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**Emerging Challenges for the Export of Australian Educational  
Services**

**by**

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# **EMERGING CHALLENGES FOR THE EXPORT OF AUSTRALIAN EDUCATIONAL SERVICES**

## **ABSTRACT**

The success of the Australian education sector as an export industry is widely acknowledged; education and training services has grown from zero to an \$A8 billion per year export industry in less than 20 years. However the growth of the important services export has not come without problems for the sector – especially the university segment of it. This paper provides an account of exports of Australian education and training explores the magnitude and dynamics of demand for overseas education and discusses a number of important issues raised for both Australia education and the university higher education sector in particular. Australia's education and training sector faces new challenges and opportunities in the international arena. In this paper these challenges and opportunities are located in theoretical frameworks derived from the international business literature associated with internationalisation, mode of entry and strategic alliances. It is argued that such frameworks offer useful insights to the manner in which Australia and institutions might position themselves to meet these challenges and opportunities.

## Introduction

The rapid expansion of export of Australian educational services has been one of the great success stories of the last 20 years associated with economic reform and is evidence of the transition to a knowledge economy (Lewis & Mahony, 2006) - itself an important object of public policy. The magnitude and speed of this expansion has not come without challenges for individual tertiary institutions as well as the system as a whole. The manner in which these challenges have been met or at times only partially recognised and addressed is shaping the capacity of the system to meet the emerging challenges of the coming decade. Challenges appear at different levels of the system and confront both individual universities and other institutions as entities, the sector as whole and the federal government which has overall responsibility for the sector. Universities have expanded their mission and focus in internationalising teaching delivery and in some cases research, and, in the process have been themselves transformed by this internationalisation (For a discussion internationalisation of see Welch & Loustarinen, 1988). At the same time they have been subject to other currents of change such as the impacts of fiscal austerity as it has applied to tertiary education funding, social and demographic changes and evolving perceptions of the role of universities. They have moved from being agents of economic development and vehicles for social equity to a more functional focus with institutions becoming business oriented and curriculum and teaching having a greater, more explicit vocational direction. The primary motivation for the adoption of a business focus by universities has been the financial necessity brought on by persistent reductions in government support as a proportion of total operating costs. If internationalisation was a fulfilment of the ancient traditions of the *Universitas* then internationalisation might be seen as unproblematic, as enhancing the core values of the University as traditionally understood – at least in the more idealistic sense of such values. However the transformation of the role of the universities has been driven by the need to replace funding that previously was provided by the State, and by wider forces of globalisation. That is not to say that it has been a mechanical process driven by these domestic and global forces, no doubt there is a role for agency and strategic ‘position taking’ on the part of the universities as they position themselves in a world market (Marginson, 2007).

The extension of the scope of public institutions has attracted comment in areas related to the funding needs of the tertiary sector, the impact of commercialisation on educational standards, the evolving missions of Australia's public Universities as well as the relative merits of various models of course delivery (e.g. Cunningham et.al., 2000). The gross earnings from the export of educational services have been essential in maintaining the revenue for the university sector but the net benefits are less clear. The financial success or otherwise of the ventures of universities in off-shore activities attracts comment and some concern while little systematic analysis has been undertaken from a business perspective to assist in an assessment of these activities.

The commercialisation of education has been resoundingly successful if judged by the criteria of its contribution to net exports over two decades, which we outline below, however it not clear that the impacts on the universities have been entirely beneficial. The financial benefits themselves are not unproblematic. The gross financial benefits have helped institutions cope with declining unit resource but often other costs may not be fully accounted for. Such costs include hidden financial costs, psychic costs associated with a cultural change within institutions as well as other social and opportunity costs, the appraisal of which will depend on the lens of analysis adopted.

The export performance of the sector as a whole is documented in this paper. At the aggregative level many emerging challenges can be identified. The commercialisation of education has brought with it significant changes within Universities. While the sectoral picture can be documented with a reasonable degree of confidence our capacity to document and analyse the performance of individual institutions is limited. For a highly commercialised sector or industry this is a little surprising especially in the light of the analysis that other sectors are subject to. Some the reasons for the difference in attention are related to the question of ownership, compared to publically listed companies, the range of stakeholders as well as the constrained capacity of stakeholders to campaign for greater transparency. 'Commercial in confidence' is stance adopted by institutions when faced with request for greater transparency. The information that stakeholders are offered are public sector style performance appraisals and assurances based on mechanisms such as teaching evaluations, student satisfaction surveys and at times research quality assurance exercises. Therefore the quality signals that are sent to external stakeholders may be

quite weak leading institutions to maintain reliance on their age or vintage and prestige. Marginson (2007) argues this is especially so for the established research intensive universities.

The types of activities undertaken by universities in the internationalisation process are quite diverse. At the individual institution level activities are often framed in terms of a 'business case' but it is difficult for the external researcher to elicit the data to assess such rationale. For example our capacity to understand one of the most basic features of the internationalisation process is markedly limited; that is, why various entry modes are adopted. Headline grabbing events such as UNSW in Singapore as well as anecdotal accounts suggests that the entry mode decision is fraught with difficulties. Periodic failures are evident and traumatic for the institutions concerned but they shed little light on strategic directions chosen or on decision making processes. The criteria employed by institutions in their choice of various entry modes may not be easy to discern in a climate of less than full transparency.

The history of the development Australian educational exports needs only a brief summary. The period from 1987 when John Dawkins was Federal Minister for Education saw a switch from an emphasis on 'aid' to one on 'trade', talk of a 'clever' rather than a 'Lucky Country', and the growth of new export industry. Between 1986 and 2007 Australia's total international student enrolments have grown from 14,000 to over 280,000 and Education and Training has grown from nothing to become Australia's third largest service export industry worth \$8 billion annually. While this includes education providers across the spectrum we are primarily concerned, in this paper, with the experience of the university sector.

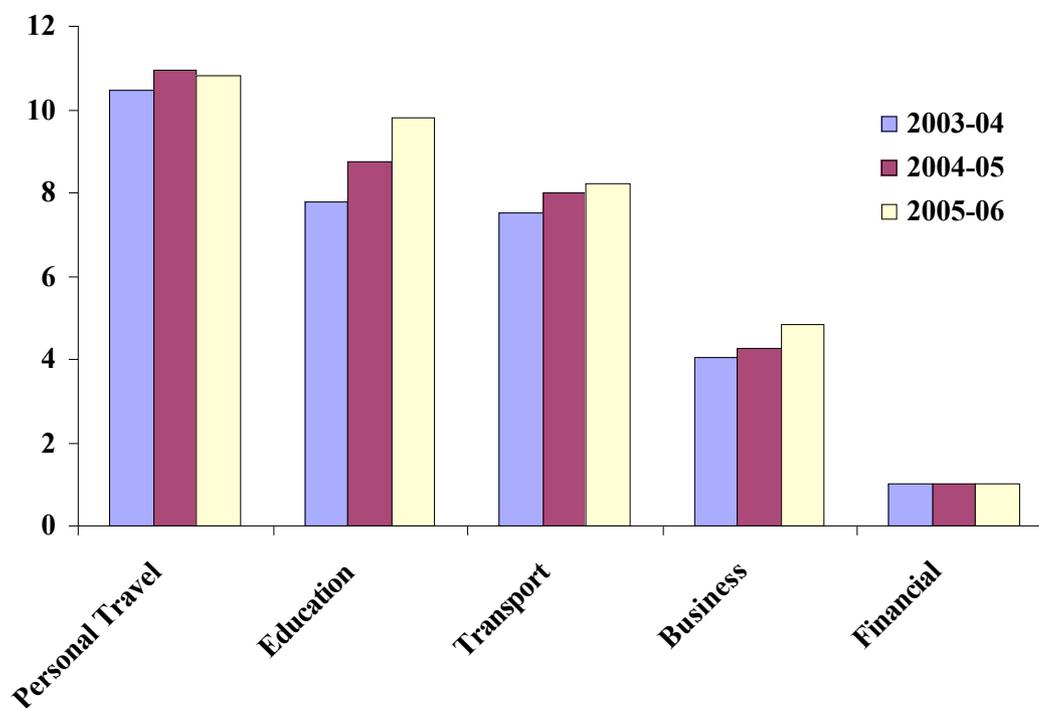
The Australian education and training sector faces a turbulent and rapidly changing set of scenarios in the international arena. Optimism is warranted as demand has continued to grow in the decade since the Asian economic crisis. Furthermore, Australia's international education industry proved to be remarkably resilient throughout the Asian crisis which threatened a significant crisis for the international education market. In spite of its proven resilience, there are difficult challenges emerging from several directions. Traditional international competitors, the United States (US), United Kingdom (UK), Canada and New Zealand (NZ), are mounting

spirited and well-resourced recruitment campaigns and are being joined by newly developed countries such as Singapore and Malaysia. Meanwhile trends such as offshore and on-line delivery are becoming powerful new modes of competitive response to which Australia must respond strategically.

### **The Business Environment for Educational Exports**

There are several estimates of the value of export income from international students. These data provide a basic picture of the international business environment while also reflecting important elements of that environment. Figure 1 provides estimates from the Balance of Payments figures in the National Accounts. It illustrates the value of the education and training export sector to Australia, compared to the other major service export industries. Although the value of service exports from the National Accounts differs somewhat from other sources due to the different accounting conventions the basic magnitudes and trends are clear. Education is Australia's third largest service export earner, has been growing over time and far exceeds Business and Financial Services combined.

**Figure 1 Australia's Major Services Exports, 2004, 2005, 2006, \$A billion**



Source: ABS (2006) *Balance of Payments and International Investment Position*, Cat No 5302.0

Other estimates, derived from data on student numbers and surveys of expenditure show that total expenditure by all overseas students in Australia exceeded \$A8.1 billion in 2007. Although university students make up only half of the 320 thousand overseas students in Australia they account for almost 60 per cent of total expenditure.

Australian Universities have been able to use the extra revenue from international students, to improve the facilities for Australian students and staff and to provide funds for research. In government schools, due to an ageing population there are often difficulties in maintaining facilities and curriculum choice and recruitment of international students can provide a partial solution (Lewis et al 2002).

**Table 1: Estimated Contribution to the Australian Economy by the International Education Sector, 2007, \$A '000s**

	<b>No. of Students</b>	<b>Student Expenditure</b>	<b>Visitors Expenditure</b>	<b>Total Expenditure</b>
<b>Higher Education</b>	147,349	4,490.46	301.16	4,791.62
<b>Vocational Education</b>	72,264	1,918.03	146.55	2,064.58
<b>Secondary Education</b>	19,700	490.41	40.12	530.53
<b>ELICOS</b>	42,682	691.83	85.91	777.74
<b>Total</b>	281,995	7,590.73	573.74	8,164.47

Source: derived from Australian Education International, *Overseas Student Statistics 2007* and Lewis et al (2002).

The effects on the local economy are significant. Surveys of student expenditure indicate that fees make up about half of average total expenditure. Thus the education export industry has important flow-on and multiplier effects for the whole economy. Also, international students generate considerable tourist revenue as relatives and friends come to Australia to visit and attend graduation ceremonies. However, there is concern that this potentially lucrative source of revenue has been neglected by tourism marketers (Lewis et al 2002).

**Table 2: Overseas Students by Education Level**

	Number of Students			% Change	%
	2002	2005	2007	2002-05	2005-07
<b>Higher Education</b>	91,613	136,309	147,349	32.8	7.5
<b>Vocational Education</b>	37,184	43,777	72,264	15.1	39.4
<b>Secondary Education</b>	16,849	20,021	19,700	15.8	-1.6
<b>ELICOS</b>	27,680	29,441	42,682	6.0	31.0
<b>Total</b>	173,326	229,548	281,995	24.5	18.6

Source: Australian Education International (2007) *Student Enrolment and Visa Statistics*,

Retrieved in May 2007 from the Australian Education International Website,  
<http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2007>.

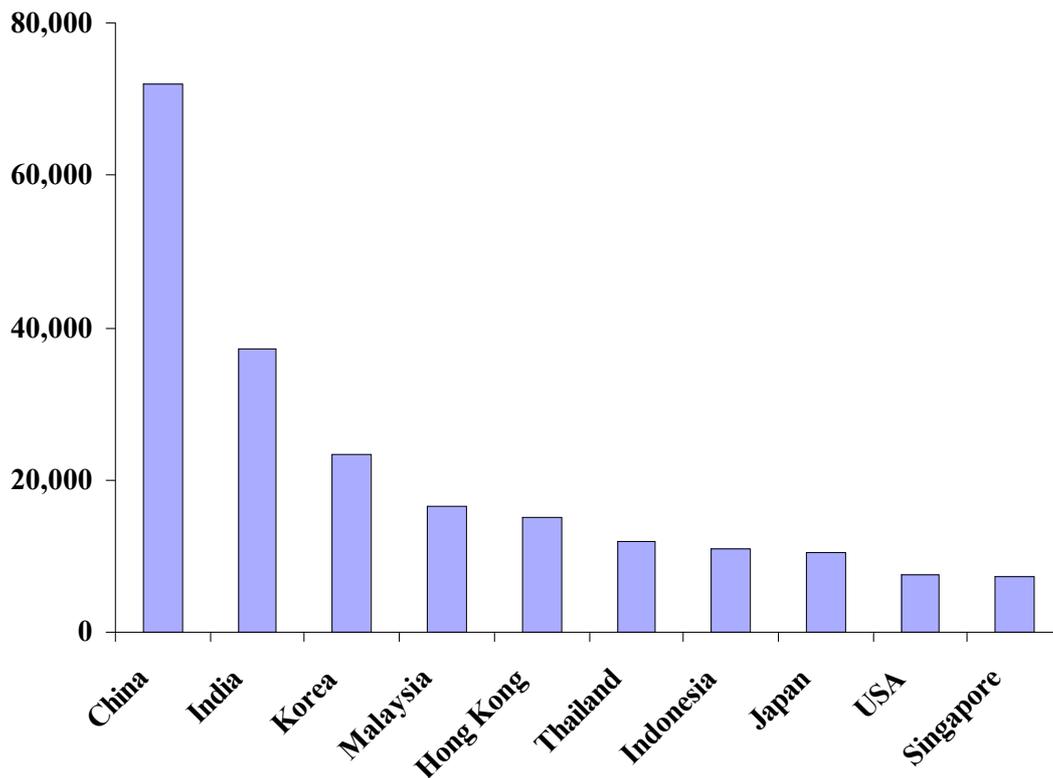
There are also important flow-on effects that are difficult to measure, such as those associated with international students' business connections that may be of value to Australia. These connections create an indirect impact on the Australian economy through business investments (Lewis and Tan 1997).

Although all sectors continue to increase significantly over time it is the university sector which has grown most strongly - up 33 per cent between 2002 and 2007.

The overwhelming importance of China to Australia's overall market is obvious from Figure 2. Also India has become increasingly important and student numbers from

India now exceed those from any of Australia’s ‘traditional’ markets. Although the number of students from China and, to a lesser extent, India is an indicator of considerable success for Australia’s institutions, it also represents a threat in the event of a collapse in these markets.

**Figure 2: Overseas Students in Australia, Top Ten Countries, March 2007**



Source: Australian Education International (2007) *Student Enrolment and Visa Statistics*,

Retrieved in May 2007 from the Australian Education International Website,

<http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2007>

Table 3 shows quite dramatically how markets can change quite significantly even over a period of 5 years. In 2000 Singapore was the greatest source country for Australia’s international students but by 2007 the number studying in Australia had more than halved. Malaysia and Indonesia, although still in the top six source countries have also reduced their number of students in Australia.

In summary, Australia's traditional markets in South East Asia, on which most of the early expansion of the industry was based, has shrunk somewhat in recent years. Some Australian universities have been badly hit as they have failed to make up for the shortfall in students from South East Asia by expanding into newer markets such as India and China. The decline in demand from South East Asia is in part due to strategic thinking by governments and private institutions, particularly in Singapore.

**Table 3: Overseas Students in Australia, Top Ten Countries, March, 2000, 2007**

	2000	2007	% Change 2006-07	Rank 2002	Rank 2007
<b>China</b>	14,949	71,898	381.0	5	1
<b>India</b>	10,572	37,150	251.4	7	2
<b>Korea</b>	11,485	23,391	103.7	6	3
<b>Malaysia</b>	19,602	16,622	-15.2	3	4
<b>Hong Kong</b>	20,739	15,150	-26.9	2	5
<b>Thailand</b>	8,179	11,854	44.9	9	6
<b>Indonesia</b>	17,868	10,922	-38.9	4	7
<b>Japan</b>	10,220	10,462	2.4	8	8
<b>USA</b>	**	7,615	**	***	9
<b>Singapore</b>	20,866	7,339	-64.8	1	10
<b>Taiwan</b>	6,104	**	**	10	**

Note: \*\*\* not in top ten in that year

Source: Australian Education International (2007) *Student Enrolment and Visa Statistics*,

Retrieved in May 2007 from the Australian Education International Website,

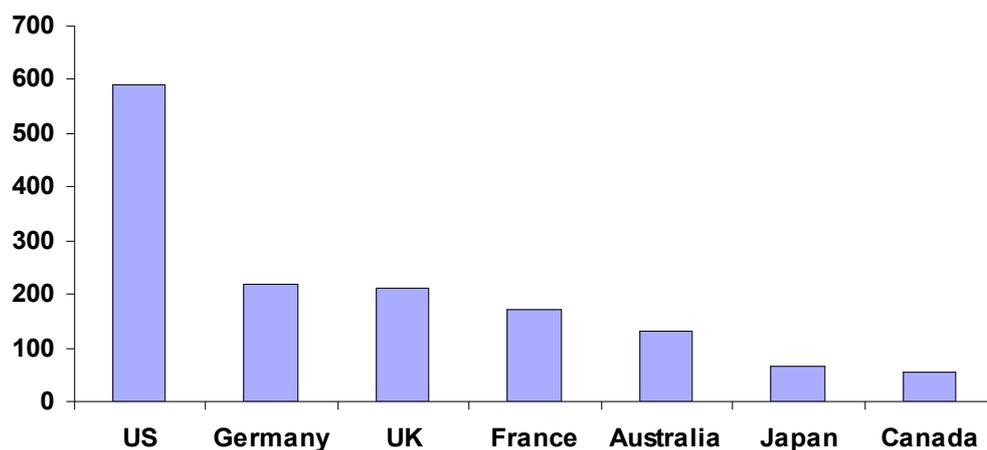
<http://aei.dest.gov.au/AEI/MIP/Statistics/StudentEnrolmentAndVisaStatistics/2007>

In Singapore the government has actively sort to increase domestic supply of university places in government universities, by setting up Singapore campuses of prestigious foreign universities and by encouraging joint ventures between local private providers and foreign universities.

## Australia's Competitors

The US, with over half a million students from all over the World, is by far the largest host country (Figure 3). In 2002 the latest year for which comparable data are available, the US had more than twice as many international students than each of the second and third ranking countries, Germany and the UK, respectively. In Australia's "own" region, Asia, the US is even more dominant than in the World as a whole (Figure 4). It is host to more than three times as many students as each of its nearest competitors, Australia and the UK.

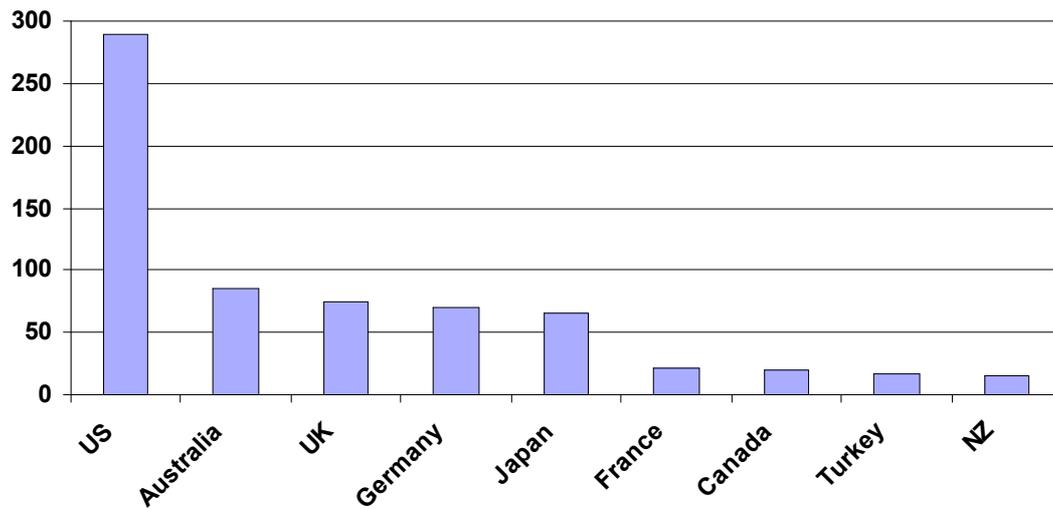
**Figure 3: All International Students by Host Country, 2004, '000s**



Source: OECD (2006) *Education at a Glance*.

The factors affecting choice of destination country are well researched (see Lewis and Tan 1997). It is widely acknowledged that uppermost in the minds of international students, when they are selecting the country, city and institutional destination for their overseas study, are two key variables. These are the quality and reputation of the country/institution's educational standards and employer and government recognition of the institution's qualifications in the student's home country. These factors of course have different importance for each institution. (Marginson, 2007)

**Figure 4: Host Countries for Asian Students, 2004, '000s**



Source: AEI (2005) *Student Enrolment and Visa Statistics*

Nevertheless, it is also apparent from many studies that a key determinant of student choice of destination, is recommendations from peers and parents of students who have previously studied in the country. Students' willingness to recommend their 'alma mater' to others is, in part, based on their degree of satisfaction with both their academic and non-academic experiences in that institution and city/country.

Studies show that the vast majority of postgraduate students from China and India, in these key disciplines, choose to study in the US; and well over 80 per cent of them remain permanently in the US following completion of their Masters or PhD degrees. There are some 30,000 Indian and 20,000 Chinese fuelling the phenomenal hi-tech R&D boom in Silicon Valley alone.

**Table 4: International University Students in Australia, US and UK, 2005**

Source	Host		Country			
	Australia		US		UK	
	no.	% change 2004-05	no.	% change 2004-05	no.	% change 2004-05
China	40054	32.6	62523	1.2	52675	10.3
India	22279	24.8	80466	0.9	16685	14.1
Korea	5380	8.1	53358	1.7	**	**
Hong Kong	10703	-2.5	7180	-2.4	10780	1.9
Malaysia	15375	-3.3	6142	-5.3	11475	-2.8
Japan	3471	6.3	42215	3.4	6180	-3.4
Thailand	5252	-8.2	8637	-3.4	**	**
Indonesia	9543	-9.5	7760	-12.6	**	**
USA	2629	5.0	na	na	14385	7.5
Singapore	8349	-9.5	3769	-4.7	**	**
Taiwan	3964	-4.8	25914	-1.0	5880	3.0
Other	36931	2.7	267075	-2.3	200340	5.5
<b>Total</b>	<b>163930</b>	<b>8.3</b>	<b>565039</b>	<b>-1.3</b>	<b>318400</b>	<b>6.1</b>

Source: AEI, *2005 International Student Enrolments*

Most of these students choose the US for two reasons. The opportunity to study in a high quality research environment, linking university study with experience in multinational R&D companies; and the prospect of being able to continue a permanent career in that country on graduation. Australia has only in recent years allowed some graduates from overseas to apply directly for permanent resident status. While it may have been appropriate in the past for Australia to force international graduates to return home, in this new era of global labour markets, it would be absurd not to compete on a more level playing field with the US for skilled labour.

The Chinese and Indian markets present significant potential for the Australian education sector and there is a need to actively explore and develop these markets. Perhaps a strong commitment to become a niche player in the IT sector through research organisations and through postgraduate expansion would include China and India as the logical priority markets. Recent studies (Mazzarol, Soutar, Smart, et al, 2001) have highlighted the ways in which the UK and US have targeted bright postgraduate students from China and India, providing a range of incentives to attract them. The outcome is that much of Silicon Valley relies on former Chinese and Indians with US PhDs and, furthermore, the whole US research and development sector is highly dependant on foreign postgraduate labour.

Australia has the leading market share in both Malaysia and Singapore. It is second to the US in Indonesia, India and Thailand, and third to the US and UK in all the other countries listed. Clearly, in the markets of South Korea, China, Japan, Taiwan and India, there is great scope for Australia to improve its recruitment. These markets are all within relatively close proximity to Australia, and therefore Australian educational institutions should be able to target these countries more effectively than other countries, such as those in the European Union, which receive strong competition from the US and UK institutions.

As one of Australia's major rivals, it is interesting to examine the speed of growth of New Zealand. The key reason for the dramatic growth in New Zealand's share of international students is the country's extremely liberal student visa policy, along with the fact that New Zealand is seen as an inexpensive and safe country. New Zealand also has an effective market strategy and target high growth markets such as China. The New Zealand Government has been far more supportive in deregulating student visas than the Australian Government, with its very restrictive visa categories.

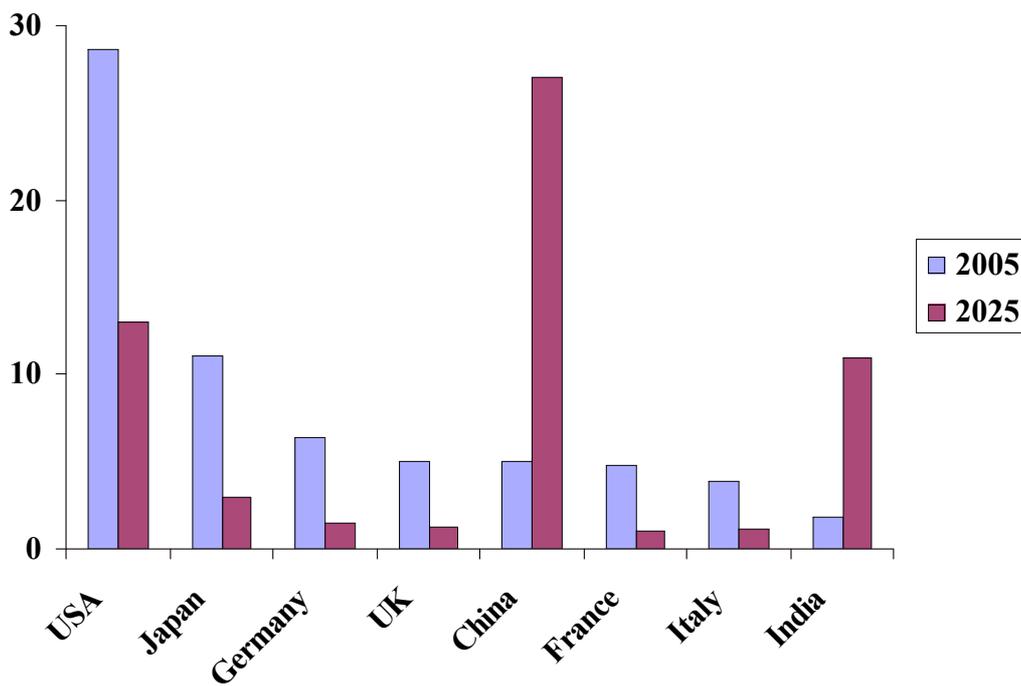
New Zealand entry standards for university and foundation programs are also very undemanding and standards relatively low. Australia has probably been tougher in English language entry requirements in particular. It is also important to appreciate that New Zealand's growth seems more impressive because it came off a very low base. If looked at as a proportion of total students it is far less spectacular.

However, the New Zealand Government is now seeing some of the negative effects of its deregulated visa policies, and it is predicted that they could ‘clampdown’ and as a result experience a significant decline in growth.

### Future Growth & Constraints

Figure 5 below, shows the size of the Chinese and Indian economies in 2000, compared to the economies of the rest of the world. China and India received shares of world income (GDP) of 12.5 per cent and 5.5 per cent, respectively. This illustrates their competitive nature in terms of world industries, and thus the available opportunity for countries such as Australia to capitalise on and further expand into China and India for the export of education and training services.

**Figure 5: Income Shares 2000 and 2025, per cent of World Income**



Source: World Bank, *World Development Report 2006, World Development Indicators 2006*, Hooke (2003), *World Education Demand Model*

Both China and India are also expected to continue their growth in world income. Figure 5 illustrates the implications of a Medium-Economic-Growth Scenario for world income shares of gross world product, and the phenomenal share of world

income that China is predicted to achieve (28 per cent), along with India (11 per cent), by 2025.

Hooke (2003) provides information on the scale of the world education market in 2000 and illustrates the impact that income levels have on participation rates. In the United States income per head is US \$34,250 and the participation rate is 83 per cent; in China income per head is US \$4,300 and the participation rate is 6 per cent. However, China's per capita income is doubling every 8 years and should continue to do so for another 3 decades (until it reaches 80 percent of the then-prevailing level in the high-income countries). By 2025, China's income per head could be US \$34,000 (in 2000 prices), imply a 13-fold increase in the participation rate and, despite the one-child-per family policy (which is largely an urban policy), no decline in the cohort of potential students during the intervening period.

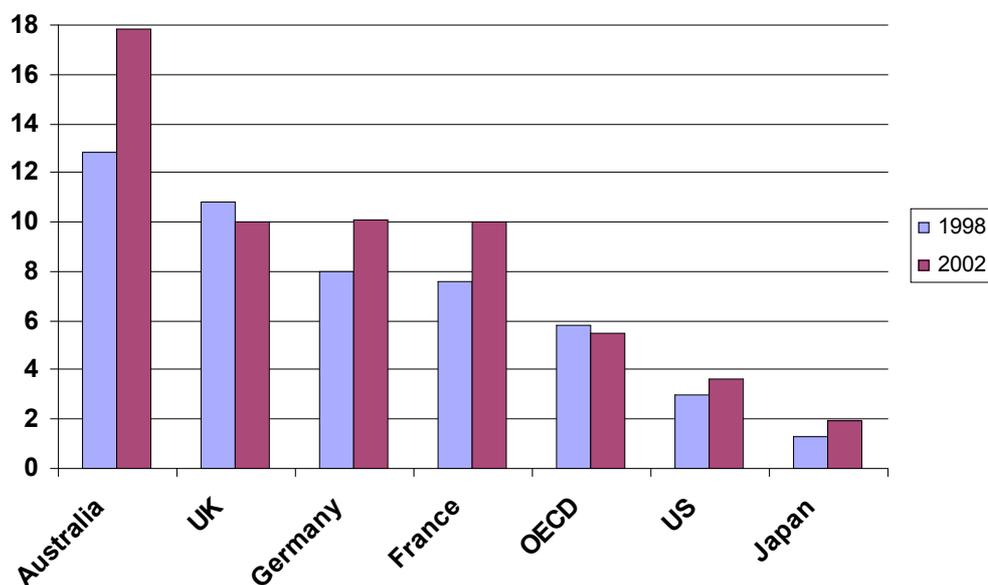
Bohm and King (1999) have forecast the unmet demand for tertiary education at 20 million in 2020. This forecast is consistent with the excess demand of 22 million predicted for 2025. Similarly, Bohm and Chaudri (2000) predict that there will be an unmet demand for tertiary education in India of 9 million in 2015.

The literature on India as a similar growth market to China is already available and need not be repeated here. However, while the Indian market is less developed than the Chinese market, Australia has the opportunity to adopt 'first mover' strategies and get in early. India has the additional advantage that it is English speaking. It also has a significant number of world famous Institutes of Technology, which produce high quality graduates eager to undertake PhD studies offshore in the Sciences and Technology (Mazzarol, Choo & Nair, 2000; AEI, 2001).

It is clear that, in general, there is continuing growth in global demand (Gallagher 2002) and that Australia is well placed in terms of price, quality, and location to 'pull' in its share of the growing demand. Australia currently attracts approximately 8 per cent of the global demand for international higher education, and even if Australia simply maintains that percentage, over the next five years it will entail a significant expansion in total numbers. Indeed, Gallagher (2002) identified that the biggest problem for Australia is likely to be supply constraints. He has argued that given the

dramatic continuing rate of growth in world demand, Australia might find it difficult to increase its global share. Certainly institutional ‘saturation’ will become a limiting factor for some. A number of leading universities, such as the University of New South Wales (UNSW) and Wollongong University, are seeing 25 per cent as probably optimal. ANU will approach that level soon.

**Figure 6: International Students as a Percentage of All Students, Higher Education by Country**



Source: OECD (2005) *Education at a Glance*

Australia has embraced overseas students to a much greater extent than other countries. As Figure 6 indicates Australian universities have a much higher proportion of their student body from overseas than other OECD countries and four times higher than the US which has the greatest number of overseas students. It is this high degree of “density” of overseas students in Australian universities has led to some commentators suggesting that some Australian universities are approaching full capacity with respect to international students (Gallagher 2002).

However, this capacity constraint is to some extent a cultural and educational constraint rather than a physical one. This arises because overseas students are largely

concentrated in undergraduate Business related degrees and therefore a density of 20 per cent overall represents a much larger density in undergraduate Business degrees which can have adverse effects on education of domestic students (Lewis et al 2002). This implies that the number of international students could be significantly expanded by recruitment in the undergraduate non-Business degrees or in post-graduate Business degrees. Some Australian universities are seriously pursuing strategies to change the mix of their overseas student intake.

Australia Education International (AEI) is part of Department of Education, Employment and Workplace Relations, responsible for integrating the development of international government relations with support for the commercial activities of Australia's education industry. Since its establishment AEI has played an important role in providing Government leadership and support for Australia's international education and training sector, although it is not without its critics in the industry. IDP Education Australia Limited (IDP) is a global organisation with more than 69 locations with activities in 31 countries. It is owned by the Australian universities but represents all education sectors.

Neither AEI nor IDP has enjoyed the total support or confidence of the industry (TIAC 2000). There are a variety of reasons for this but in both cases the character of the total student market, which is dominated by university students (roughly 60 per cent of the total), is a major contributing factor. The simple history of international students in Australia is that university students came first and have always been the biggest group. As a result, IDP was initially an exclusively university service organisation and AEI has also responded to the market strength of the university sector. So, the VET, ELICOS and schools sectors argue that their needs and services are poorly understood and provided for by both AEI and IDP despite the payment of significant subscription fees. Ironically, in their efforts to address the needs of all sectors, both AEI and IDP have frequently alienated all sectors (even some universities have been critical).

## **Alliances and Entry**

One of the most important issues facing the university sector is that of strategic alliances in offshore operations. Twinning and offshore joint ventures have been significant growth areas in the provision of Australian higher education internationally since the 1990s (Lewis and Pratt, 1996). Growth in offshore programs is set to continue and Australian institutions will endeavour to be a part of this new source of demand for tertiary education and training. While these programs may not be as significant a source of revenue for institutions as onshore programs, the longer-term benefits appear promising. These programs provide opportunity for the sale of intellectual property rights, (a major source of revenue) and they also give access to a market which was previously inaccessible. Specifically, students who prefer to undertake an Australian education and training qualification, but are unable to afford the large extra expenditure of travelling and living in Australia.

Mazzarol et al (2003) call the forward integration in to offshore markets through strategic alliances the “second wave” of export education following the “first wave” of expansion of onshore delivery. As off shore operations become more important, particularly in China, a number of possible pitfalls arise. These include problems of quality control – particularly when the language of instruction and assessment is not English- and how to ensure an adequate rate of return on investment in a highly competitive and, for Australian universities alien, environment.

As with most areas of organisational change, the impacts of initiatives related to offshore joint ventures and twinning programs in the sponsoring university could be viewed as threats or opportunities. Those committed to a broader view of the university in modern society, and especially those perceiving a partnership with businesses in supporting globalisation, are likely to regard a twinning program as an opportunity to review the efficacy and relevance of the university's policies and procedures (Lewis and Pratt 1996).

While Australian universities are largely public institutions their international activities see them acting, at least in these areas, as for profit organizations. The literature of international business related to entry mode choice and

internationalisation offers a framework for the analysis of the decisions by universities regarding the sale of educational services and method of delivery of these services. The factors determining the choice of entry mode by multinational corporations have been well researched over the last 30 years. Typologies of differing entry modes have attracted attention. The several types of entry are: export, licensing, franchising, FDI, JVA, and wholly-owned subsidiaries. The export of education services has several forms or models adopted by different institutions and there are differences within institutions in regard the several markets in which they operate.

Pan and Tse (2000) suggest three schools of thought for entry modes:

1. A portrayal of entry as gradualist, from low resource commitment to increasing commitment (e.g. Johanson and Vahlne, 1990). The risks of foreign markets are at the forefront of decisions regarding the method and pace of entry and the level of resource commitment. Gradual incremental involvement leads from exporting to wholly owned subsidiaries.
2. Transaction cost approaches make up the second school of thought. Activities that can be performed at a lower cost will be internalised within the firm while, if other providers can perform tasks at a lower cost they will be subcontracted. Costs of monitoring, controlling and product quality are of particular relevance. Rather than a continuum or a staged process the transactions cost approach portrays the entry decision as a rational choice where all the entry modes have the same level, with respect to any hierarchy, and it is an optimising choice between competing modes.
3. Pan and Tse's third school of thought is the approach that highlights the location specific factors, associated with the eclectic paradigm of international production (OLI) of Dunning. Different entry modes depend on firm specific factors, industry specific factors, country specific factors.

Other studies of entry modes look at market structure and entry strategy; cultural factors or psychic distance and the impact of entry mode on profitability. Anderson's review of entry mode theories and conceptual frameworks (Anderson, 1997) suggests an approach that emphasises institutional forms. Anderson demarcates the literature thus: entry mode as chain of establishment; transaction cost approach; the eclectic framework; and organizational capability framework. Consideration of universities as

'knowledge based service industries' would emphasise *experiential* knowledge and cost in the internationalisation process (Erickinson & Johanson, 1997). Another perspective is to examine the internationalisation process as part of ongoing strategy of the firm. Entry mode and international market selection are intertwined (Anderson, 1997). Since internationalisation is a dynamic process and may have 'laws of succession' it may be contrasted with much work on entry mode choice that can be seen to be static in character. An area that appears little studied in the literature is the *effects* of entry and/or internationalisation *on* the domestic firm itself, on its operations and culture. Educational services may be a fruitful example of the transformative nature of internationalisation, and the associated modes of entry, on the home institution.

In an extensive review of the international and Australian literature Bannerman et al (2005) examine the guidelines for successful strategic alliances in higher education. These will be common to International Business practitioners:

- ∞ Formulate a winning strategy
- ∞ Ensure clarity of objectives
- ∞ Select a suitable strategic partner
- ∞ Develop core competencies in collaboration
- ∞ Establish an effective governance structure
- ∞ Actively manage cultural challenges
- ∞ Protect intellectual property and brand
- ∞ Align decision rights to create and capture value
- ∞ Build core capabilities in change management
- ∞ Agree an exit strategy

Bannerman et al (2005) conclude that:

'Not all institutions have the resources to capitalize on the opportunities presented by strategic alliances. As a general indicator, any institution that has questions about its capabilities in more than two of the above criteria should not proceed. Doing so will put their brand name and limited capital base at risk for minimal short-term benefits.' (p 67)

It is not clear that most Australian universities have the expertise to address the above points. The impression is that Australian universities' management may have the ability to provide a quality product in a highly regulated and government funded domestic market but lack the international business skills to identify and manage strategic alliances with overseas partners. Empirical research on this issue is very difficult since most institutions will not release data on such key variables as profitability due to 'commercial in confidence' reasons.

## **Conclusion**

Australia's education and training export sector has endured past challenges with remarkable strength. There is a danger that this may lead to complacency in meeting new opportunities and threats. This paper has highlighted a number of these issues and the need for strategies to address them. Unfortunately the articulation of specific strategies over the coming decade will require research in areas that are not well addressed at present. It is argued here that the theoretical frameworks of international business literature offer promising lines of enquiry. For example it would be useful to know if institutions articulate their internationalisation strategies in a manner that confirms or refutes a stages approach. At a sector wide level it would be good to test whether a stages model of internationalisation fits the experiences of Australian education's international expansion. However the data required for such business oriented research is not readily available – we have relied on aggregative data here. How might compilation of disaggregated 'firm level' data be achieved? Reliance on survey methods faces considerable costs and access issues for researchers. Consideration might be given to empowering the AEI or encouraging Universities Australia to collect the requisite data in a confidential form. The debate on governance of our Universities might include consideration that they approximate the standards of disclosure comparable to publically listed companies. As well as serving the needs of research that potentially provides guidance on the strategic choice by universities it may also enhance the welfare of key stakeholders such as prospective students, taxpayers and academic staff. Increased training and sharing of experience by staff responsible for all levels of international activity might be considered. The sector, along with the Federal Government, also has to consider

whether each individual institution pursuing its own interest on a competitive basis is inappropriate in meeting the needs of the sector in a global market place against other more coordinated countries such as UK and Canada.

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