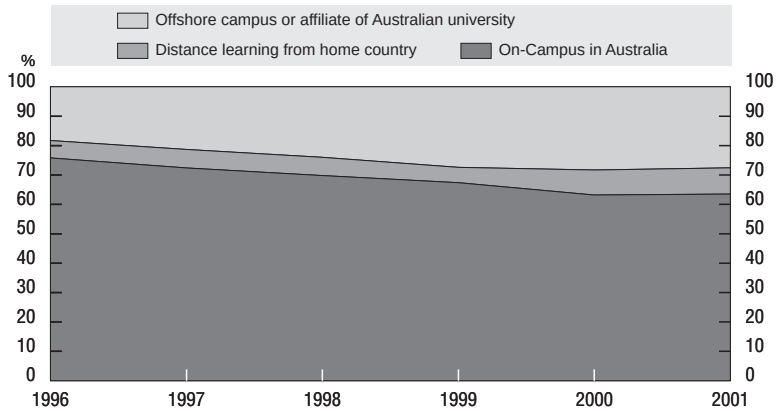
Sources: OECD statistics on trade in services; IMF data for Italy and the United States in 2000, and Poland for 1997; the Office for National Statistics for the United Kingdom in 1997 and 2000.

Table 6. **Import payments by national students studying abroad and as a percentage of total import payments for services, 1989, 1997 and 2000**

	1989		1997		2000	
	USD million	% of total service imports	USD million	% total service imports	USD million	% total service imports
Australia	178	1.3	410	2.2	356	2.0
Canada	258	1.1	532	1.4	602	1.4
Mexico	..	..	44	0.3	53	0.3
Poland	..	..	41	0.7	..	..
United Kingdom	67	0.2	182	0.2	150	0.2
United States	586	0.7	1 396	0.9	2 150	1.0
Greece	..	..	..	..	211	1.9
Italy	..	..	..	..	849	1.5

Notes and Sources: See Table 5.

Figure 5. **Distribution of international students in Australian universities by mode of study, 1996 to 2001**



Source: IDP Education Australia.

partnerships with host-country institutions. In Australia, international student recruitment to offshore campuses doubled between 1996 and 2001 and now accounts for 29% of all international student enrolment in the Australian tertiary education system (Figure 5) – and over half of all international students from Hong Kong and Singapore enrolled in Australian institutions. British institutions also developed this form of international education in the 1990s. By 1996, post-secondary institutions in the UK had enrolled some 140 000 students in their subsidiaries abroad, compared with 200 000 international students on British soil that year (Bennell and Pearce, 1998). In Hong Kong, over half of the 575 foreign degrees offered there by private universities, distance learning programmes or partnerships with local universities involved British universities. While United Kingdom and Australian institutions currently dominate the market, Canadian, South African, American and Chinese institutions are also making efforts to expand (McBurnie and Ziguras, 2001). American institutions provide educational services in at least 115 countries across the world.

New players in post-secondary education

These changes in the way educational services are delivered have altered the face of educational service provision. Besides the traditional universities, new providers are emerging (or at least playing a greater role) including vocational training institutions, private for-profit institutions and distance-learning institutions.

Traditionally, corporate training institutions provided vocational training for the staff of the multinational companies of which they were often subsidiaries. The McDonald and Motorola universities are two examples. More and more of these corporate training institutions have appeared in recent years, broadening their curriculum to provide a wider clientele with courses that are becoming less corporate specific. In the United States, the number quadrupled between 1988 and 1998, with 42% offering courses that could have led to a diploma in accredited institutions (Densford, 1999). One-quarter of these corporate training institutions are said to attract customers from outside the parent company (Meister, 1998; Cunningham *et al.*, 2000).

Across the world, Microsoft's 1 700 Certified Technical Education Centres show how firms are moving into the vocational education market. These private centres operate as Microsoft franchises, with a training programme drawn up by Microsoft and taught by Microsoft-accredited staff. Internationally recognised by employers, these computer training programmes attract a large number of students (Adelmann, 2000).

Even in the general education sector, private for-profit institutions are becoming increasingly active and gaining ground on the international market for educational services. The US company Sylvan Learning Systems, for instance, has recently acquired private universities and business schools in Mexico, Spain, Chile, France and Switzerland. Another American for-profit university that is listed on the stock exchange, the University of Phoenix (Apollo Group), has subsidiaries in Canada and Puerto Rico.

And then traditional universities and private education institutions have launched virtual education programmes using new information and communications technologies (ICTs). While most of the programmes combine this virtual form of education with more traditional teaching methods, universities such as the National Technology University (recently acquired by Sylvan Learning Systems) or the University of Phoenix offer academic degree courses taught entirely by virtual technology. By making the geographical location of teachers and students irrelevant, these technologies are particularly well suited to international trade in educational services.

A more detailed description of all these developments can be found in OECD (2002a), as well as in Cunningham *et al.* (2000), Tremblay (2002), Larsen, Martin and Morris (2002) and the publications and information available on the Internet site of the Observatory on Borderless Higher Education.[3] Information on the GATS can be found in OECD (2002c).

Factors contributing to the internationalisation of education

Numerous factors have contributed to the recent expansion of international trade in educational services, on both the supply and demand sides.

By and large, the expansion of international trade in educational services stems from a favourable technological and economic climate marked by the development of new ICTs, the popularity of the e-economy and the developing knowledge economy, globalisation and falling transport and communications costs. This general climate has increased the demand for and supply of international educational services, and facilitated the entry of a growing number of private firms onto the global education market, a business trend that owes nothing to government policy.

The internationalisation of higher education has also done much to develop student mobility and prompt public universities to enter the global market for post-secondary education services. Policy agendas that take a cultural approach to student and teacher mobility have undeniably fostered growth in student mobility, the most ambitious example being the Socrates programme in the European Union. Funding almost 40% of student exchanges, this programme has definitely contributed to the rise in intra-European mobility. However, it is the countries with a commercial approach to the internationalisation of higher education that have recorded the highest growth in international student enrolment. One reason is that, in this approach, the substantial income derived from international students' tuition fees gives educational institutions a strong incentive to recruit them and provide the appropriate educational services and facilities. This kind of recruitment drive is not confined to marketing strategies but also involves the gradual tailoring of provision to the needs or demands of international students. There is no possible comparison between these incentives and those available to educational institutions in countries with a strictly cultural approach to the internationalisation of education, where funding is based on the number of students enrolled but the incentives to recruit are not specifically targeted at international students and are far less powerful.

One reason for the high growth in international student enrolment in Australia and New Zealand in the 1990s was perhaps an institutional environment conducive to the commercial approach. The number of international students in the United Kingdom has grown under the combined effects of both approaches: EU mobility policy has swelled the flow of EU students towards the United Kingdom, but at the same time UK institutions have responded to incentives to recruit non-European international students. Of the countries that take a commercial approach, the United States recorded what may appear to be relatively low growth in international student enrolment in the 1990s. But as market leader with a large number of foreign students already, the United States automatically has less growth potential than countries with lower foreign enrolment. Nevertheless, American educational institutions are used to recruiting international students without much effort, and may be showing the inertia or "complacency" typical of longtime market leaders (Porter, 1985). But competition from Australia

and the United Kingdom, both English-speaking countries with a strong presence in the Asian market, is now prompting them to do more to attract students from abroad.

The commercial approach to internationalisation has also enabled public institutions to invest abroad in educational service provision in Modes 1 and 3. This approach blurs the boundary between public and private. Often "public" when operating in their own country and recruiting domestic students, the same universities become private when operating abroad or recruiting unsubsidised international students on a commercial basis. Public universities in the United Kingdom or Australia can invest abroad because they have some financial independence *vis-à-vis* their supervisory authority and can employ international investment strategies using private funds (obtained for instance from international student tuition fees or the sale of unsubsidised education services to firms or mature students). This grey area may give rise to a problem of financial accountability: public funds might be diverted from their original use to support a university's private international activities, particularly if they are making a loss.

However, demand for international educational services depends on a whole range of cultural and economic factors, which can in no way be confined to the cost of education. The choice of host institution by foreign students (and their families) is the outcome of a trade-off between the monetary and non-monetary costs of studying abroad and the monetary and non-monetary benefits that students (and their families) expect to gain. The following are some of the most important factors in any decision to study abroad:

- Host-country language and teaching language: as English is now the main international language, Anglo-Saxon countries have a competitive advantage which some universities in other countries try to counter by offering courses in English.
- Cultural/geographical proximity and historical/economic ties between host and sending countries: these explain the heavy flows of students between Scandinavian countries, for instance, between Commonwealth countries and the United Kingdom, and between French-speaking Africa and France.
- Perceived quality of life in the host country: as with any kind of travel, the host city's activities, climate, tourist and cultural attractions, in short the perceived quality of life there, will be a decisive factor.
- Networks of present and former students in the host country: when relatively little information is available on institutions abroad, recommendations by other students play an important role, as does the prospect of being able to join one's own national student community abroad.

- The accessibility and range of post-secondary studies in the country of origin: limited access to universities and quotas on specific courses may prompt students to continue their education abroad.
- The reputation and perceived quality of educational institutions and the education system in the host country compared with the country of origin: a host country with a perceived advantage in this area is an incentive for mobility.
- The cost of studying abroad (tuition fees, cost of living, inclusive of financial support) compared with studying at home: the smaller the cost differential between studying abroad and studying at home, the more mobile students will be.
- Recognition of skills and qualifications at home and abroad: recognition avoids duplication and means that the student's education is valued in the host country and elsewhere.
- Access to foreign-student facilities and social cover in the host country (*e.g.* health insurance, university accommodation, appropriate language training).
- Host country policies on student immigration (or visas): opportunities for students to work while studying, or remain in the country following graduation, may be decisive.
- Opportunities on the labour market in the host country and the country of origin: a host country will be more attractive if students can work there after graduating or if the qualifications it awards are valued in the labour market when they return home.

To our knowledge, there have been no detailed studies to assess the importance of each factor in international student choices. Tuition fees play a significant but not exclusive role. Usually accustomed to paying (relatively) high tuition fees in their own countries, Asian students might not consider Anglo-Saxon university fees as a barrier to mobility. Studying abroad does not necessarily cost them much more than studying at home. EU students, on the other hand, are heavily subsidised and so far fewer go to study in Anglo-Saxon countries where fees are higher than at home: the great majority of those wishing to study in an English-speaking host country choose the United Kingdom, where universities cannot legally charge them higher fees than those paid by British students. Minimal tuition fees, however, do not govern student mobility flows: international students do not descend on countries where tuition fees are low or non-existent, *e.g.* Scandinavia. Student preferences and decisions with regard to international education services, particularly in Mode 2, are the outcome of a complex trade-off between a host of monetary and non-monetary factors.

CHALLENGES AND BENEFITS OF INTERNATIONAL TRADE IN EDUCATIONAL SERVICES

The Joint Declaration on Higher Education and the GATS[4] (2001) and the Porto Alegre Declaration[5] (2002) are good examples of the reservations in traditional higher education circles with regard to the GATS and the liberalisation of higher education. Signed by Iberian and Latin American associations and public universities, the Porto Alegre Declaration is radically opposed to international trade in educational services. The signatories maintain that promoting international trade would lead to deregulation in the education sector with the removal of all legal, political and fiscal quality controls, that national governments would abandon their social responsibilities, and that other outcomes would include an increase in social inequalities, the diffusion of ethical and cultural values, a standardisation of education and a negative impact on the sovereignty of the people. Meanwhile the Joint Declaration on Higher Education and the GATS, signed by four associations representing 5 500 American, Canadian and European institutions, takes a more ambivalent stance: rather than coming out against international trade in educational services, practised by many of the institutions represented, the signatories call for a freeze on WTO trade negotiations on educational services in the name of caution. In their view, as international trade has been developing without significant problems outside a trade policy regime, there is no need for trade negotiations, particularly since they might significantly jeopardise the quality, accessibility and equity of higher education and restrict the right of national authorities to regulate and publicly subsidise their higher education systems. Attached to higher education as a public service, student representatives from OECD countries see trade and market competition in the education sector as a threat to public funding and intellectual freedom in higher education.

Reflecting a distrust of the business world, these misgivings stem from uncertainty about the repercussions that trade and direct competition among educational service providers will have on national higher education systems. What effects might keener competition among universities have on the funding, cost, quality, diversity and stability of higher education? In attempting to answer these questions, this section shows that the potential implications of international trade in educational services are often ambivalent.

Public funding of education

The claim that a commercial approach to higher education will automatically put an end to public funding is unfounded. Some believe that a commercial approach at international level might spread to domestic trade. In their view, liberalising international trade in educational services under the GATS might force governments to stop subsidising their own higher education institutions or students

so as not to have to finance every foreign student and every foreign higher education institution. In fact, each country is free to decide nationally to what extent it will publicly finance higher education for its own citizens. This prerogative cannot be called into question by the development of trade in educational services, nor by GATS negotiations on liberalisation.

Under the GATS, there is nothing to compel member countries to finance foreign institutions trading internationally in Mode 3 (foreign presence abroad), merely because they finance their own institutions. Nor are national governments compelled to subsidise foreign students participating in Mode 2 international trade (consumption abroad) because they subsidise their own students.

The first reason for public services to be excluded from the GATS is somewhat ambiguous. Article I.3(b) stipulates that the Agreement does not include "services supplied in the exercise of governmental authority" which are defined as "any service which is supplied neither on a commercial basis, nor in competition with one or more service suppliers" (WTO, 1994). Public services accordingly have special status under the GATS, meaning that governments can grant their own public educational institutions and citizens favourable treatment if they so wish. However, those opposed to the inclusion of educational services in the GATS negotiations rightly draw attention to the ambiguous definition of public services in the GATS guidelines. Public-sector higher education does provide some services on a commercial basis and competes with institutions that provide their services commercially. Consequently this does not appear to correspond to the GATS definition of a public service. In the absence of a political consensus to clarify this definition, which has been left intentionally vague, it is hard to defend a specific interpretation with any credibility. In June 2002 Mike Moore, former Director-General of the WTO and Alejandro Jara, Chairman of the WTO Council for Trade in Services, stated that educational services were included under the heading of public services, according to the tacit understanding of the definition used by negotiators.[6] This was a strong signal, but did not rule out a change of interpretation in the future.

The second reason why the GATS does not jeopardise the public funding of higher education is more fundamental: countries are free to lay down as many restrictions as they wish with regard to the liberalisation of a service sector. So nothing can compel a country to finance domestic and international students and institutions in a non-discriminatory way if it does not wish and is not committed to do so (Sauvé, 2002; Knight, 2002). In fact by August 2002 all of the OECD countries that had put forward GATS negotiating proposals for educational services had explicitly excluded any calling in question of public subsidies or their extension to international institutions or students.

While international trade may be seen as a driving force behind the liberalisation of higher education, full liberalisation of the sector is just one of a series of

possible scenarios, simply because it requires a government decision at national level. In countries where educational institutions already carry out substantial trade in this field, such as Australia, New Zealand or the United Kingdom, much of the formal higher education system is still public. Institutions have gained more autonomy *vis-à-vis* their supervisory bodies and competition is probably keener than elsewhere, but this is hardly full-blown liberalisation.

Furthermore, the liberalisation of higher education would not inevitably mean abandoning the public funding of educational services. There is no automatic link between student funding arrangements and university management and ownership patterns. Market competition among educational institutions is not incompatible with the public funding of education. Some regulatory systems in the university sector are actually based on quasi-market mechanisms, for instance when funding for autonomous public universities are based on student enrolment, or when students receive direct payments to spend on private or public post-secondary educational institutions. This decoupling of public funding and market regulation is common in other areas of public service. One is the healthcare sector in various OECD countries, where doctors compete to provide healthcare that is ultimately paid for largely by the State.

International trade, competition and the cost of higher education

International trade in educational services may have a significant impact on the public (and private) cost of higher education. This may stem from keener competition in the sector, but also from economies of scale and scope regardless of such competition.

The competition rationale is a familiar one. Attracted by new sources of profit, new private providers of post-secondary education services are expected to enter the market for educational services and step up competition. In theory, keener competition should bring down costs as resource use becomes more efficient and less successful institutions leave the market. It should also bring down the cost of post-secondary educational services for those who fund them, including governments and students.

Currently, international trade in educational services in Modes 1 and 3 are probably increasing competition on educational service markets in developing countries, particularly in northern Asia, south-east Asia and Latin America. Even if demand outstrips domestic supply there, competition from foreign institutions also affects the country's own educational institutions. This may push down costs for international students and their families, and for any bodies providing them with financial support. OECD countries do import Mode 3 educational services too, but to a very limited extent in formal education. Although there are no detailed studies and statistical data on the subject, these imports are presumably

far more developed in the corporate training, adult education and language school sectors, which more rarely receive public funding.

International trade usually steps up competition between the national educational institutions that recruit international students, particularly in countries with a commercial approach to internationalisation. In most OECD countries, university budgets are based on student enrolment. Universities accordingly have the incentive to attract international students. With a cultural approach to the internationalisation of higher education, however, these incentives are much weaker. A commercial approach enables universities to charge international students higher tuition fees than the marginal cost of their education. More importantly, incentives are stronger when the approach is commercial because universities are often more autonomous and generally have full control over their international income (whereas in the cultural approach, usually adopted in a more centralised system, the income – or cost-reduction – generated by universities attracting large numbers of international students presumably benefits the less active universities). While making educational institutions financially more independent (and thus more independent *vis-à-vis* their public supervisory bodies), this commercial income may enable national universities to provide their students and staff with better library and technological facilities, and in many cases to pay their staff more and improve recruitment – all of which are comparative advantages in the international marketplace but also benefit domestic students. In the United Kingdom, the international activities of higher education institutions accounted for 8% of their income in 1995/96 (McNicoll, *et al.*, 1997). These additional resources often compensate for a levelling-off or decrease in per capita funding for higher education.

The impact of international trade in educational services on the cost and efficiency of educational institutions is not a question of competitive mechanisms alone but also of returns to scale and scope. Such trade may for instance have major benefits for higher education systems even when international students are subsidised by the host country. As OECD countries generally have large-scale higher education facilities and therefore high fixed costs, recruiting international students can bring down the average cost of educational service provision. It may give institutions the critical mass they require to maintain, or even extend, a wide range of courses at a reasonable cost. With the ageing population in the OECD area, and the prospect of a decline in the size of younger age cohorts (and hence secondary school-leavers),[7] this might become a major engine for growth in the recruitment of international students in OECD countries. Even if they do receive public subsidies, foreign students may thus have a considerable impact on the cost and dynamism of the higher education sector in OECD countries.

If educational services are valued in their own right (rather than the language skills and cultural experience associated with mobility), Mode 3 international trade may cut the cost of access to international educational services: it is often less expen-

sive for families (and possibly their governments) if students are educated by foreign universities at home rather than abroad. In balance-of-payment terms, this type of delivery also means lower imports than with student mobility. On the other hand, there is very little reliable information on the advantage of Mode 1 in terms of costs.

International trade, competition and quality of educational services

According to the competitive rationale, trade in educational services and the liberalisation of the education sector will presumably lead to an improvement in the quality of educational provision. Since service quality is certainly a comparative advantage for educational institutions, they will have to provide quality services if they are to remain profitable. Again, the financial resources generated by international trade will give universities the means (and motivation) for enhancing the quality of their facilities, libraries, recruitment, and student management – and subsequently the means and motivation for enhancing the quality of their educational services.

Yet many fear that by placing more emphasis on market forces in higher education, international trade and the liberalisation of educational services lead to standardisation or a decline in the quality of educational services and academic research: this is one of the strongest arguments put forward by the opponents of liberalisation in the education sector.

Why may market competition adversely affect the quality of educational services? Because asymmetrical information between provider and consumer may lead to adverse selection and because teaching staff naturally have more information than students on the quality of their teaching. The competitive rationale mentioned above assumes that information is perfect. As Akerlof (1970) has shown, if providers are better informed than consumers about product quality, there will not be proper market equilibrium; all high-quality goods and services will be crowded out, leaving only poor-quality goods to be traded. To overcome this problem of adverse selection, educational institutions can introduce techniques to indicate the quality of their services (*e.g.* guaranteeing outcomes, and publishing examination results or details of salaries/posts obtained by former students). But the main solution is to bring in a third party with consumer credibility to certify the quality of their services.

This problem of quality, while very broad in scope, is more acute in international than in national trade in educational services. At the national (or federal) level, there are several types of quality assurance model for educational institutions, and many have been in place for a long time. Regional or national public authorities and/or independent quality assurance bodies provide credible guarantees regarding the quality of the educational services that institutions provide. Furthermore, students have better access to reliable information on educational

institutions at national than at international level. There is a far greater likelihood of paying a high price for poor quality education at international level. What can be done to ensure that international students receive good quality educational services? What can be done to ensure that educational institutions are not (or do not act like) degree mills[8] on the international education market? Various international models for accreditation and quality assurance attempt to answer these higher education issues (Van Damme, 2002; Van der Wende, 1999; OECD, 1999). However, the prospects for convergence or even compatibility between these models are still as remote as they are uncertain.

The problem of quality-related information takes a variety of forms depending on the type of trade. In Mode 2, the question of quality assurance is partly resolved by national accreditation systems when international students opt for traditional, nationally accredited institutions. The real problems tend to lie more in the often ill-informed choice of foreign universities by international students, when there is no recognition of international qualifications (upon arrival in the host country or on their return home). Trade in Modes 1 and 3 carries greater risks in terms of quality, because it is new and less stable. Offshore campuses may deliver poorer quality educational services than their parent institutions. To prevent a decline in the quality of education provision abroad (and at the same time support the international activities of their own institutions), the British, Australian and New Zealand governments have each set up a quality assurance system for the international activities of their universities. Most universities use this system, although it is voluntary. Conversely, the Malaysian, Australian and Hong Kong governments inspect foreign educational institutions operating on their soil (McBurnie and Ziguras, 2001). The case of distance education is more problematic, in particular when it involves institutions that operate solely on a virtual basis: first because quality assurance and accreditation systems are harder to adapt to this form of teaching; second, because fraud is easier, since virtual organisations can more readily than others escape the control of public authorities. This explains, perhaps, why the larger-scale virtual programmes are now run by real rather than virtual institutions or firms such as the University of Phoenix (Apollo Group) or the National Technology University (Sylvan Learning), and renowned distance-education institutions (*e.g.* UNED, the Spanish distance-learning university).

Often portrayed as a consumer protection issue, the quality of education services may also pose economic or social problems. Managers or accountants who have been poorly trained by international institutions may do some damage in the countries where they work. Poor information on the quality of international courses (and a lack of consensus on what is meant by quality) makes their recognition abroad difficult. Problems involving the international recognition of educational service quality certainly hamper international trade in educational services, and not without reason.

International trade, competition and academic freedom

Another concern is that the development of international trade in educational services and competition in higher education might jeopardise academic freedom. In a competitive market, firms must adapt to their clients' wishes if they want to remain in the marketplace and not be crowded out by other firms. The work by Alchian and Demsetz (1972) on various systems of organisation ownership suggests that not-for-profit organisations are efficient when they try to maintain some independence from the market, or at least adjust slowly to market trends. If universities have traditionally been not-for-profit organisations, even when operating privately, it is precisely so that they can defend values and intellectual positions that are independent of market demand. This ideal, embodied in olden days by historic universities like Humboldt or the Sorbonne, is a fundamental feature of the academic culture.

Under pressure from the market, private for-profit institutions specialising in higher education might have to teach or give credit to false theories merely on the grounds that such instruction is in demand (because it is more in line with certain religious beliefs, for example). The quality assurance issue would then become even more critical. An economy drive might also lead to course standardisation, undermining academic freedom (and to the recruitment of less qualified teaching staff).

Market pressure may also affect research. Some institutions might purely and simply drop research on the grounds of profitability, or restrict it to non innovative work with less risk of failure. In fact, private for-profit universities are focusing more on teaching than research (Ruch, 2001).

Nevertheless academic freedom, far from being an aim in itself, has its limits: often funded publicly for its economic and social externalities, higher education also has a mission to meet demand from students and governments and offer educational services tailored to the labour market. Academic freedom is not necessarily incompatible with adjustment to the labour market. Over the past decades, in fact, trends in social demand and wider access to higher education have prompted some such adjustment in higher education systems. It has been even more marked in vocational education with the development of lifelong learning, and in private education where for-profit universities restrict their educational service provision to the subject areas most in demand on the labour market (Ruch, 2001). While those who would like to see universities tailor their courses more to the labour market approve of a further injection of market regulation into the system, liberalisation may conceivably lead to another acceptable compromise between academic freedom and adjustment to the market.

Market regulation of higher education, however, may also jeopardise the diversity of educational service provision, the preservation of knowledge and the

continuity of teaching and research in subject areas that are not highly valued on the labour market, such as most of the human sciences. Up to a point, these facets of a university mandate warrant the mainly public provision of educational services, since this mode of delivery ensures the survival of educational services in disciplines with less "commercial value". In a market-regulated post-secondary environment, public universities could offset market failure by specialising in disciplines neglected by the market system. These universities would then lose the benefit of economies of scale and scope, since the more popular disciplines would no longer bring down the cost of the less popular ones, thereby making the latter even more costly.

International trade in educational services and economic development

Some opponents of international trade in educational services fear that it might be detrimental to developing countries. First, the partial funding of educational services for students from developing countries is a form of development assistance, which has been dropped in the commercial approach. This change of policy may be detrimental to the poorest developing countries, where the main problem of access to higher education is inadequate wealth. Finally, the new forms of international trade in educational services, in Modes 1 and 3, might prevent developing countries from building up their own higher education systems. This is mainly a problem for emerging economies, where poor access to post-secondary education is less about being unable to afford higher education than about (solvent) demand for education outstripping domestic supply.

The opening up of the post-secondary market to foreign institutions may in fact have mixed effects on the national system of higher education in emerging economies. On the one hand, educational institutions in OECD countries often have a major comparative advantage in terms of quality over similar institutions in emerging economies, and might jeopardise the development of national university systems there in the short and medium term. On the other hand, recourse to foreign services may be a means of accelerating the development of a national university system, in that it provides training for some of the future teaching staff and promotes knowledge exchange via partnerships between domestic and foreign institutions. For this reason, many countries are promoting partnerships between their own educational institutions and those in the OECD area. To operate in China, foreign institutions are obliged to forge links with domestic ones – to promote knowledge transfer. In emerging economies, international trade in educational services may also foster economic expansion by rapidly broadening participation in post-secondary education, something which is not feasible in their national systems as they stand today. In the knowledge economy, this broadening of access to higher education should have a beneficial economic impact on these economies.

The challenges to developing countries of international trade in educational services also vary with the mode of delivery. Student mobility has the disadvantage of being costly and increasing the likelihood of a brain drain that will be far worse for developing countries than for OECD countries (OECD, 2002b[9]). But it has major cultural and linguistic benefits. Investment by foreign institutions reduces the cost of educational services to students (and possibly to the governments subsidising them) and minimises the risk of a brain drain. As in other sectors of the economy, however, foreign investment in educational services may create a problem of stability and continuity of provision in emerging economies. In the event of an economic crisis, foreign educational institutions may leave the country and threaten the stability and continuity of the higher education system. This is one of the major differences between private investment and long-term public investment.

International trade in educational services thus represents both opportunities and challenges for developing countries. In August 2002 developing countries in the WTO made relatively fewer commitments than OECD countries. Representing only 30 of the 144 members of the WTO, OECD countries have made 25 of the 55 commitments in higher educational services. Of the countries that have expressed their views, some middle- and low-income countries have opened their markets to educational services more than wealthier ones. For instance Haiti, Mali, Rwanda, Lesotho, Georgia and Moldova have substantially opened up their adult education markets (and the last three have opened up all sectors of education) (Momii, 2002).

Mixed implications of international trade in educational services

In short, international trade in educational services may have mixed implications for higher education systems.

International trade in educational services will not necessarily lead to market regulation in the educational sector. Unless national governments actually take the decision, the GATS cannot compel them to introduce full market liberalisation. More specifically, the question of funding and the degree of competition between the public and private sectors is entirely contingent on decisions by individual countries at central government level.

Suppose that international trade does to some extent lead to greater market regulation of the education sector in some countries. Such liberalisation may be beneficial by reducing the cost of higher education, making institutional management more efficient, generating closer adjustment to the labour market or attracting higher-quality educational institutions to some countries. Yet it is also true that market regulation of the education sector – not necessarily involving the private funding of education – may have an adverse impact on the higher education system. Above all it may increase the risk of poor quality educational services, but

it may also restrict the scope of educational provision and academic freedom, hinder academic research and, when markets are dominated by foreign suppliers, create a continuity problem in terms of service provision.

International trade in educational services may have beneficial and adverse implications for higher education services, regardless of liberalisation. First, it raises the problem of the international recognition of qualifications, and hence the quality of educational service provision, no longer just at national but at international level. It may have adverse effects, for instance by hindering the development of the national education sector, lowering the real level of development assistance in some countries, causing a massive brain drain or raising problems of cultural standardisation. But it may also have a beneficial impact by increasing the supply of educational services in countries with surplus demand, generating knowledge transfer between universities and countries via partnerships, cutting the cost of studying or offering wide-ranging provision in countries with an ageing population, or prompting countries to open up to other national cultures.

The likelihood of these beneficial and adverse implications depends entirely on the economic, social and institutional environment in each country. It is also contingent on policy decisions by governments, each of which will have to weigh the costs and benefits of international trade in educational services for their own country, depending on the priorities they have set.

A MIXED OUTLOOK FOR INTERNATIONAL TRADE IN EDUCATIONAL SERVICES

To what extent will international trade in educational services develop in years to come? Will it lead to the liberalisation of higher education systems and, if so, to what extent? One of the weaknesses of the current debate on international trade in educational services stems from the tendency to view the education market as too homogeneous – and more specifically from the angle of higher education systems in the more industrialised world. In reality, international trade in educational services is not confined to conventional higher education but extends to adult learning (language courses, corporate training or post-initial vocational training); nor is it confined to wealthier countries but covers developing and emerging economies too. The potential for and consequences of international trade in educational services differ across countries, education sectors and modes of supply. This section is an initial attempt to break the market down into its constituent parts. It analyses the development prospects for each mode of delivery depending on the sector of education and subsequently the type of country, while taking into account other factors such as the way education is funded and the current development of market (or quasi-market) mechanisms. However, other

factors (cultural, historical, geographical, institutional and political) with a key role in these developments are not given the emphasis they deserve; their inclusion would make this general overview too complex but remains crucial to more specific studies.

Outlook for higher education and lifelong learning

International trade in educational services is not expected to develop along the same lines in traditional sectors of higher education as in institutions with a greater focus on lifelong learning.

The traditional sector mainly targets secondary-school leavers, and often focuses on general education and initial vocational education. Here, the development of international trade is expected to continue mainly through student mobility. First, international students in this market presumably do not value educational services alone but also the culture experience of living abroad. From that standpoint, international trade in educational services without student mobility (Modes 1 and 3) probably does not concern the same market as trade involving student mobility (Mode 2) – although some course programmes in the same institution may combine two, three or all modes of supply. One example is the *École Supérieure de Commerce de Paris* (ESCP-EAP), a major French business school with four campuses in Europe (France, Germany, Spain and the United Kingdom). Second, in many countries with a mainly public and heavily subsidised system of higher education with sufficient capacity to take all domestic students, a new foreign university will find it hard to compete with a national one. When quality or recognition levels are approximately the same, students are hardly likely to opt for foreign universities which would cost them much more and offer few benefits. Only the prestigious universities around the world could really compete with a country's own universities, because the outright recognition that they are superior could give them a comparative advantage over most national institutions. But in fact it is not in the interests of these universities to overdevelop their services: the more degrees prestigious universities award, the less their degrees are worth and the less popular and prestigious they become. Conversely, in countries where the higher education system is not highly subsidised or where capacity is a problem, foreign universities can compete more easily with national universities – all the more so if the quality of those national universities is found wanting. In that case, average-quality foreign universities that can substantially develop their international activities without undermining their reputation will be able to make the most of their competitive advantage in terms of quality.

The lifelong learning sector, on the other hand, may be more deeply affected by the development of international trade, in particular Modes 1 and 3. Lifelong

learning refers to institutions focusing on adult education, *i.e.* corporate training, vocational training whether or not it leads to a qualification, language teaching, and finally general education for more mature age groups than in traditional higher education. It also covers new, highly specialised areas of work such as testing. In lifelong learning, the private sector plays a far greater role than in traditional higher education: in many countries, a public service remit does not extend to all these forms of education, and many mature students (or their employers) have to pay the full cost of their training. To varying degrees in different countries, public institutions are also present in the lifelong learning market, sometimes in partnership with private enterprise, making this part of their work subject to market forces.

With the development of the knowledge economy, the lifelong learning sector will probably attract numerous enterprises, some of them international. The possible drawbacks of market regulation affect this sector less than traditional education: in lifelong learning, most institutions do not have a remit to conduct research and basically (but not exclusively) offer educational services oriented towards the labour market. In this sector, international trade in education services with no mobility (Modes 1 and 3) will very likely have a promising future, whereas student mobility (Mode 2) probably has less development potential. Many of the students in lifelong learning already have families and jobs, making mobility more difficult and less attractive. The flexible timetable for distance learning and the geographical proximity of an offshore campus accordingly suit them very well. And because they attach less importance to an institution's reputation and more importance to tuition fees than students in the traditional sector, there should be fewer barriers to competition from international institutions. The greatest impediments are probably cultural barriers and, in the case of diploma courses, quality control and the international recognition of qualifications.

International trade in education services thus appears to have more development potential in lifelong learning than in the traditional sector.

Outlook for OECD countries, emerging economies and the developing world

Just as the international trade outlook varies with the type of post-secondary education market, it also varies from country to country. The reasons that make students turn to international institutions for educational services are not the same everywhere.

As we have seen, students may opt for international educational services for a variety of reasons, for instance because they view these services as being of far better quality than in their own country, because international educational services are not (much) more expensive than their own education system, because national educational services cannot meet demand, or because students want

cultural, linguistic or work experience abroad. But solvent demand remains a vital prerequisite if international trade is to develop. From that standpoint, the expansion of international trade with the poorest parts of the developing world, for example some of the African and South American countries, will remain limited, although some of them have opened up their education markets completely to foreign investors. In the emerging economies, particularly in south-east and northern Asia (*e.g.* China, Hong Kong, Chinese Taipei, India and Malaysia) and in Latin America (*e.g.* Chile), there is high solvent demand for educational services but inadequate public provision, meaning that major expansion can be envisaged for international trade in educational services in the future. In that case it will all depend on the size of the country and more importantly how it finances higher education. Countries that subsidise higher education very little (most Asian countries, for instance) are a conducive environment for the development of international trade in educational services, as students (and their families) will more readily pay market prices for international educational services. These countries already have a competitive private market for educational services that could easily open up to international institutions. This has already occurred in several countries, for instance Malaysia and Hong Kong (China). In emerging economies where higher education is heavily subsidised, there will probably be less call for international educational services. The best students will remain in the subsidised national education system. While there is also a large private sector for the offshore campuses of foreign institutions to enter, the size of that market is still restricted by demand: many of the students who have not been admitted to public universities probably cannot afford cost-price educational services.

As for OECD member countries, the development of international trade in educational services in the traditional sector is more likely to occur in less wealthy countries such as those in eastern Europe: the quality, or at least reputation, of their higher education systems may appear significantly lower than in the wealthier countries, making it worthwhile to invest in international educational services. Conversely in the wealthier economies, international trade in educational services is expected to develop largely in Mode 2, mainly on cultural and linguistic grounds. The scale of this expansion will, however, be limited by its cost. In the lifelong learning sector, the development potential for international trade in educational services will, on the contrary, be high in every member country. Policies to promote international mobility, although on a smaller scale than in the traditional sector, are aimed at developing Mode 2 trade. More significantly, Modes 1 and 3 are expected to develop under the impetus of international enterprises.

Table 7 maps out the development prospects for international trade in educational services by mode of delivery, type of country and sector of education.

Table 7. **Development potential of international trade in educational services by mode of supply and type of country**

	High-income OECD countries	Medium-income OECD countries	Emerging economies	Developing countries
Mode 1: Cross border supply	**HE:** Development alongside traditional face-to-face teaching, but limited development when programmes are exclusively virtual	**HE:** Development alongside traditional education; potential for virtual international programmes	**HE:** Development alongside traditional education; great potential for virtual international programmes	**HE and LL:** Development potential if virtual provision proves economical, but restricted by poor access to ICTs
	LL: Significant development of exclusively virtual programmes suited to active students and specific disciplines (*e.g.* computing), and of testing methods	**LL:** Significant development of exclusively virtual programmes suited to active students and specific disciplines (*e.g.* computing), and of testing methods	**LL:** Significant development of exclusively virtual programmes suited to active students and specific disciplines (*e.g.* computing), and of testing methods	
Mode 2: Consumption abroad	**HE:** Greatest share of international trade between these OECD countries	**HE:** Substantial development, but limited by cost of mobility	**HE:** Substantial development, but limited by cost of mobility	**HE:** Substantial development, but limited by cost of mobility
	LL: Limited development, depending on mobility support policies	**LL:** Limited development, depending on mobility support policies	**LL:** Limited development, depending on mobility support policies	**LL:** Limited development, depending on mobility support policies
Mode 3: Provision via foreign commercial presence	**HE:** Limited development of offshore campuses, particularly in countries where education is heavily subsidised	**HE:** Development potential for offshore campuses in countries whose universities are perceived as being of significantly poorer quality than foreign institutions	**HE:** Great development potential for offshore campuses (partnerships and investment)	**HE and LL:** Little development potential owing to inadequate solvent demand, and hence inadequate supply
	LL: Great potential	**LL:** Very great development potential	**LL:** Very great development potential	
Mode 4: Provision via the movement of natural persons	**HE:** Traditional mobility will continue **LL:** Development tied to that of Mode 3	**HE and LL:** Development tied to that of Mode 3	**HE and LL:** Development tied to that of Mode 3	**HE and LL:** Very little development, tied to policies on mobility support and development assistance

HE: Higher education; LL: Lifelong learning.

CONCLUSION

So, is international trade in education services good or bad? The complexity of the issues and factors involved in the development of international trade in educational services rules out a definitive conclusion. International trade in educational services has its good and bad sides, and the issues vary substantially with the country, mode of delivery and sector of education (*i.e.* the traditional public sector or the generally private lifelong-learning sector).

The past ten years have been marked by substantial growth of trade in higher education services. This is attributable partly to increased demand, particularly in the emerging economies of northern and eastern Asia, and partly to active policies to promote the internationalisation of higher education, which take basically either a cultural or a commercial approach. In addition to traditional movements of students and academics, international trade in educational services increasingly involves new modes of supply that do not require student mobility (foreign investment and e-learning), and providers are increasingly private. Although few figures are available on the lifelong learning sector, there is considerable evidence of substantial growth in international trade.

This growth in the international market for post-secondary education services is expected to continue in the short and medium term, regardless of the outcome of WTO negotiations on trade in services. The political, economic and technological factors that have driven this expansion over the past decade continue to act as an engine for growth. On the one hand, the political consensus in favour of internationalisation programmes with a cultural approach should step up the internationalisation of higher education. On the other, demand from students in emerging economies should continue to grow, maintaining economic incentives for the universities and for-profit institutions that take a commercial approach. Consequently international trade in Modes 2 and 4, involving student and teacher mobility, should continue to expand, as should international trade in educational services not involving student mobility (Modes 1 and 3).

The debate on international trade in educational services is currently focusing on the inclusion of such services in the GATS negotiations. As international trade in educational services has had no need of the GATS to achieve high growth in the past, there is no certainty that the WTO negotiations will have a major impact on its growth in the future. While the Agreement may accelerate or orient the development of international trade in educational services in Modes 1 and 3, it has little direct influence on trade in Modes 2 and 4. As the latter involve movements of natural persons, the potential barriers to international trade in educational services lie in host-country visa and immigration policies, but these do not fall within the scope of the Agreement. Nor does the quality of educational services, which is one of the major brakes on the expansion of trade. Furthermore,

the issues at stake in the GATS negotiations remain very limited: most commitments merely confirm the status quo and most requests for market opening concern educational services in the private sector. The United States, for instance, has confined its request for market opening to private post-secondary education, making it explicit that it does not apply to public higher education.[10] Emphasising that the opening of their private sector to foreign providers has had no adverse effect on their public system of higher education, the fifteen member States of the European Union have recently asked the United States to open up its private post-secondary education sector.[11] Thus the GATS negotiations do not closely concern the traditional higher education sector, and are more of a showcase than a driving force for international trade in educational services (Sauvé, 2002; OECD, 2002a).

It is therefore conceivable that international trade in educational services will to a large extent develop independently of the GATS negotiations. However, its expansion will differ across countries and sectors of education. International trade in educational services does not take every country inexorably down the same path. The development and implications of this trade will depend largely on the institutional context and government policy options in each country. In this respect the range of possibilities remains wide open.

In our view, the development of international trade in educational services should have a far deeper impact on the lifelong learning market than on the traditional higher education market. Whereas student mobility will probably remain the leading mode of international trade in higher education, such trade will probably take the form of foreign investment and e-learning in the lifelong learning sector, where it will make competition much keener. Three arguments may be briefly recalled to justify this assertion: first, in many countries the lifelong learning sector is already largely subject to market regulation; second, modes of supply that do not involve mobility are more suited to an active clientele who are usually less mobile; and third, market regulation here poses fewer problems than in the traditional sector, where independence from the market is more warranted. These developments may occur in any country – but may possibly be accelerated or facilitated by commitments made in the GATS negotiations.

One of the major problems raised by the development of international trade in educational services is the recognition of foreign qualifications, which depends on the quality of international education services. The problem is as relevant to student mobility as it is to foreign investment or e-learning. With a growing number of international providers in each country, governments and universities will have to find solutions to the problems of quality regulation, post-secondary funding (the access issue), and the continuity and diversity of educational service provision. And with a growing number of national (and international) students applying to have their qualifications recognised abroad (or at home), they will

have to solve the problem of the international recognition of post-secondary education.

Possible solutions are very diverse. With regard to quality, for instance, governments and universities can rely on the good faith of international institutions accredited in their country of origin, quality assurance agencies in the country of origin, or international quality assurance agencies. Other solutions include extending their own quality assurance procedures to foreign providers. Although necessarily keener, the amount of competition that the traditional higher education sector will face depends on the institutional environment created by governments, in particular the level of public funding for education. However, keener competition with the presence of foreign private providers is not likely to have any impact on the degree of public funding for education. Depending on their needs and priorities, governments may also try to gain some control over the actual content of international provision, in order to offset the possibly adverse impact of greater market regulation on the educational sector. Finally, in the developing world, international trade in educational services raises further issues: what balance can be struck between assistance and trade in the field of education? Can trade be combined with new forms of assistance to develop educational service provision in a more innovative way? Settling all of these issues will require discussion and policy decisions at national and international level.

Notes

1. Post-secondary education covers courses leading to higher qualifications than those awarded at the end of secondary schooling. According to the 1997 International Standard Classification of Education (ISCED), post-secondary education covers post-secondary non-tertiary education (ISCED 4), the first stage of tertiary education (ISCED 5) leading to pre-degree and advanced vocational qualifications; and the second stage of tertiary education leading to an advanced research qualification (ISCED 6). Further details on this classification can be found in Education at a Glance – OECD Indicators. The term post-secondary, as used in this paper, covers adult education programmes that do not necessarily lead to formal qualifications. The data currently available on cross-border consumption and supply do not evenly cover the wide range of post-secondary institutions and courses. Virtually all cross-border data relate to tertiary education, *i.e.* ISCED levels 5 and 6. In higher education, there are usually more data on university courses than on other types of study. In other cases, however, national statistics do not make a clear distinction between the relevant levels of education.

2. Note that receiving (or "importing") foreign students corresponds to export revenues in educational services for the host country and that, conversely, the expenditures of domestic students sent (or "exported") abroad corresponds to import revenues in educational services.

3. *www.obhe.ac.uk*

4. *www.aucc.ca/en/international/bulletins/declaration.pdf*

5. *www.cumbre.ufrgs.br/ingles.htm*

6. See WTO Press Release on 28 June 2002: *www.wto.org/english/news_e/pres*02*_e/pr*299*_e.htm*

7. See UN, Long-range World Population Projections, 2000.

8. *www.quackwatch.com/*04*Consumer*E*ducation/dm*0*.html*

9. I*nternational* M*obility of the* H*ighly* S*killed*. A survey among PhD graduates in science and technology shows that 88% of Chinese and 79% of Indian nationals who qualified in the United States in 1990/91 were still working there in 1995, compared with only 11% of Korean and 15% of Japanese nationals.

10. *ww.ustr.gov/sectors/services/*2002-07-01*-proposal-execsumm.pdf*

11. *http://europa.eu.int/comm/trade/services/gats_sum.htm*

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