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Trends in International Trade in Higher Education:

Implications and Options for Developing Countries

by
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Abstract

International trade in higher education services has grown rapidly in recent years in a variety of forms. The most common form of this trade is the movement of students to study in foreign universities, which has been supplemented by the delivery of foreign higher education programs and institutions to transition and developing countries. In 2005, the annual exports from five leading exporters of higher education, exceeded by 10 times the annual commitments of multilateral and bilateral aid for higher education. Simultaneously, in importing countries, the annual value of higher education imports was large relative to their domestic public expenditure on higher education. Among the factors propelling demand for foreign higher education services are the excess demand for domestic higher education and the need for internationally recognized qualifications in emerging regional and global markets for highly skilled labor. Several countries have also deliberately encouraged foreign collaborations to improve the quality of domestic higher education. However, there are concerns in developing countries about the possible negative impacts of this trade on underfunded and inefficient domestic higher education systems operating within weak regulatory systems. The possibility of loosing sovereignty over a sector that is vital to national development is another major concern. As a result, despite the growth in international higher education trade, most developing countries have been unwilling to make binding commitments in the current round of GATS negotiations and in bilateral trade agreements. Nonetheless, this trade is bound to increase and diversify due to the growing demand for foreign qualifications and increasing competition among industrialized nations in the higher education market and also due to the entry of more higher education institutions from developing countries, which can compete on both price and quality. These developments offer more options for developing countries, including low-income countries, to expand and strengthen their domestic higher education systems. The key challenges are to prioritize policy objectives, to choose among different options for achieving those objectives, including the judicious use of foreign provision of higher education, and to align regulatory mechanisms accordingly.

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Abbreviations and Acronyms

AAU	Association of African Universities
AIU	Association of Indian Universities
AICTE	All India Council of Technical Education
BOP	Balance of Payments
CAFTA-DR	Central American Free Trade Agreement – Dominican Republic
CERI	Centre for Educational Research and Innovation
DAAD	Deutscher Akademischer Austausch Dienst (German Academic Exchange Service)
DDA	Doha Development Agenda
EU	European Union
EC	European Commission
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GER	Gross Enrolment Ratio
ICT	Information and Communication Technology
IMF	International Monetary Fund
FAT	Foreign Affiliates Trade
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
IT	Information Technology
MOHE	Ministry of Higher Education
MFN	Most Favored Nation
NAAC	National Assessment and Accreditation Council
NCITE	National Committee for International Trade in Education
NIEPA	National Institute of Educational Planning and Administration
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
SAFTA	Singapore-Australia Free Trade Agreement
TAFTA	Thailand-Australia Free Trade Agreement
SSA	Sub-Saharan Africa
WB	World Bank
WTO	World Trade Organization
UIS	UNESCO Institute for Statistics
UK	United Kingdom
UNESCO	United Nations Educational, Scientific and Cultural Organization
US	United States

I. Introduction

Higher education systems across the world are increasingly impacted by the cross-border consumption of higher education services in a variety of forms. The increase in consumption of higher education services of one country by the nationals of another for which the latter make payment marks a departure from earlier forms of international collaboration. Traditional forms of exchange in international higher education include faculty exchanges and the provision of scholarships for foreign study, financed largely by aid or inter-university partnerships for research. Higher education has today become a tradable service, which although not yet on the same scale, is similar to the trade of telecommunication or financial services. As with trade in any other commodity or service, in principle, both importing countries (those who consume higher education provided by a foreign supplier) and exporting countries (those who provide higher education to foreign nationals) could benefit from greater exchange. More specifically, the theoretical benefits for the former include more choices, improved quality and lower prices. However, there are risks associated with opening up a sector to international competition and particularly, in the case of developing countries, a sector that is considered of crucial importance to national development and, for which the benefits of are not fully captured by the market.

The visible growth in cross-border consumption of higher education over the last 15 years has raised concerns, especially in the academic communities of both industrialized and developing countries, over its possible impact on domestic higher education systems. Concerns have been expressed over the possibility of poorly funded domestic higher education systems in low income countries being overwhelmed by foreign competitors, an excessive concentration on "job-related training" at the expense of training in academic subjects, research and other functions associated with higher education, and in growing inequity in access to higher education. Further, foreign providers often fall between two pillars, regulated neither by the authorities in the home country nor by those in the host country. As a result, students in developing countries, lacking information on the quality of foreign providers, are vulnerable to aggressive

marketing campaigns, sometimes of "fly by night" operators, leading to a waste of private resources.

These concerns have tended to crystallize around the possible dangers of making commitments to liberalize trade in higher education in the current negotiations over General Agreement on Trade in Services (GATS), commitments which might be largely irreversible and which might restrict the freedom to develop national higher education policy. In developing countries, these concerns are accentuated by caution towards further services trade liberalization, which arises from the perception that the results are likely to be one-sided, with industrialized country service providers gaining access to developing country service markets without the latter gaining similar access to industrialized country markets.

To a certain extent, the concerns regarding commitments under GATS in particular have been put on the backburner, due to the limited progress in the current round of multilateral negotiations on trade in services. Nevertheless, as trade in higher education continues to expand, many developing countries are struggling with the effect of this trade on their domestic higher education systems and whether and how to utilize, regulate or prohibit higher education supplied by foreign providers. Some developing countries are also trying to develop export markets for some of their higher education institutions. The industrialized countries, on the other hand, see a potentially huge and growing demand and many institutions, traditional public and private universities as well as newer corporate entities or consortia selling higher education services, are aggressively seeking new markets abroad. Further, despite the suspension of the multilateral trade talks, many countries are signing regional or bilateral trade agreements that have included the education sector.

Across the world, the use of the word "trade" is often resented by members of the university academic community; indeed, many reject the term as representative of the undesirable trends in the "commodification" of higher education or the subordination of the values of higher education to commercial interests alone, ignoring the contribution of higher education to the intellectual, social and cultural development of a society. Further, not all cross national consumption of higher education constitutes trade. As discussed later in this paper, a significant amount is still financed by aid. Cross-national exchanges

of students are also deliberately mandated and financed in the European Union as part of the program for creating a common "European Higher Education Area" under the Bologna process. Not surprisingly, there is a proliferation of terms which are often used interchangeably. The Organization for Economic Co-operation and Development (OECD) has used the term "internationalization of higher education" to cover many forms of international exchanges and distinguishes between student, program and institutional mobility to characterize the different forms of this exchange. Others refer to cross-border, transnational, offshore or borderless education.

In this paper, we analyze the trends, underlying factors and implications of the trade in higher education services. We explicitly use the term "trade in higher education" to refer to the purchase of higher education services from a foreign country using domestic resources. Conceptually, this trade is no different from trade in any other service. It is closely related to trends resulting from increased globalization, including the integration of product and factor markets and, in particular, emerging regional/global markets for skilled labor, which are fuelling private demand for internationally acceptable higher education. Further, it is affected by the factors influencing international trade and investment in general, including multilateral and bilateral trade and investment agreements that try to promote trade, as well as subsidies and domestic regulations. From a policy perspective, this trade offers alternatives to expansion of domestic higher education capacity or alternative ways of financing this expansion, but it also creates risks. It causes competition for traditional domestic universities, requiring changes in laws, regulations and financing mechanisms. The creation of an appropriate policy framework that would enable exploitation of the benefits to attain desired policy objectives and mitigation of risks is an important challenge. For all these reasons, the growth of this trade has implications for the support provided by multilateral aid agencies involved in higher education.

Systematic analysis of the international trade in higher education has not been undertaken within the World Bank, despite its growing importance for developing countries. Among multilateral organizations, the OECD and the United Nations Educational, Scientific and Cultural Organization (UNESCO) have taken the lead in documenting some major trends, identifying key policy issues and assessing the

implications of GATS (OECD, 2004). International forums organized by UNESCO and OECD held between 2002 and 2004 assembled many cross-country experiences and resulted in the adoption of guidelines for cross-border education services. A considerable amount of work has been done in Australia. However, much of Australian research is from the perspective of a leading exporter of higher education. Researchers have analyzed the implications of GATS in higher education (Knight, 2003) and regional symposia, in Asia, Africa and Latin America, often organized by university associations or research institutions have also examined these issues, again usually within the framework of on-going GATS negotiations.

The objectives of this paper are to provide policy makers in developing countries, Bank staff and others associated with higher education policy development with information on and analyses of the recent trends in international trade in higher education and to present the policy issues and options that arise from it. The next section reviews recent trends in this trade, covering students studying abroad, the growth of new forms of cross-border higher education delivery and the relative importance of trade and aid in higher education. The third section discusses factors underlying the growth in this trade, in particular demand-side factors and the policies of exporting and importing countries. The fourth section analyzes issues related to trade agreements, including the extent of liberalizing commitments under GATS and bilateral trade agreements. This is followed by a summary of the main concerns of developing countries and of the academic community related to trade in higher education. Finally, the paper discusses the implications of trade for domestic higher education systems in developing countries as well as policy choices and instruments.

II. Recent Trends in International Trade in Higher Education Services

This section assesses the growth in the volume and value of the international trade in higher education services. Different indicators are used to assess the extent of this trade as existing official statistics on international trade or investment by sector do not adequately capture this trade. Nevertheless, even with the limitations of available data, several trends are clear. First, the volume and value of trade is increasing; this is shown by the increasing international student mobility (although not all students studying abroad represent trade flows) as well as by the value of education exports recorded in Balance of Payments (BOP) statistics of the leading exporters. Second, the export of higher education services, through students traveling to a foreign university, continues to be dominated by a few OECD countries. The main importers are from Asia, the Middle East and the Caribbean while sub-Saharan Africa lags behind most other regions. Third, the value of these imports for the main importing countries is large in absolute terms and relative to their domestic public spending on higher education. Fourth, the annual value of exports of higher education services from the five main exporting countries exceeds annual bilateral and multilateral Official Development Assistance (ODA) for post-secondary education by a factor of ten. Finally, while the main form of this trade is through the movement of students to universities abroad, newer forms are emerging in which foreign universities provide higher education in partnership with local institutions or by themselves, either through an in-country presence, or through a virtual presence. The export of higher education through these forms has a large geographical spread and is a significant supplement to the traditional mode of students studying abroad.

International trade involves a transaction between a resident of a country and a non-resident. Unlike goods, however, services can be traded in several ways. The service can be provided by the consumer moving to the exporting country (as when a student goes to study in a foreign university, financed by sources within his own country); by the provider moving to the importing country (as when a foreign higher education institution providing education or training sets up a branch campus or franchise

in the importing country); or by the service being provided electronically or on-line (for instance, on-line certification or degree programs).

Not all these forms of trade in education are captured or identified in existing published statistics on international trade. We therefore begin with the trends in students studying abroad which provide an indication of the extent of one of the main forms of international trade in higher education. However, as will be shown, not all students who study abroad represent trade since development aid also plays an important role in financing study abroad. Next, we estimate the value of exports of the main exporting countries and the value of imports for some key importers, focusing on the trade associated with students moving to another country. We compare the value of this trade with ODA for post-secondary education. Finally, we examine the trends in other forms of trade in higher education, including franchises, twinning arrangements, branch campuses and other arrangements.

Regional trends in students studying abroad

The increase in the number of students studying outside their own countries has been extremely rapid in the last 15 years. Over a five-year period, the number of students studying abroad rose by nearly 50 percent, from 1.64 million in 1999 to 2.45 million in 2004 (table 1).

These student flows do not entirely result from international trade transactions. In particular, the ERASMUS program managed by the European Commission has promoted and financed almost all student flows within the European Union (EU) and into the EU from the candidate countries of Central and Eastern Europe (prior to their joining the EU), the candidate countries of the Balkans, and some Mediterranean countries. The annual movement of students between the countries of the EU alone remained roughly stable at about a quarter of a million students in 1999 and 2004 and represented about 10 percent of global students studying abroad in 2004.[1] As will be discussed later, apart from the flows into the EU from some non-EU countries in and around Europe, other

[1] Since the creation of the ERASMUS program in 1987, a total of 1.2 million students have benefited from study abroad period; 2,199 higher education institutions in 31countries participate in the program.

student flows are also not trade-related. The intra-EU student flows constitute a special case of student mobility that is driven by policies aimed at regional political and economic integration and therefore are excluded from the assessment of regional changes in student mobility. In 2004, the last year for which these data are available, the EU comprised 15 member countries, referred to as EU 15.

After excluding these intra EU flows, the growth in students studying abroad has been over 60 percent in five years, rising from 1.64 million students in 1999 to 2.21 million students in 2004. Equally important are the changes in the composition of student flows. T he strongest growth in absolute numbers was among East Asian students, taking their total to 0.72 million, or 32.6 percent of all foreign students in 2004, excluding intra-EU student flows (table 1). The strongest growth in percentage terms was among the South and West Asian students, with a 100 percent increase; however, students from this region represented less than 10 percent of all foreign students in 2004. Between 1999 and 2004, Sub-Saharan African countries showed a robust 77.8 percent increase, Arab and Central and Eastern Europe states had increases of 57.9 and 58.3 percent respectively, while both North and Latin America had a 50 percent increase in students studying abroad. By contrast, the increase was much less for Central Asian students (16.7 percent) and EU students studying outside the EU (10 percent). It is worth noting that while the share of sub-Saharan African students studying abroad is about 7 percent of the total, the countries of this region still send more students (in absolute numbers) to study outside their home country than the countries of North America, the EU 15 or Latin America.

Table 1: Students studying abroad by sending region 1999-2004

	1999 (thousands)	2004 (thousands)	% increase	% share in 2004
North America	60	90	50.0	4.1
Latin America and the Caribbean	100	150	50.0	6.8
EU 15	100	110	10.0	5.0
Central and Eastern Europe	190	300	57.9	13.6
Arab States	120	190	58.3	8.6
Central Asia	60	70	16.7	3.2
South and West Asia	100	200	100.0	9.0
East Asia and the Pacific	440	720	63.6	32.6
Sub-Saharan Africa	90	160	77.8	7.2
Other	40	60	50.0	2.7
Not Specified	60	160	166.7	7.2
Total (excluding intra EU 15)	**1,370**	**2,210**	**61.3**	**100.0**
Intra EU 15 Students	**270**	**240**	**(11.1)**	
Total with Intra EU 15 Students	**1,640**	**2,450**	**49.4**	

Notes:
1. Country groups given in Annex 1.
2. "Not specified" refers to students studying abroad without record of the host or sending country

Sources: UIS-UNESCO (2006)

Even more striking are the changes in the share of different hosting regions (table 2). The most significant aspect is the rapid growth of East Asia and the Pacific as a host for foreign students, accounting for over one-fifth of all students in 2004, compared to just 11 percent in 1999 (excluding intra-EU students). Foreign students in this region have increased by more than 2.5 times in a five year period. This is complemented by the declining share of students studying in N. America and Europe, which accounted for about one-quarter of students studying abroad in 2004, compared to 35 percent five years earlier. The EU 15 had increased the number of non-EU students by 67 percent, but its share has remained roughly constant, at about one-third of the global (non intra-EU) foreign students. Growth in Latin America and the Arab States has been very high as well, but as the number of foreign students was small to begin with, they account for only 1-3 percent of the world total. Both South Asia and sub-Saharan Africa, in contrast to all other regions of the world, host a negligible number of foreign students; in the case of the latter, there was an absolute decline in the number of foreign students hosted within the region.

Table 2: Students studying abroad by host region 1999-2004

	1999 (thousands)	2004 (thousands)	% increase	% share in 2004
North America	480	570	18.8	25.8
Latin America and the Caribbean	10	20	100.0	0.9
EU 15	460	770	67.4	34.8
Central and Eastern Europe	130	170	30.8	7.7
Arab States	30	70	133.3	3.2
Central Asia	20	30	50.0	1.4
South and West Asia	Negl	Negl	-	-
East Asia and the Pacific	200	510	155.0	23.1
Sub-Saharan Africa	Negl	Negl	-	-
Other	50	50	0.0	2.3
Not Specified	Negl	160	-	-
Total (excluding intra EU 15)	**1,370**	**2,210**	**61.3**	**100.0**
Intra EU 15 Students	**270**	**240**	**(11.1)**	
Total with Intra EU 15 Students	**1,640**	**2,450**	**49.4**	

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Sources: UIS-UNESCO (2006)

The regional shares, however, mask the continuing domination of a few OECD countries as the main hosts of foreign students. Eight OECD countries hosted 75 percent of the total number of non intra-EU foreign students in 1999. Their overall share remained roughly constant between 1999 and 2004, but there were some significant re-allocations between countries in this group (tables 3 and 4). In particular, the share of foreign students in the United States declined from 32.9 to 26 percent, while that of foreign students all other countries increased. In terms of sending regions, the biggest shift occurred among the East Asian countries: the proportion of these students going to the United States declined from 41 percent to 31 percent in five years, the biggest gainer being Japan. Apart from South Asia and sub-Saharan Africa, other regions also registered reductions in the proportion of students going to the United States. Amongst students from the Arab states, the shift was away from the United States (although over half continue to be in the US) towards Australia and France. The countries of Central

Asia sent less than 10 percent of their students to these eight countries; for these countries, the main hosts were Turkey and other countries of the former Soviet Union.

Table 3: Distribution of students studying abroad in top 8 host countries, 1999 (excluding intra-EU students)

Host Country Country of Origin	As % of world total by region (row percentage)									(thousands)
	Australia	**New Zealand**	**Canada**	**UK**	**US**	**France**	**Germany**	**Japan**	**Top 8 %**	**World**
North America	4.5	0.6	6.0	23.7	33.1	5.4	6.7	1.9	81.9	63
L America and the Caribbean	0.5	0.1	3.0	6.2	49.5	5.3	4.9	0.9	70.4	99
EU 15	7.6	0.4	7.2	.	41.0	.	.	1.1	57.3	103
Central and Eastern Europe	0.5	0.0	0.5	3.4	15.0	5.6	33.1	0.4	58.5	194
Arab States	0.4	0.0	2.3	7.0	15.3	36.6	9.5	0.3	71.4	124
Central Asia	0.0	0.0	0.1	0.8	3.2	0.6	3.7	0.5	8.9	60
South and West Asia	6.8	0.2	2.0	9.3	50.3	2.0	11.1	1.6	83.2	97
East Asia and the Pacific	17.7	1.1	2.3	10.9	41.2	1.9	3.9	11.4	90.5	437
Sub Saharan Africa	1.5	0.1	3.7	15.5	21.0	23.8	8.5	0.4	74.5	94
Other	3.2	0.2	1.6	32.3	24.9	5.7	11.9	0.2	80.2	37
Total	**8.5**	**0.5**	**2.6**	**9.2**	**32.9**	**7.5**	**9.6**	**4.1**	**74.9**	**1375**

Note:
1. Figures exclude intra-EU student flows but include students financed by government aid programs.
2. "Not specified" students are included in the total but not indicated as a separate row.

Source: UIS-UNESCO (2006)

Table 4: Distribution of students studying abroad in top 8 host countries, 2004 (excluding intra-EU students)

	As % of world total by region (row percentage)									(thousands)
Host Country	**Australia**	**New Zealand**	**Canada**	**UK**	**US**	**France**	**Germany**	**Japan**	**Top 8**	**World**
Country of Origin									%	
North America	7.6	2.8	11.5	20.0	31.3	4.6	4.6	1.7	84.1	86
L America and the Caribbean	1.3	0.1	5.4	5.4	44.4	6.3	5.0	0.8	68.6	149
EU 15	5.2	1.6	12.2	.	39.4	.	.	1.4	59.9	109
Central and Eastern Europe	0.5	0.1	1.4	3.1	12.0	6.9	35.0	0.4	59.4	301
Arab States	1.3	0.1	6.5	7.1	9.4	40.6	8.8	0.3	74.0	188
Central Asia	0.2	0.0	0.3	1.2	4.2	1.6	9.6	1.2	18.4	73
South and West Asia	11.8	0.9	2.6	12.7	50.2	1.3	6.2	1.3	87.0	197
East Asia and the Pacific	14.3	4.2	2.8	13.0	32.0	3.0	5.6	15.0	90.0	718
Sub Saharan Africa	3.4	0.1	4.7	14.8	21.2	26.1	6.8	0.3	77.4	159
Other	6.5	0.6	2.2	20.4	14.4	4.9	7.6	0.2	56.6	60
Total	**7.6**	**1.7**	**3.9**	**9.6**	**26.0**	**9.4**	**9.7**	**5.3**	**73.2**	**2205**

Note:
1. Figures excludes intra-EU flows but includes students financed by other government aid programs.
2. Data for Canada is from 2002.
3. "Not specified" students are included in the total but not indicated as a separate row.

Source: UIS-UNESCO (2006)

Estimates of the Value of Foreign Trade in Higher Education Through International Student Mobility

To what extent do the international student flows discussed in the preceding section constitute trade? Some international student flows are financed by the host country (either through development aid provided by the government or financial assistance provided by the university) and hence do not constitute commercial exports. In some cases, students are financed by their own governments through scholarships; however, such student flows do comprise an import of higher education service for the financing country (and an export for the country where the student studies). All other cases, where students finance their studies abroad through personal or family savings, private scholarships or domestic loans, constitute international trade.

Relatively few countries collect or present data on imports and exports of education services in their BOP statistics, thus making it difficult to estimate the global value of international trade in higher education. Even countries that do present data in the BOP statistics do not provide disaggregation by level of education; this may not be a serious limitation as currently, not many students study abroad for lower levels of education. Of the top eight host countries mentioned, five provide such data, namely: Australia, New Zealand, United Kingdom, United States and Canada.[2] The other three (France, Germany and Japan) do not provide such data, but also do not "export" higher education on commercial terms,; they are important host countries, relying predominantly on their ODA to finance foreign student inflows from developing countries.

The results for the five leading exporters of higher education are summarized in table 5. In 2005, the total value of education exports was over $ 28 billion, with the United States alone accounting for an estimated US $ 14.1 billion, followed by the United Kingdom (US $ 6.0 billion) and Australia (US $ 5.5 billion).The data also confirm the rapid increase in education exports from Australia, New Zealand and Canada, more than doubling between 1999 and 2004/5. Over the same period, exports rose by less than 50 percent in the United States and the United Kingdom. Although data are not available separately by level of education, they relate mainly to higher education except perhaps in the case of Australia and New Zealand where there is a significant number of foreign students in secondary education and vocational training. [3]

[2] BOP statistics capture imports and exports of education services through students studying in a foreign country under the head of "personal travel". The specific data for education-related travel expenditures are shown separately only by some OECD countries. See Annex 2 for data concepts and sources.

[3] In 1999, the OECD estimated the trade in higher education services arising from students studying abroad to be US $ 30 billion for all OECD countries, representing 3 percent of total trade in services of these countries (OECD, 2001). This may have been an overestimate as it was derived by estimating the number of foreign students in OECD countries (1.47 million) and multiplying by the average annual per student expenditure on tuition and living expenses in the Anglophone exporting countries (estimated at about $ 20,000). This estimate is admittedly crude because it includes students in European countries which charged little or no fees.

Table 5: Export of education services (foreign students) by main exporting countries, 1999-2005 (US $ million)

	1999	2000	2001	2002	2003	2004	2005	Percentage increase 99-04/05
Australia	2038	2259	2528	2897	3925	4872	5563	173
New Zealand	273	257	343	632	925	998	1000.	265
Canada	568	615	699	784	1014	1268	1573	177
United Kingdom	4101	3766	3921	3891	4709	5627	6064	48
United States	9620	10350	11480	12630	13310	13640	14120	47
Total 5 countries	**16600**	**17247**	**18971**	**20834**	**23883**	**26405**	**28320**	**71**

Notes:
1. For all countries except UK, data are taken from "education-related travel services" in IMF(2006) - BOPS/IIP.
2. For UK, data are from Office of National Statistics (2006) ; original values are in British Pounds and converted into US Dollars using exchange rate data from IMF (2006) *World Economic Outlook.*
3. Total for 5 countries in 2005 includes author's estimate of 1 billion for New Zealand .

To put these figures in perspective, it is useful to compare the recorded exports of education services in the balance of payments to estimates of exports of health services. The estimated global value of exports of health services was about US $ 6.5 billion in 1999 (WHO, 2002), compared to about $ 17 billion of education exports by the five leading exporters alone in 2000.

Similar data are not available in the BOP statistics of most of the main importing countries (or are seriously underestimated, as is the case of India). Still, the estimates presented in table 6 for the major importers from Asia reveal that the annual monetary outflows are very large, in absolute and relative terms. For each importing country, the value of higher education imports from the above five main exporting countries has been calculated by using the number of nationals studying in each exporting country and the average tuition fees and living costs (see notes to table 6). Although this is an indirect method, it yields results that are consistent with data "education-related travel services" from the BOP statistics for Malaysia and Korea, the two countries where such the estimates are available and are considered reliable, as with other OECD countries.

Together, these seven importing countries (excluding the two OECD countries, Korea and Japan) spent US $ 11.3 billion in 2004 on their students who studied in the five leading exporting countries, with China and India spending US $ 5.1 and US $ 3.1

billion, respectively. Korea and Japan, two other leading OECD importers from Asia, spent an estimated US $ 3.1 billion. China's imports represented 0.26 percent of GDP and India's almost double that at 0.46 percent of GDP. The juxtaposition of these expenditures with domestic public spending on higher education gives another perspective on the relative size of imports from these five countries. China's imports represented about 60 percent, and India's about 80 percent, of domestic public spending on higher education. The value of Indonesia's imports of higher education exceeded domestic public spending. As expenditures on imports are largely privately financed, this also gives an indication about the relative size of private and public spending on higher education. In fact, the former is likely to be even higher because of private spending on domestic higher education.

Table 6: Estimated Imports of Higher Education from Five Main Exporters by Selected Developing Countries, 2004

	Estimated value of imports of higher education (US$ million)	Higher Education Imports as % of GDP	Domestic public expenditure on higher education as % of GDP
China	5,080	0.26	0.44
India	3,151	0.46	0.59
Malaysia	850 **(813)**	0.12	2.96
Hong Kong	805	0.49	1.50
Singapore	460	0.43	0.85
Indonesia	515	0.20	0.17
Turkey	405	0.13	1.04
Korea	1,802 **(1,855)**	0.27	0.69
Japan	1,506	0.03	0.52

Note:
1. Calculated using number of students from each sending country in the US, UK, Australia, Canada and New Zealand and the estimated respective cost of tuition fees and living in 2004.
2. Annual data on fees and living expenses data for the five exporting countries are taken from IDP (2004).
3. Fees relate to Bachelor of Business, which is also somewhat higher than fees for Bachelor's courses in engineering and IT. For US, the reported median fees are US $18,705 for public universities and $29,988 for private universities; in this calculation a median fee of $21,000 has been used.
4. Figures in brackets for Malaysia and Korea indicate the value of imports as recorded in the BOP statistics (2004 for Malaysia and 2003 for Korea).

Sources: IDP (2004), UIS-UNESCO (2006) and IMF (2006)-BOP/IIP.

Trade and Aid in Higher Education

Even though the above estimates of exports of higher education relate only to the five main exporters and for just one mode of delivery, students studying overseas, they dwarf the current ODA flows for higher education. In 2004, the total commitments of bilateral and multilateral aid for post–secondary education, which is taken to mean higher education, amounted to US $3.38 billion, about one-eighth of the estimated exports of education through students studying abroad (table 7).

Table 7: Commitments/disbursements of Official Development Assistance for Education 1999-2004

	1999	2000	2001	2002	2003	2004	Percentage increase 99-04
Total ODA for education (US$ million)	**4196**	**3338**	**3543**	**4623**	**6211**	**9039**	**115**
Multilateral	905	576	713	1004	1117	2101	132
Bilateral	3292	2762	2830	3619	5095	6938	111
Total ODA For post-secondary education (US$ million)	**1397**	**1031**	**982**	**2007**	**2804**	**3377**	**142**
As % of education ODA	33	31	28	43	45	37	12
Multilateral share (%)	4	6	1	7	5	3	(38)
Bilateral share (%)	96	94	99	93	95	98	2
Total Bilateral ODA for post secondary education (US$ million)	**1340**	**966**	**971**	**1871**	**2670**	**3292**	**146**
France	508	495	547	638	812	1020	101
Germany	485	415	445	510	795	850	75
Japan	337	31	44	298	667	804	139

Notes:
1. For France, ODA for post secondary education between 1999 and 2002 includes ODA for unspecified education levels to make it comparable to data after 2003.
2. Japan's ODA for post-secondary education may be under-reported for 2000 and 2001.

Source: OECD,2006.

Significantly, however, ODA commitments for post-secondary education increased by 2.4 times between 1999 and 2004, mainly on account of bilateral donors. Bilateral donors accounted for 98 percent of the aid for post-secondary education in 2004 with France, Germany and Japan contributing almost 80 percent of the total in 2004. These three countries were primary responsible for the near doubling of ODA for higher

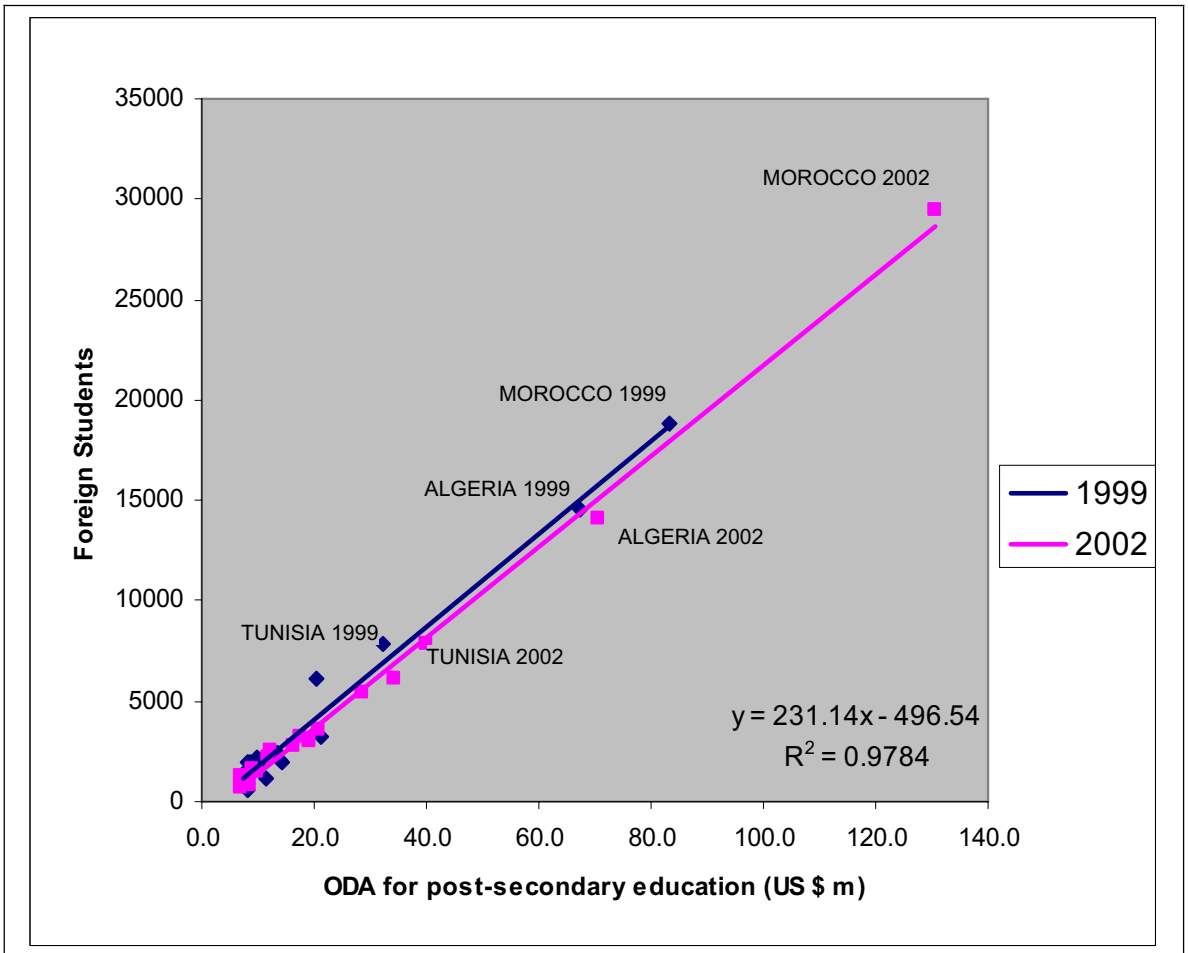
education. During this period, multilateral aid for post-secondary education increased by 50 percent.

The growth in bilateral aid for post-secondary education by these three major industrialized countries has financed increasing numbers of foreign students in higher education. The aid pays for scholarships, usually to cover living expenses only, since universities in these countries charge very little or nothing in fees. For both France and Germany, this aid is closely correlated with the number of students from aid recipient countries studying in the respective donor country (graphs 1 and 2).[4] In effect, this is a case of "tied aid", where imports have to be purchased from the country providing the aid.

Each of the three main donor countries has diversified the number of countries who receive aid and in turn receive students from more countries. The regional distribution of bilateral aid for post-secondary education of the three main donors in 2004 is shown in table 8. Germany, in particular, has tried to draw students from a much broader base in the Middle East, Asia and sub-Saharan Africa. Diversification of sending countries has been less pronounced for France, which continues to rely on the francophone countries, particularly those of Northern Africa. Diversification of sending countries is even less for Japan which continues to give 90 percent of its scholarships to Asian countries. China has benefited the most from diversification by all three donors over the past few years, but especially from the expansion of German bilateral aid. India, however, is not a major recipient of bilateral post-secondary aid. Sub-Saharan Africa receives about a quarter of French bilateral aid and 13 percent of German bilateral aid.

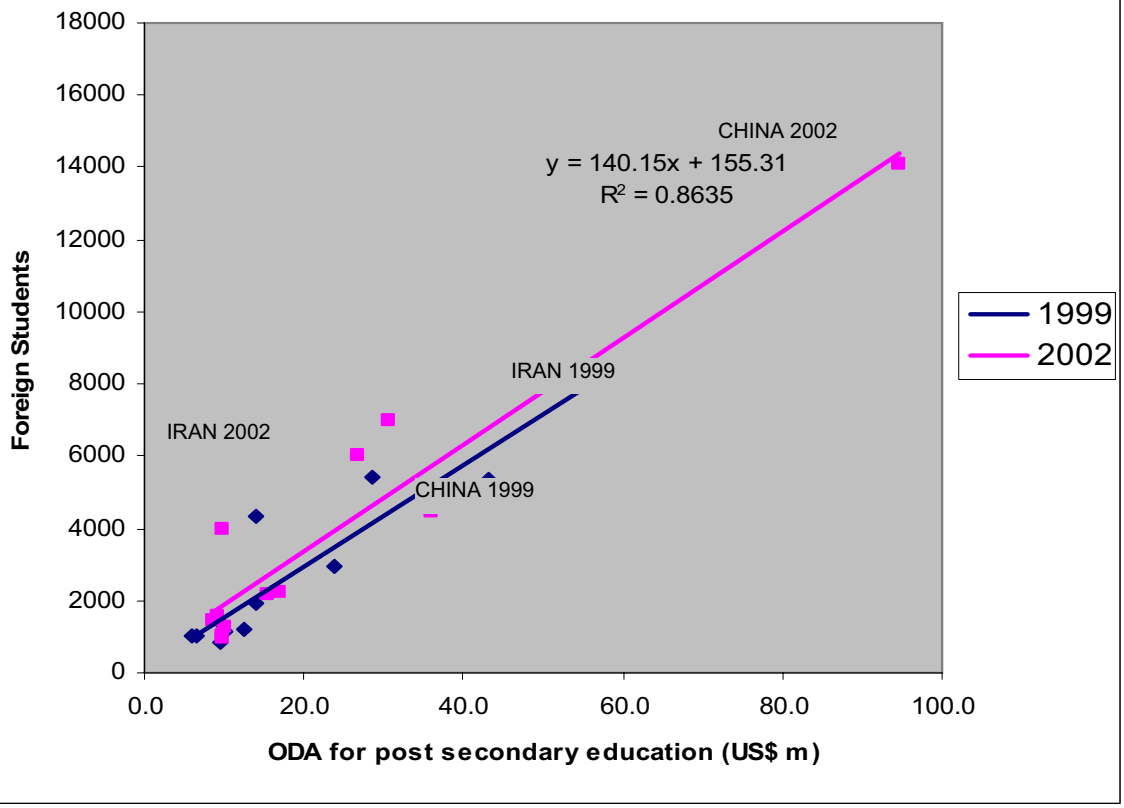
[4] Turkey is not included in graph 2 because the statistics on foreign students in Germany include children of "guest workers" and others who reside in Germany continuously but are nevertheless classified as foreigners. The majority of these are from Turkey. Hence, the German statistics show more foreign students from Turkey than are actually recipients from Turkey of German bilateral scholarships.

Graph 1: France - Foreign Students and ODA for Post Secondary Education, Selected Recipients(1999 and 2002)



Note: Regression equation relates to 1999 data
Source :OECD 2006

Graph 2: Germany - Foreign Students and ODA for Post Secondary Education Selected Recipients (1999 and 2002)



Note: Regression equation is for 1999 and excludes Turkey, for reasons given in footnote 4.

Source :OECD 2006

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Table 8: Distribution of Bilateral ODA For Post-Secondary Education, 2004

	France	Germany	Japan
Total ODA for post secondary education (US$ million)	1,019.7	850.2	804.3
Percentage of total:			
Arab States/Middle East	50.1	25.8	1.8
Asia	12.7	40.4	89.9
China	*7.7*	*25.5*	*65.0*
India	*0.5*	*5.2*	*0.5*
Latin America and the Caribbean	6.4	6.2	2.3
Sub-Saharan Africa	27.8	12.7	1.1
Other	2.9	15.0	4.8

Notes:
1. Arab Sates/Middle East includes Turkey and Iran.
2. Asia includes East Asia and the Pacific and South and West Asia.
3. See Annex 1 for country groupings.

Source: OECD (2006)

While undoubtedly contributing to greater international flows of students, the increase in bilateral aid for higher education has a fundamentally different motivation from the trade flows discussed earlier. It is largely driven by the policy objectives of the donor country which may be to promote skilled migration, create the conditions for foreign investment, penetrate foreign markets or promote other geopolitical interests. Further, unlike multilateral aid, or bilateral aid for higher education some decades ago, the recent growth in bilateral aid does not build domestic higher education capacity in the recipient countries. On the contrary, the migration of highly skilled labor from these countries encouraged by bilateral aid may be detrimental to capacity building efforts, although there can be positive downstream effects through increased remittances.

However, from the point of view of students in developing countries, increased bilateral aid offers a much cheaper alternative to full cost programs in the Anglo-Saxon countries that have relied on self-financing for foreign students. France, Germany and

Japan have emerged as serious competitors to the traditional exporters in higher education.

Composition of student flows by level of education

As shown in table 9, undergraduate students comprise almost half of all foreign students in each of the main host countries, including those that rely mainly on trade. In the United States and New Zealand, associate degrees (below full bachelors' degrees) also attract a significant proportion of students. In New Zealand, over 90 percent of students are enrolled in undergraduate programs. This is significant because undergraduate studies tend to be almost entirely self-financed though this is not the case in France and Germany. Data from the United States show that foreign undergraduate students finance 80 percent of their annual expenditure from personal/family sources. In postgraduate education, 46 percent of annual student expenditure is financed by personal/family sources, with another 46 percent being financed by the institution (IIE, 2006). [5] Similar information is not available for other countries. In the United Kingdom, grants and scholarships are available for postgraduate studies rather than undergraduate studies. Further, as reflected by the percent increase over the last five years, the growth in foreign student enrolment in undergraduate and associate degree courses has been very strong in the United States and New Zealand.

These trends suggest that the market for general higher education (i.e before the specialization at the post graduate level) is large and growing; students are willing and able to finance these studies from their own sources. However, postgraduate studies tend to require greater co-financing, either through grants from the host institution/country or by permitting students to work.

[5] These data are obtained from a survey of US universities. BOP data on the value of education exports represents receipts from abroad and excludes grants, scholarships and other finance obtained in the host country..

Table 9: Distribution of foreign students by level of education, selected host countries Foreign Students enrolled in higher education – national data

Country	Total	Distribution by level of education (%)			Foreign Enrolment UIS data (2004)
		Undergraduate	Graduate	Other	
Australia					
Total 2005	239,495	55.8	37.7	6.5	166,954
% Change (99-05)	188.2	124.0	285.4	380.9	
United States					
Total 2005	565,039	30.7	46.8	22.5	572,509
% Change (99-05)	15.1	-26.4	25.1	190.8	
New Zealand					
Total 2004	55,502	45.1	8.3	46.6	37,422
% Change (99-05)	345.7	371.1	203.3	360.3	
United Kingdom					
Total 2005	218,395	45.3	54.7		211,201
% Change (99-05)	-10.0	-19.6	-0.4		

Notes:
1. For Australia, total students from national data include students in onshore and offshore locations and hence differs from UIS data, which includes only foreign students studying in Australia.
2. For UK, data from both national sources and UIS exclude EU-15 students.
3. Year 2005 refers to academic year 2004-05; similarly for other years.
4. For Australia "Other" includes: Associate Degree, Advanced Diploma (AQF), Diploma (AQF), Other award courses, Enabling courses, Non-award courses
5. For the United States "Other" includes: Associate's, Practical training, Non-degree, and Intensive English language
6. For New Zealand "Other" includes: Level 1-3 certificate, Level 4 certificate and Level 5-6 diploma

Sources: 1. Australia Department of Education, Science and Training (2005). 2. IIE (2006). 3. New Zealand Ministry of Education. 4. HESA (2006). 5. France, MENESR (2006). 6. UNESCO-UIS (2006).

Growth in Foreign Programs and Institutions

As noted earlier, five OECD countries are the leading exporters of higher education through one mode of delivery, namely the movement of students to foreign universities. This mode has been supplemented by an increase in the programs delivered domestically by foreign higher education providers through a variety of arrangements, including twinning, franchising, distance education and e-learning and branch campuses. Table 10 describes the main features of these arrangements, which offer an alternative for students to acquire a foreign degree or diploma without studying abroad for the entire period.

These modes of delivery increase the flexibility and choice to students by enabling local institutions in importing countries to offer programs that they would not have been able to provide by themselves. For the institution in the exporting country, the main benefits are gaining entry to new markets and enrolling students who would otherwise not have enrolled in their program. In general, however, there is a trade-off between cost, quality and range/depth of programs which affects the coverage of programs under different modes. At one end of the spectrum are the branch campuses, a relatively recent mode of delivery, which are high cost but also of higher quality and capable of providing a range of specialties. Such campuses are economically viable only if the domestic demand for expensive courses is sufficiently high, or if they can attract students from the region. Foreign institutions often require a government commitment from the host country in order to ensure stability in their operations. At the other end of the spectrum are the distance and open learning programs which offer access to students from a variety of backgrounds at a lower cost. Recognition by the foreign provider of these qualifications, for the purpose of further study or employment, is a gray area in both the importing and exporting country. In between these two extremes lie a range of other models of delivery including double/joint degrees twinning, franchise and validated programs where quality is variable and difficult to assess as it depends not only on the content of the course and credentials of the foreign provider, but also on the support and quality control it provides to the local partner. A distinguishing feature of the twinning and franchise models is that a local institution can develop partnerships with several foreign institutions from different countries, thereby dramatically increasing the choice of courses for students in importing countries.

Table 10: Characteristics of various modes of delivery of foreign higher education services

	Definition	Features
Branch campuses	Foreign institution establishes a subsidiary, either on its own or jointly with a local provider, and delivery is entirely by the foreign university, leading to a degree from the latter.	Requires heavy initial investment in land, infrastructure and equipment. Faculty of the foreign institution often teach courses directly in the branch campus. Often, a formal government commitment from the host country (through subsidies or provision of land, etc) is required to mitigate risks for the foreign provider.
Double/Joint Degree	Students pursue a program jointly offered by institutions in two countries. The qualification(s) can be either a degree that is jointly awarded or two separate degrees awarded by each partner institution.	The course adheres to the standards of both institutions. In a joint degree, each university takes responsibility for different aspects of the program. Generally, the two collaborating institutions must be on par with each other to ensure that academic content and skill requirements are similar.
Twinning	Students pursue part of the program at the domestic institution and part in the partner foreign institution. The degree is awarded by the foreign institution.	Segments of the curricula of the foreign provider are replicated for one or two years in the domestic institution. Courses generally use same teaching formats, texts and evaluation methods as in the home campus, with some adaptation for local content. Faculty of foreign provider will usually also teach some part of the course along with local instructors. The local provider supplies physical facilities and recruits teachers and staff, according to criteria and standards set by foreign provider.
Franchised program	Learning programs designed by the foreign provider (franchiser) and delivered in the domestic institution (franchisee).. The Student receives the qualification of the franchiser institution. Variations range from "full" to "part" franchise.	In a full franchise, the foreign provider delegates all powers (including full academic authority), but this is rare. More common are part franchises, where the agreement between the partner institutions specifies the division of responsibilities. Usually, the foreign provider assesses the ability of the local partner to meet minimum quality standards and provides guidelines and/or supports/monitors student admission criteria and assessment. The course belongs to the foreign provider which charges for use of syllabi, course materials, examinations and technical support to staff. Although the qualification is delivered by the foreign provider, it may state the site of study.
Validated program	A program established in a local higher education institution that has been "approved" by a foreign institution as equivalent to its own, leading to the award of a qualification from the latter.	The foreign provider may assist the local provider to design and establish the course which it "approves".
Distance/Open Learning (e-learning)	Course is through distance learning whether traditional or on-line and could be with a local partner or entirely foreign. "Open Learning" also signifies that the program does not have the normal academic entry requirements	Considerable variation in business and educational models across providers and countries

Note:
1. Definitions taken from Knight (2005). Features elaborated by author.

Although some partnerships are financed by government programs in industrialized countries, the majority of these arrangements in non-EU countries are commercial, involving foreign investment and revenue sharing. Government financed partnerships predominate in East and Central European countries where institutions have linked up with partners in EU countries, supported by the EU's ERASMUS program. Information from British Universities indicates that this region is the second most important after East Asia for overseas collaborations and distance education. However, several private institutions have sought collaborations with non-EU countries as well, notably the United States and Australia. Poland, Estonia and Latvia took the lead in the nineties, especially through partnerships with domestic private institutions; Lithuania which had lagged behind began encouraging foreign partnerships from 2000 onwards (Mockiene, 2001).

Comprehensive data on the number of such programs and institutions operating on a commercial basis, or on the number of students enrolled in these programs, are not available for most countries. Data compiled from various official and non-official sources for selected developing countries, presented in Annex 3, indicate that there are close to 2000 such programs. This suggests that the extent of these forms of trade in higher education is significant, as the list of countries included in the table is not exhaustive and information on individual countries is also not comprehensive. Data are especially scarce for distance education programs with foreign partnerships.

In terms of mode of delivery, twinning and franchising arrangements clearly predominate though the compiled data cannot distinguish amongst them (for instance, for China and many of the South-East Asian countries). Branch campuses are far fewer in number; the Observatory on Borderless Higher Education estimates that there are approximately 100 branch campuses worldwide (quoted in McBurnie and Ziguras, 2005).

From the available data, different groups of importing countries with diverse strategies can be distinguished, although the groups are not mutually exclusive. First, small countries, such as the Caribbean countries, Singapore and Hong Kong have relied heavily on partnerships with external providers through a variety of modes, and with selected partner countries with which there has been a long historical association. The countries of the Caribbean alone have over 120 external providers, mostly from the

United States. In Singapore and Hong Kong, most of the foreign providers are from Australia. In the second group are countries which are trying to build their private sector or improve quality in the public sector institutions, through partnerships with institutions from a number of foreign countries. Examples include China, Malaysia, Vietnam, Oman, Mauritius and Yemen. In China, for example, while the majority of partnerships in 2003 were with US higher education institutions, Australia, Canada, Japan, Singapore, United Kingdom, France and Germany were also significant actors (Garrett, 2004). These two groups of countries have relied largely on twinning and franchising agreements. A third group comprises countries which are actively trying to build themselves up as regional hubs for international students by attracting foreign universities from a number of countries to set up branch campuses (Singapore, Malaysia, Mauritius, Qatar and Dubai).

The Caribbean region is unique in some respects because of the large number of offshore medical schools mainly from the US that cater largely to North American students. There are 38 such institutions offering courses in medical, veterinarian and health sciences that allow students to take the US Medical License Examinations. If the accrediting agency of the country is considered acceptable by the US National Committee of Foreign Medical Education, and the offshore medical school has been accredited by the local authorities, US students in such a school would be eligible for US federal loans. Essentially, this model consists of the "offshoring" of US medical education to produce medical graduates at lower cost for the US market. This differs from transnational investment in other developing countries which caters largely to students from the hosting country, although the countries wishing to develop themselves as regional hubs are following variants of the Caribbean offshore medical schools.

A prominent feature of Latin America is the intra-regional university franchising and twinning partnerships. Franchising and twinning partnerships vary depending on the country. Mexico has partnerships mainly with US universities, whereas Argentina has them with both European and US universities.

South Asia, sub-Saharan Africa and Francophone countries are notable for their limited participation in these forms of trade in higher education services. Data are limited for both regions but even India, for which data are available, has only 131 programs compared to 1,100 programs in China. In the whole of sub-Saharan Africa, the

total number of foreign programs is unlikely to exceed 100 (author's estimate based on newspaper reports). In general, Francophone countries have lagged behind other parts of the world in terms of transnational higher education activities (Jokivirta, 2006). Amongst them, Lebanon, Mauritius and Tunisia have attracted the greatest number of foreign providers. Lebanon's foreign providers are almost all American, while Mauritius has attracted institutions from the United Kingdom, South Africa and India. Francophone countries are seriously under-represented partly due to the language barrier and partly because French universities have not developed commercial partnerships on a large scale.

The main countries that have exported higher education through these modes, until recently, were the United Kingdom, Australia and, to a lesser extent, the United States and Canada. However, there are many new entrants from European nations, including France, Germany and Russia; the first two, in particular, are especially active in the Middle East where a number of partnerships have been set up to offer programs taught in English on a commercial basis. Some of the Scandinavian countries operate institutions in the Baltic states. Equally importantly, a number of higher education institutions of Asian countries, notably those of India, China, Malaysia and Singapore are establishing foreign ventures from branch campuses to twinning arrangements, in Asia and Africa.

In the case of the United Kingdom and Australia, the commercial subsidiaries of publicly funded universities or higher education institutions, as well as the British Open University, have been the main actors in all modes of overseas delivery. In the case of the US, both public universities and smaller private colleges have sought markets abroad, especially through franchising and twinning arrangements. In all three countries, different types of institutions have tended to concentrate on different modes of delivery. The newly created universities in the UK and Australia, former polytechnics or colleges of further education, and the smaller US universities and colleges have been more flexible in devising franchised and articulated programs for delivery in other countries. The well-known universities with higher perceived quality have preferred to establish branch campuses or partnerships with top-ranking domestic universities so as not to compromise their brand image. As a result, many of these well-known universities, whether public or private, are the least active in the overseas delivery of programs.

Data from the exporting countries also show two other distinguishing features of these modes of delivery of foreign higher education. First, the average student enrolment in each program is small; most programs enrol less than 200 students. Second, there is a heavy concentration on vocational/job-oriented courses such as business management and administration, accountancy, information technology, computer sciences and communications. Data from Australian universities indicate that of the 1,600 programs, the majority are undergraduate programs. Some differences can also be noted in the types of courses across regions. In East Asia and South Asia, the majority of courses are for business studies, accountancy, management, information technology and engineering, mostly at the undergraduate and below undergraduate level (short courses leading to certificates or associate degrees). By contrast, in Argentina and Chile and some of the East and Central European countries, the majority of the twinning and franchising programs are for postgraduate degrees.

The number of students enrolled in such programs is not known and estimation is difficult because of the immense variation in the type of programs and size of the student population in different countries. Australian universities which publish the most detailed information on their offshore programs, indicate that in 2005, there were about 60,000 students enrolled in such programs, including about 15,000 in offshore distance/on-line programs (IDP, 2006). All 38 Australian universities offer these programs - a total of 1,600 – with 42 percent of enrolled students in China and another s 17 percent in Singapore. An estimate for the United Kingdom indicates that 150,000 to 200,000 students are enrolled in overseas programs, including in distance education programs, an amount that is roughly similar to the non-EU international student enrolment in Britain (Hatakenaka, 2005). Other estimates by the British Council put the number higher, at about 300,000. The total number of British universities with offshore programs is not known, but they operate in at least 70 countries with a heavy concentration in South East Asia and Eastern Europe. New Zealand operates 63 offshore programs, with an enrolment of 2,200 students. In 1999, Canadian universities offered 268 academic programs, of which 155 were by distance and 50 were developed and delivered fully by local providers; the estimated enrolment in these programs was 36,000. It is estimated that there are 225 US institutions/programs operating abroad (OECD, 2004a).

From these rather disparate sources, a reasonable estimate for the number of students studying in foreign collaboration programs would be approximately 500,000 students. This compares with about 2.21 million students studying abroad in 2004, once again excluding intra EU student flows, suggesting that these delivery modes of foreign higher education, though still relatively small, are a significant supplement to the direct method of students studying abroad. Unfortunately, due to the data deficiencies described in Annex 2, the value of trade and investment in these modes of delivery for foreign higher education cannot be estimated with any degree of accuracy.

III. Context and Underlying Factors

This section analyses the factors underlying the expansion of international trade in higher education. The global growth in demand for higher education has framed the growth in international trade. The latter is related to domestic higher education capacity in several ways. First, there appears to be an inverse relationship between outward student mobility and the domestic tertiary Gross Enrolment Ratio (GER). Second, many countries with relatively high "excess demand" for higher education, relative to upper secondary enrolments, have resorted to imports in order to supplement domestic capacity. Overall, employer demand for skilled labor that can be used in a variety of geographic locations or than can work with multinational teams, which arises from the increasing integration of product and factor markets, is a powerful factor behind growing student demand for internationally recognized qualifications. Such qualifications enable students to access the global market for highly skilled labor with much higher returns on their investment. The policies of importing and exporting countries also play a significant role in encouraging different modes of trade.

Context

The expansion of international trade in higher education and aid-financed student mobility has occurred in the context of overall rapid expansion of the global higher education systems. Total global enrolment exceeded 114 million in 2004, representing a 62 percent increase over enrolment in 1999. During the same period, the growth in countries other than those of North America and the EU 15 was even more dramatic with a 90 percent rise. Placed in this context, the increase in students studying abroad which is the most significant aspect of international trade in higher education, while impressive, has been smaller than the overall expansion of tertiary enrolment.

There is a wide variation across countries in the pace of expansion of domestic higher education systems. On average, countries which had attained a relatively high level of tertiary GER in 1999 also increased their tertiary GER more rapidly between 1999 and 2004 (graph 3). The majority of countries with less than 5 percentage point

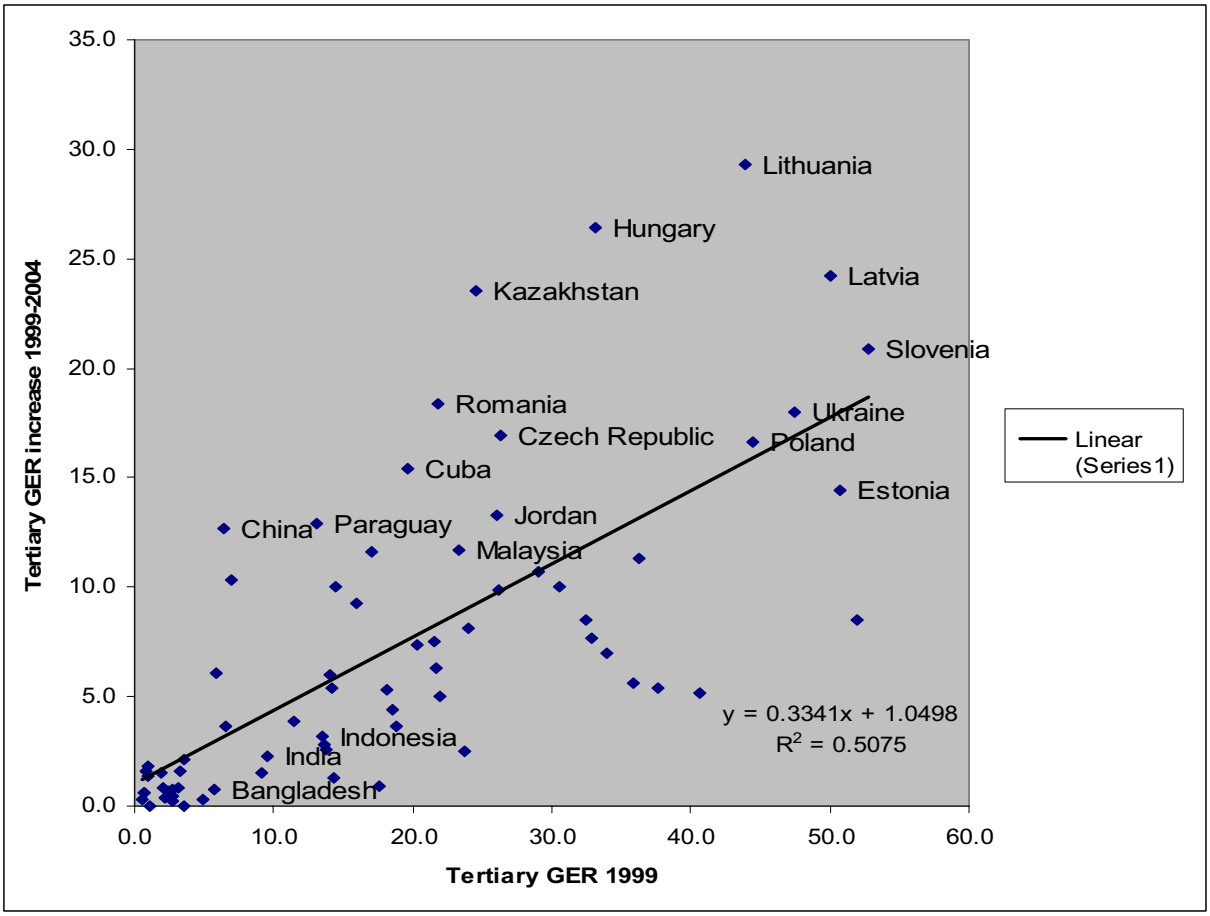
increase in the tertiary GER between 1999 and 2004 had GERs below 10 in 1999 (see Annex 4). These included all the countries of Sub-Saharan Africa, except South Africa and Mauritius, and all countries of South Asia. China, which had a GER of 6.4 in 1999 more than tripled its GER by 2004 with a 13 percentage point increase.. Many countries of South-East Asia, the Middle East and Central and Latin America, which had starting GERs of over 10, also increased their GER between 5 and 15 percentage points. Countries which managed to increase their tertiary GER by over 15 percentage points in this five-year period were nearly all from Eastern and Central Europe, which already had relatively high tertiary GERs in 1999.

The extent to which foreign collaboration in higher education played a role in raising the domestic tertiary GER cannot be systematically evaluated due to the lack of data which is broken down by foreign partnership programs and purely domestic programs.[6] However, as discussed in the preceding section, the total enrolment in foreign partnership programs in developing and transition countries is still relatively small in aggregate. It is therefore unlikely that these programs directly contributed in a major way to the expansion of domestic higher education systems during this period, although secondary effects cannot be ruled out (for instance, by promoting the growth of the domestic private sector). There does appear to be an association between the rapid increase in the tertiary GER and foreign collaborations in higher education. Countries which have exhibited a rapid increase in the domestic tertiary GER, such as China, Malaysia, Hong Kong, Mauritius and some of the East European countries, have also witnessed a substantial growth in the number of partnerships with foreign higher education institutions in this period. Conversely, almost all the countries with relatively slow growth in tertiary GER between 1999 to 2004, including all sub-Saharan African and South Asian countries, have had relatively few foreign-domestic partnerships. South Africa which had a relatively high tertiary GER of 14 in 1999, stands out for its extremely modest growth in tertiary enrolments (1.4 percentage point increase in GER) as well as relatively few foreign partnerships.

[6] The domestic tertiary GER includes students enrolled in domestic programs partnered with foreign institutions.

Graph 3: Tertiary GER Increase (1999-2004) and Tertiary GER 1999

Developing and transition countries



Notes:

1. Excludes OECD and EU 15 countries and a few countries for which data were not available for more than three years in the period.
2. For a few countries, tertiary GER for 1999 or 2004 was imputed using data for other years.

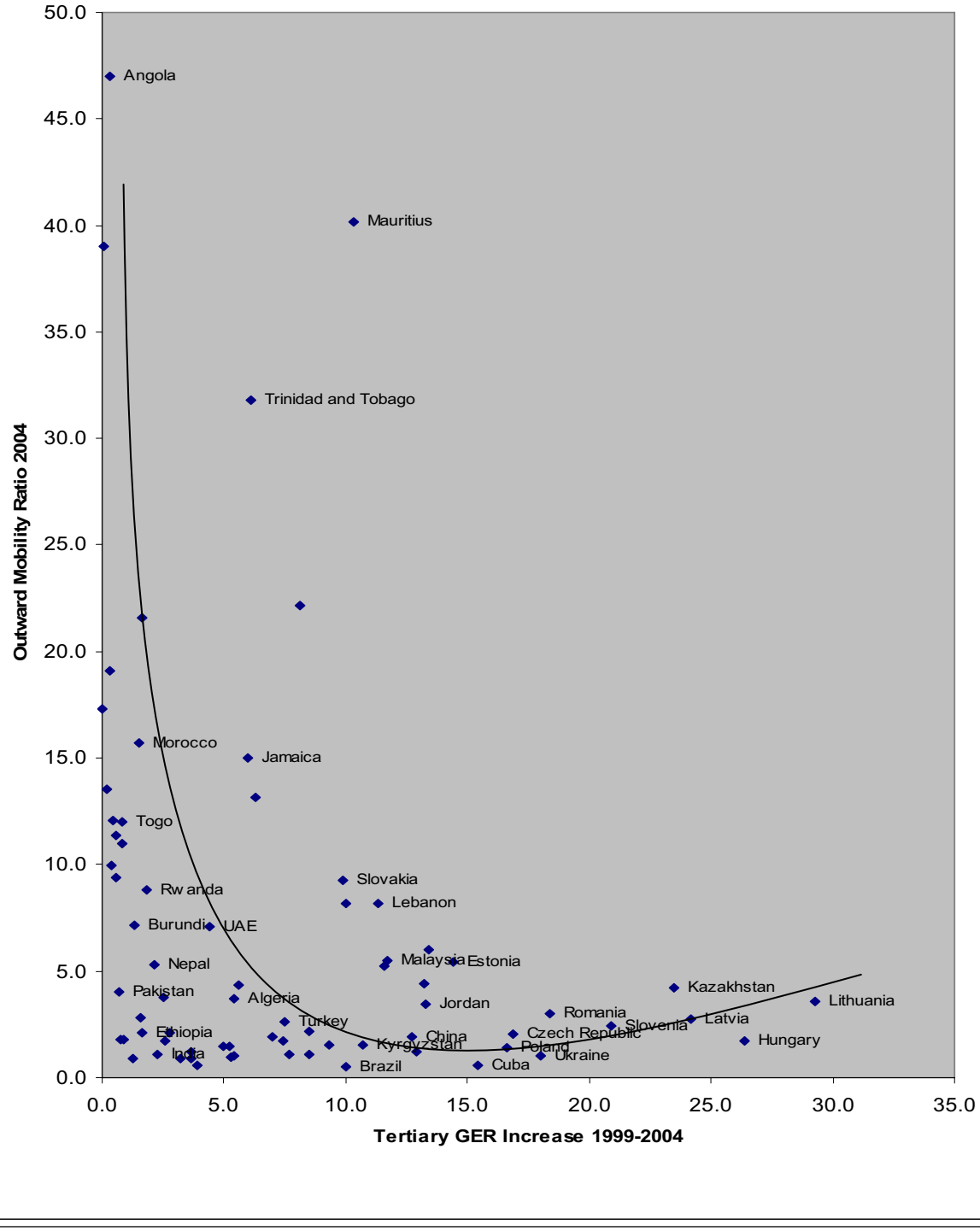
Source: UIS-UNESCO 2006

Another issue is whether the increase in the tertiary GER, which is an indicator of the increase in domestic capacity, is related to the outflow of students to foreign countries. Graph 4 shows an inverse relationship between the growth in tertiary education GER, in percentage points, between 1999 and 2004 and the outward mobility ratio in 2004, calculated as students of a country going to study abroad as a percentage of students studying in country. Many sub-Saharan African countries are grouped at the top left corner of the graph, indicating that domestic capacity did not increase substantially during this period, while the proportion of students who left their countries to study

abroad ranged from 20 to 47 percent. As shown in an earlier section, the number of SSA students studying abroad increased by 77.8 percent between 1999 and 2004, although they still form an insignificant part of total number of students studying abroad. Morocco is also a significant member of this group, with a low tertiary GER increase, coupled with a high outward mobility ratio. In this case, as shown earlier, bilateral aid directed towards attracting students to France seems to have been the main factor.

On the other hand, there is a large group of countries where the outward mobility ratio ranges between 1and 5 percent but there are still very large differences in the domestic tertiary GER growth. The group of South Asian countries is characterized by slow domestic tertiary GER growth with less than 5 percent points, and a low outward mobility ratio fluctuating between 1 and 2 percent. China's moderate increase in the domestic tertiary GER is coupled with a low outward mobility ratio (Due to their size, China and India, despite their low outward mobility ratio, contribute the largest absolute number of students studying abroad). Caribbean countries displayed a moderate domestic tertiary growth and a high outward mobility ratio. Malaysia and some of the Arab states are characterized by moderate domestic tertiary growth and a moderate outward mobility ratio. Finally, the East and Central European countries have rapidly expanded their domestic systems and have a low outward mobility ratio. These countries appear to have concentrated on building domestic systems, using foreign partnerships rather than sending students abroad.

Graph 4: Tertiary GER Increase (1999-2004) and Outward Mobility Ratio, 2004



Notes: As for Graph 3.
Source: UIS-UNESCO 2006

Factors Driving the Growth in International Trade in Higher Education

Many supply side factors have made it easier to supply foreign higher education services. These include advances in ICT which have lowered the costs of delivering education through electronic or mixed modes, a drop in air transportation costs, and general efficiency gains associated with regulatory changes that have liberalized trade and investment. In particular, trade in delivery of higher education programs to students in importing countries has occurred by separating different parts of the higher education production process and placing them in locations that would exploit a country's comparative advantage of labor. On example of this division of labor is the separation of course content development from the delivery of courses: the former would typically be organized in countries with more highly qualified and experienced university faculty while, while the latter could be organized with local instructors with lower skill levels, supported by international faculty and adequate quality control measures. Franchising or twinning arrangements reflects this process.

On the demand side, the demand for foreign higher education services can be divided analytically into two components, one arising from domestic excess demand for higher education in general and the other arising from the demand for a different product, which is seen to be of higher quality and/or of greater relevance in the job market. Although in practical terms it may be difficult to quantify the relative importance of each of these demand components, this analytical distinction is useful in identifying the underlying factors driving each component.

Apart from these underlying economic factors, government policies in both exporting and importing countries have played a crucial role. These policies themselves have different motivations, often related to broader economic development or political goals.

The differential between the upper secondary GER and tertiary GER is a crude indicator of the domestic excess demand for higher education. The former represents the potential demand for higher education while the latter represents existing domestic capacity. The indicator is a crude measure because not all those enrolled in upper secondary education can access higher education, mainly because they may not pass the

terminal examinations at the end of the upper secondary cycle. Indeed, many countries use these examinations to restrict demand for higher education. Further, a low differential between these two GERS can arise because the participation rate in upper secondary education is low either due to deliberate policies to filter out students *before* they reach upper secondary education in order to reduce pressure on higher education places, or because of overall low coverage of the school system. Hence, excess demand for higher education, as measured by the differential between upper secondary and tertiary education, is likely to be correlated with the participation rate in upper secondary education.

In 1999, the differential in the GER in upper secondary and tertiary education displayed a strong positive correlation with the upper secondary GER (graph 5). In other words, those countries that had attained a relatively high participation rate in upper secondary education also had a relatively high potential excess demand for higher education. The countries with a relatively low participation rate in upper secondary education would, as expected, have a lower differential. In the bottom left corner of the graph are countries with low upper secondary GERs and low excess demand for higher education. The majority of sub-Saharan African countries and several low-income Asian countries such as Pakistan and Cambodia have low upper secondary GERs and low excess demand for higher education.

Of special interest are those countries which had lower or higher than expected excess demand.(below or above the regression line, respectively). Countries with lower than expected excess demand for higher education and with moderate to high upper secondary GERs are presumably those which increased their domestic tertiary education capacity before 1999. Malaysia is a good example of this group, which increased its tertiary GER from 7.2 percent in the early nineties to 22 percent in 1999 (Ziguras, 2003). This was done through a massive expansion of the private sector, with a large number of twinning and franchise arrangements with British and Australian universities since the late eighties. Other countries in this group include many from East and Central Europe, and several from Latin America such as Argentina and Chile which experienced a rapid expansion of the private sector. Several of the countries from this group, notably those

from Central and Eastern Europe, continued to rapidly expand their higher education systems between 1999 and 2004.

On the other hand, countries with higher than expected excess demand for higher education are countries which expanded secondary education capacity before 1999 but did not increase tertiary education as rapidly. These include a few Sub-Saharan African countries such as South Africa as well as Mauritius, Kenya and Ghana. Trinidad and Tobago, Jamaica and Brazil were among the Caribbean and Latin American countries while China and Bangladesh were among the Asian countries. Several countries of the Middle East including Turkey, Iran, Tunisia in addition to Kazakhstan and Azerbaijan in Central Asia had higher than expected excess demand for higher education.[7] In general, one might expect that these countries would have faced significant pressure to expand tertiary education since 1999. In fact, apart from the SSA countries, many of them had done so, as seen from the discussion earlier. Many of these countries also promoted partnerships with foreign universities during this period. However, there are notable exceptions. Despite its very high excess demand, South Africa hardly expanded its tertiary education capacity and after an initial period of encouragement of foreign partnerships, actively discouraged them due to quality concerns. Iran also had relatively slow gains in tertiary education capacity, but interestingly, new legislation was passed in 2001 to allow foreign universities to set up branch campuses in the country as a means of reducing the outflow of students to foreign universities. In Tunisia, a law was passed in 2000 to enable the establishment of private higher education institutions and fostering partnerships with prestigious foreign universities was promoted (Government of Tunisia, 2004).

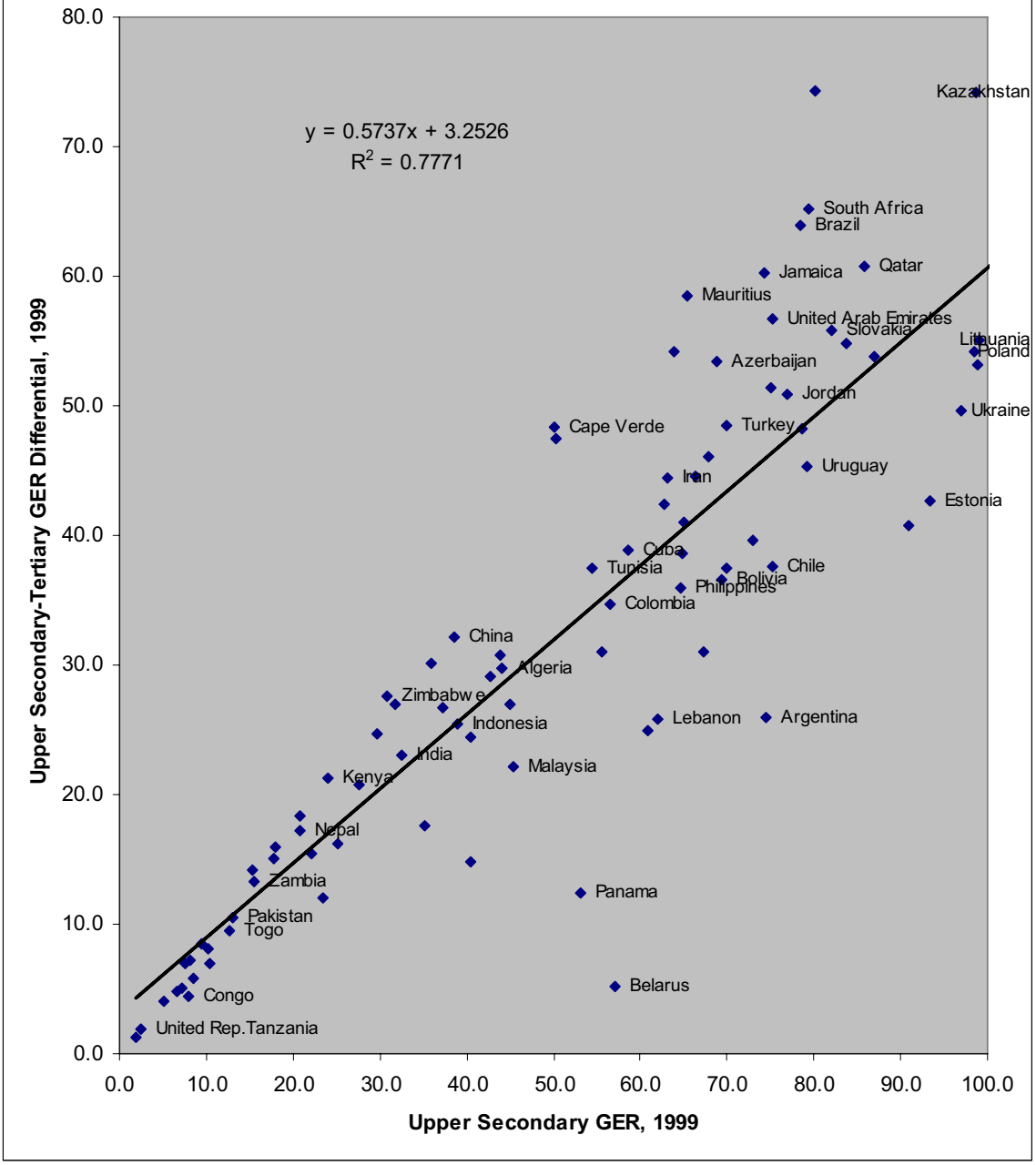
The case of some countries that are "close" to the regression line is also revealing. These include India, Pakistan, Algeria, Mexico and some Sub-Saharan African countries. "Excess demand" for higher education in these countries was not more than average, given the participation rate in upper secondary education. India, being a large country, is a special case with a highly differentiated higher education system. Excess demand can exist in certain states where coverage of secondary education is greater. It is perhaps not surprising that of the 131 foreign providers in India, the majority are located in the

[7] Not all the countries mentioned in the text are named in Graph 5.

capital, New Delhi, in the southern and western states which have higher upper secondary GERs. Further, there is a relatively large number of general education undergraduate colleges but there is a scarcity of engineering and technical education places in quality postgraduate programs. It is in these areas that there is the greatest demand for foreign education among Indian students.

A significant component of the demand for foreign higher education arises from the fact that it is seen as qualitatively different from domestic higher education, yielding higher rates of return. There has been no analysis of the rate of return to domestic and foreign education for the nationals of a country. Developing countries exhibit, extremely large differentials between the starting salaries of highly skilled workers in multinational corporations or domestic firms competing in the global market, and of those in domestic enterprises. As economies open up to foreign investment, these differentials are becoming more pronounced, overshadowing the traditionally large earning differentials between the domestic public sector and the private sector. Student demand for higher education is therefore increasingly shaped by the knowledge and skill requirements of global firms. Increasingly, these employers require their technical and professional employees to have sound and up-to-date technical knowledge, an ability to apply it in new situations and to learn on the job, foreign language skills, Information Technology (IT) skills and knowledge of modern business practices. To the extent that the curricula and teaching methods of domestic higher education institutions do not impart these knowledge and skills, graduates of these institutions will be at a disadvantage in the skilled labor market, compared to graduates of foreign partnership programs and foreign universities which offer qualifications that are recognized in the job market. This drives the private demand for foreign higher education credentials and for institutions with a "brand name." From a private perspective, the significantly higher costs of acquiring this education are justifiable because it allows access to the international market for skilled labor with much higher lifetime earnings.

Graph 5: Tertiary-Upper Secondary GER Differential and Upper Secondary GER,1999



Notes:
1. Total number of countries = 89.
2. Differentials calculated by author.
3. Some missing values have been estimated by author.

Source: UIS-UNESCO 2006.

Apart from differences in the rate of return to domestic and foreign qualifications, two other economic factors also influence student demand. The first is the possibility of temporary or permanent migration to the foreign higher education provider's country. This raises potential lifetime earnings by several multiples over what the student would earn in his or her own country. This factor is particularly important for students who decide to study abroad and also influences the choice of the country. Although the cost of studying in the United States is significantly higher than in other competitor countries, such as Canada, the fact that successful graduates are allowed to work one year after the completion of their studies, during which time they could secure long-term employment, raises the return to a US education. From the point of view of the exporting country, the United States in this case, this policy dovetails with the policy of selectively encouraging highly skilled migration as means of improving the competitiveness of the economy as a whole. Nearly 90 percent of Chinese and Indian students who earned doctorates in the US in the mid-nineties continued to work in the country five years after completing their studies (Finn, 2003). A recent analysis of migration trends in Australia reports that "more than half of the skilled permanent migrants in 2002-03 entered as students" (Govt. of Australia Parliamentary Library, 2004). The UK has also recently modified its immigration policy to enable students to take up employment after their studies. Higher education institutions in New Zealand have argued for a more transparent pathway from studies to permanent residency with a work permit as a marketing strategy (Education New Zealand Trust, 2004).

Temporary migration into industrialized countries with the right to work, which is not linked to university studies, has also facilitated the emergence of a global market for highly skilled labor. Although unskilled and agricultural labor constitute the main component of such labor flows on a global scale, temporary migration has become a crucial mechanism for meeting skill shortages and/or reducing labor costs in certain occupations. Temporary migration is often a stepping stone to permanent migration. The H1-B visa program in the United States is the most well-known but similar programs exist in other countries on a smaller scale. The United States and Australia, allow migrants to enter on temporary visas and apply for permanent settlement subsequently. The level of this migration, with the possibility of higher earnings for even relatively

short periods or permanent emigration at a later date, has been a powerful stimulus to private demand for acquiring the skills that are in short supply in the industrialized countries.

The potential effect of this partial liberalization in the movement of labor through temporary migration is to raise the return to investment in higher education through a rise in wages in the labor exporting countries. Although the initial impact is to raise the demand for domestic higher education, demand for foreign higher education (provided either abroad or domestically) also rises. This is particularly true if domestic higher education supply cannot expand and when internationally recognized qualifications are intrinsically valued for their perceived benefit in conferring greater international mobility.

The second economic factor affecting student demand for foreign higher education is that a foreign higher education qualification, obtained either domestically through a twinning program or by studying abroad, will make it easier to enter postgraduate programs in the exporting country. From the point of view of students, this can also further migration prospects. From the point of view of foreign higher education institutions, this increases the prospective supply of postgraduate applicants for their programs.

These economic factors are driving student demand for foreign qualifications in developing countries, obtained overseas or domestically through programs with a foreign partnership in developing countries, even when the *de jure* status of the latter is not clear. At the time of writing, in India, for example, curricula and degrees awarded under twinning or franchising agreements with foreign higher education institutions imparting general education are not recognized by the main regulatory body for general education, the University Grants Commission, or accredited by the National Assessment and Accreditation Council (NAAC). Students from these programs would therefore not be eligible for public sector employment within India or for domestic higher degree programs. Although there is considerable heterogeneity in the quality of foreign provision, employers in the private corporate sector perceived qualifications awarded under twinning arrangements with foreign providers to be better than all but those from the best domestic higher education institutions.

Demand for higher education qualifications allowing students to enter the increasingly global or regional markets for highly skilled labor is derived from the increasing integration of product and factor markets. As the latter deepens, through foreign direct investment and regional and bilateral trade agreements, the demand for such qualifications is likely to increase. These factors have been extremely important in the case of countries of Central and Eastern Europe as well as South-East Europe. In these countries accession to the EU and joining the European Higher Education Area, mandated by the Bologna process and expected to be created by 2010, is driving institutions to seek foreign partnerships and governments to create enabling frameworks for such partnerships.

Apart from these powerful economic factors which shape private demand for higher education, government policies have also guided the volume and direction of each form of trade in higher education. In particular, the policies of exporting nations and the marketing activities of their higher education institutions have played a crucial role in determining student movement to overseas locations. On the other hand, the policies of importing nations have played the main role in encouraging foreign collaborations with domestic higher education institutions.

Reform of public financing of universities during the early eighties in the UK, Australia and New Zealand provided the initial impetus for the increase in foreign students in these countries, as universities systematically pursued revenue diversification. In 1979, the British Department for Education and Science introduced a policy of full cost fees for overseas students. This was strongly complemented by vigorous marketing by the British government of the "brand image" of UK universities which was already strong in many developing countries. In addition to the Education Counseling Service of the British Council, the Department of Trade and Industry established an "Education and Training Export Group". As a result of these efforts, despite the increase in fees (and after an initial fall), the numbers of overseas students rose dramatically. In 1999, a cross-departmental agency, "Education UK", was set up under the Department of Education and Employment at the initiative of the Prime Minister, which brought together various Ministries and individual higher education institutions, to promote UK education abroad (Dodds, 2004).

Australian universities set up a non-profit organization, the IDP Education Australia, wholly owned by the universities, with offices in 20 countries. The IDP offers prospective students with free information and counseling services, assistance with submission of application and visa forms, pre-departure seminars, and assistance for accommodation and airport pick-up. In addition, the government has agencies that are devoted to exporting Australian education services. Similarly, the "Education New Zealand Trust" is a non-profit charitable trust governed by the education export industry, with formal partnerships with the Ministry of Education and the Ministry of Trade, with the objective of facilitating the export of education services.

The main motivation for higher education institutions in the United States in recruiting overseas students has been to strengthen its scientific and technological base, rather than revenue diversification. Almost half the foreign student enrolment in US universities is in postgraduate courses. More significantly, foreign post graduate enrolment is concentrated in engineering and physical sciences, accounting for 50 and 40 percent of total enrolment in these two fields, respectively, in 2004 (Institute for the Study of International Migration, 2006). The need to attract the best global talent to promote scientific and technological innovation is now being recognized by European governments. Apart from increasing aid to attract foreign students, which has been especially important for France and Germany, governments have introduced changes in funding policies to compel universities to recruit international students. Since typically universities in these countries do not charge fees for foreign or domestic students, performance incentives for universities were created with at least some of the funding being linked to the proportion of overseas students. Switzerland, for example, introduced such criteria into universities' funding formulae and has greatly increased its foreign student intake. Some countries have also introduced differential fees for overseas students. In addition, various European countries have set up promotional agencies to market their higher education industry abroad. In France, EduFrance, an inter-ministerial agency, was created in 1998 to promote French higher education abroad especially outside the former colonies. In Germany, the DAAD (Deutscher Akademischer Austausch Dienst – German Academic Exchange Service) provides guidance and

counseling services to scholarship holders and also awards funds to universities for strengthening their guidance and counseling services.

Policies encouraging collaboration of local higher education institutions with foreign higher education institutions have been put in place by several developing countries. Martin (2004) distinguishes between three types of approaches, based on a case study of seven countries from different regions. At one extreme lie those countries that accept or promote foreign providers and have put in place regulations for assuring a minimum level of quality. At the other extreme are those that follow a 'prohibitionist' approach where all or specific forms of foreign higher education are prohibited. In the middle are those pursuing a 'laissez faire' approach, where the government has no specific regulation and also does not accept their qualifications for employment in the public sector.

Clearly, the countries which have witnessed the fastest growth in foreign collaboration in higher education are those in the former group. These include China, Malaysia, Singapore, Hong Kong, the Caribbean countries, Oman, Yemen, Philippines, several Latin American countries along with some East and Central European countries. In some cases, government policy has actually encouraged the private sector to seek out foreign collaborations. In Oman, for example, one of the criteria for licensing of private providers by the MOHE is that they have an affiliation agreement with a recognized institution (Martin, 2004). Malaysia followed a similar policy during the nineties. Countries that have specifically prohibited foreign higher education are relatively few. South Africa is one such example; here franchising activities have been prohibited although branch campuses are allowed. Most countries actually fall into the 'laissez faire' group, in effect, leaving it almost entirely to students to decide on the value of the qualification and take the full risk. Many countries in this group have adopted this approach by default because it does not receive the attention of the government. India falls in this group but is a special case which, in principle, follows a "hands off" approach. In India there is a considerable amount of public debate coupled with policy ambivalence, leading to a situation similar to a "prohibitionist" approach, at least as far as general higher education is concerned.

In effect foreign collaborations occur in countries where there has been active policy encouragement or a 'laissez faire' approach. Franchising and, to a certain extent twinning programs, have occurred in both groups of countries. However, branch campuses and twinning programs with high quality foreign universities have been established only where the policy and regulatory framework has been clear, providing sufficient stability and minimizing risk to foreign providers in order for them to invest their capital for long term operations. A 'laissez faire' approach can, perversely, lead to a situation where the importing country receives primarily lower quality programs, mainly through franchising agreements. This is the case of India where, despite the size of its potential market, the number of foreign providers is relatively small and no major foreign university has established either twinning programs or branch campuses.

Until now, countries which have encouraged foreign collaborations have primarily focused on expanding access to higher education through diversification of programs, particularly by offering shorter, job-oriented programs. In some cases such as Malaysia and Oman, the objective is also to enhance the quality of domestic private sector providers. The establishment of branch campuses, however, has had the objective of improving quality in the domestic university sector as a whole, or of becoming a regional hub for international education. Malaysia, Singapore, Dubai and Qatar are systematically encouraging branch campuses, aided by government subsidies and an enabling framework, for this latter purpose. Vietnam, on the other hand, has encouraged branch campuses in order to assist the policy objective of raising the standard of domestic universities to international levels.

Developing countries have been more ambivalent in the reform of student financing and in allowing the use of public subsidies or student loan schemes for students attending foreign/foreign partnered institutions. Despite the existence of student loan programs in many countries, originally predominantly in Latin America countries but now increasingly in many Asian countries, most governments restrict access to such programs for study in foreign/foreign partnered universities. The two important exceptions are China and India, which introduced student loan schemes operated by commercial banks in 1999 and 2001 respectively, with a broader coverage and eligibility criteria, enabling students to study in both foreign and domestic recognized programs.

The various demand and supply factors encouraging the growth of international trade in higher education are summarized in table 11.

Table 11: Demand and Supply Factors Encouraging Growth of Trade in Higher Education

		Common factors	Factors specific to mode of trade	
			Students studying abroad	**Partnerships in developing countries**
Demand Side (Importers)	**Students**	* Limited domestic tertiary education capacity resulting in "excess demand" overall * Low quality domestic education in disciplines in high demand (science, technology, management, business studies) * Higher rate of return on internationally recognized qualifications (through higher earnings and migration possibilities)	* Access to highly skilled labor market of industrialized countries and global market * Access to postgraduate and research opportunities	* Access to higher paid segments of domestic labor market for highly skilled labor; eventually regional/global market * Access to postgraduate studies in partner institutions abroad * Lower cost compared to studying abroad
	Government	* Perceived economy-wide benefits from international education and research * Skills development seen as constraint in attracting/complementing FDI	*Lack of domestic capacity in key disciplines/skills considered important for economic development (especially specialized science and technology) (instrument : public scholarships) * Study abroad allowed to address domestic capacity constraints by mobilizing private financing (instrument: liberalization of student loan schemes)	* Need to expand domestic higher education capacity rapidly; limited size of private sector with no background in education * FDI in other sectors requires expansion and upgrading of domestic skills * High foreign exchange outflows due to students studying abroad **Proactive approach**: authorization of FDI in education; regulatory framework created; high level government commitment
Supply side (Exporters)	**Institutions**	* Foreign students are an important source of revenue	* Global talent seen as important for raising standards	* Students in partner institutions provide a pipeline of graduate students * Opportunities to build international profile of faculty through teaching and research in different environments
	Government	* Country's brand image in higher education seen as important for sustaining exports * Opportunity to build trade and investment links in other sectors **Proactive approach**: creation of marketing agencies, high level coordination between education and trade/investment sectors	* Need to enhance competitiveness of the economy, particularly in science and technology * Reform of public funding of higher education institutions to encourage revenue diversification	
Note: Compiled by author.				

IV. Higher Education in Trade Agreements

As trade in higher education has expanded, it has become a subject of negotiations on liberalizing trade in services through multilateral, regional and bilateral trade agreements. This section reviews how the General Agreement on Trade in Services (GATS) defines trade in services according to different modes of delivery as well as barriers to this trade. It assesses the commitments made so far to liberalize trade in higher education, the issues raised in the current round of negotiations on GATS and showcases examples from some bilateral trade agreements that include higher education. Overall, relatively few countries have made commitments; still, these commitments do not represent significant liberalization as there are restrictions, especially on foreign providers operating within a country. Developing countries have been hesitant to make commitments because of the perceived loss of discretion in policy making and because of the weaknesses in their domestic regulatory systems.

Higher Education in Multilateral Trade Negotiations

In theory, a multilateral trade agreement would expand trade to the mutual benefit of trading partners by enabling access to new markets, introducing transparency and stability in the measures that affect trade, as well as ensuring that all trading partners are treated in the same fashion. The GATS is a multilateral agreement created in 1995 and administered by the World Trade Organization (WTO) which applies to members. Member countries were expected to further liberalize their existing commitments or make fresh commitments on new sectors in successive rounds of negotiations.

While many developing countries have actively encouraged imports of higher education in a variety of forms, there have been strong reservations about making formal commitments in the current round of negotiations under the GATS. Developing country governments have been joined by associations of academics, especially in Latin America and Africa and by similar bodies in Europe and North America. In 2001, in a joint signed declaration, the presidents of the European University Association, the Association of Universities and Colleges of Canada, the American Council of Education and the Council

for Higher Education Accreditation – USA, opposed the inclusion of higher education in the GATS negotiations and called on governments not to make commitments (van der Wende, 2002). Although subscribing to similar objectives as far as GATS negotiations are concerned, the motivations of the various parties are quite different.

The current round of negotiations on GATS, which was included in the Doha Development Agenda (DDA) adopted at the WTO Ministerial Conference in December 2002, has been plagued by discord and delays.[8] It is unlikely that a new agreement in services would be successfully negotiated if the standoff continues between the group of developing countries represented by the G-20, on the one hand, and the developed countries, on the other, on market access and subsidies in agriculture.

As a result, the impending commitments under GATS appear to have lost some of the urgency they commanded at the beginning of the launch of this round of negotiations. Nevertheless, commitments made thus far and the requests and offers made in the current round of negotiations by various exporting and importing countries point to issues and concerns surrounding trade in higher education services. Further, liberalization of trade in higher education is also being pursued in the context of bilateral and regional trade agreements.

Unlike trade in goods, trade in services occurs not only through the cross-border movement of the service, but through the movement of persons (consumers and individual service providers) and foreign investment. Four modes of supply are identified in GATS for each of the 155 service sectors included in the negotiations: (i) cross-border supply, (ii) consumption abroad, (iii) commercial presence, and (iv) presence of natural persons. Table 12 provides higher education examples for each of these four modes of supply. Higher education is one of the 155 sectors, along with four education sub-sectors including primary, secondary, adult and other. The foregoing sections of this paper discussed the growth in the first three modes of supply for higher education, in particular mode (ii), consumption abroad (students studying abroad) and mode (iii), commercial presence (twinning/franchising and branch campuses). The fourth mode, movement of individual service providers, may become important as an adjunct to

[8] The original deadline for completing the negotiations (1 January 2005) was missed and although members unofficially agreed to complete negotiations by end 2006, the recent Ministerial Conferences in Hong Kong (December 2005) and Geneva (June 2006) have not ended the deadlock over broader trade negotiations.

mode (iii). An example of this is the temporary movement of individual faculty members to another country to deliver a specific course or module for payment (that is, not as part of an academic exchange). Member countries of the WTO commit to liberalize, or not, for each service sector and according to each mode of supply, hence, 155 times 4 equals 600 possible commitments.

Table 12: Modes of Supply of Services under GATS

	Description	Examples for higher education
GATS MODE OF SUPPLY		
Mode 1 – Cross border delivery	Delivery of education services from exporting country A to importing country B	Distance education, tele-education, education testing services, education via internet. An important statistical issue is to distinguish the value of the service (e.g, course content) from the product on which it is physically stored (CD, diskettes), which would be classified as a trade in "good". These statistical problems have become more difficult as digitized products increasingly cross borders as data files rather than as products.
Mode 2 – Consumption abroad	Movement of students from importing country B to exporting country A to obtain education services	Chinese students studying in US universities in the US.
Mode 3 – Commercial Presence	Establishment of local unit of institution from exporting country A to importing country B.	Country A's course offerings through branch campuses or subsidiaries of institutions, franchising, twinning/articulated arrangements, etc
Mode 4 – Presence of natural persons	Temporary movement of teachers, lecturers, and education personnel from country A to country B to provide education services	Teacher exchange programs

Greater liberalization of the trade in services is sought to be achieved through four important provisions of GATS. First, while commitments are voluntary, a country making a commitment cannot change it without attracting penalties. The second and third are the "market access provision" and the "national treatment provision" which prohibit limitations on the entry of foreign providers and discriminatory treatment between foreign and national providers, unless these have been specifically inscribed by a

Member country in its schedule of commitments. The final provision is that of Most Favored Nation (MFN), according to which a country making a commitment to liberalize cannot discriminate between foreign providers according to the country of origin: a commitment made to one or more countries applies to all WTO members as do any restrictions.[9] For any service category and for each mode of supply, each country can decline to make a commitment to liberalize, which in the GATS terminology is called "unbound.". In addition, a country might apply "horizontal limitations" to all services, for a particular mode of supply. For example, many countries list limitations on the movement of persons or foreign investment that are not unique to a specific sector.

Under these provisions, while countries would gain from making commitments to reduce trade barriers in terms of a guarantee for greater stability, transparency and non-arbitrary treatment, governments would also lose considerable discretion in policy-making. In principle, GATS commitments do not interfere with a government's rights to use a wide variety of regulatory measures, provided they are non-discriminatory. GATS also excludes services in the exercise of governmental authority, that are provided neither on a commercial basis nor in competition with one or more service suppliers. There has been much debate about what these provisions mean for the education sector and for the government's freedom to make policy changes. It is not surprising that the number of commitments in higher education, a sector that is considered important for national development and security, has been low, and even the relatively few commitments made so far have been made with a number of limitations.

An assessment of GATS commitments for higher education (2002)

By 2002, at the launch of the Doha Round (and the latest year for which there are commitments), 32 countries had scheduled commitments for higher education, compared to 29 for primary education, 34 in secondary education and 31 in "other education",

[9] The MFN provision is far-reaching. As explained by the WTO "The MFN obligation (Article II) is applicable to any measure that affects trade in services in any sector falling under the Agreement, whether specific commitments have been made or not." (WTO, 2006). However, all WTO members had a one-time opportunity to take out exemptions to MFN at the time the agreement came into force for them. MFN is also an absolute requirement that applies even in the absence of a market-opening specific commitment.

which includes educational testing services (table 11). Counting each European Union country, the number of countries rises to 43.[10] Overall, education remains among the least committed of the sectors with less than one-third of the 149 member countries of the WTO making commitments. This contrasts with 70 to 95 percent of countries with commitments by 1998 in services such as banking, financial services, business and telecommunications (Kemp, 2000). Most of commitments date from the time of the signing of the GATS in 1995 and the majority of the commitments on higher education were from OECD countries. Only 9 non-OECD countries made commitments at that time, of which four were from the Caribbean and Central America and three from Africa. The 11 countries which acceded to the WTO between 1998 and 2002 also made commitments in higher education. Seven of the 11 additions in 2002 were from Eastern and Central/South-Western Europe and another 2 were from small countries of the Middle East.

Some absences from the list are noteworthy. Among them are important exporters such as the United States and Canada that had not made any commitments in higher education. In fact, Canada has explicitly rejected scheduling commitments under GATS for education because of its national policy regarding higher education. Equally significant is the absence of all major higher education importing countries from this list, with the sole exception of China. By and large, Asian countries, where trade in higher education under various modes of supply has increased exponentially, have not made any commitments under GATS.

It is also worth stressing that table 13 only shows that some commitment has been made. This, in itself, does not necessarily signify much liberalization nor does it necessarily represent the existing level of market opening, since countries are free to place limits on their commitments (this issue is discussed later in the paper).

There are several reasons for the limited number of commitments for education in general, and in higher education in particular. One factor is undoubtedly the efforts of developing countries to refuse further commitments in services unless there is progress in agricultural reform. However, another important factor relates to the perceived loss of

[10] The member countries of the EU delegate the authority to negotiate trade agreements to the European Commission (EC). Austria, Sweden and Finland were not members of the EU during the Uruguay Round and thus had separate schedules of commitments. They are now included in the current EU offer.

policy-making discretion and national sovereignty associated with the acceptance of multilateral trading rules in a sector considered to be of strategic importance in both developing and industrialized countries. alike, despite the burgeoning trade in this area. The existing provisions of GATS allow countries to back out of their commitments, but compensation must be granted to affected trading partners in the form of market access in other sectors.

The restrictions denoted in each schedule of commitments for different modes of supply indicate the extent to which countries that have made commitments until the start of the Doha Round actually intend to promote trade in higher education. One way to analyze these restrictions is by mode of supply. Another way is to analyze them by the type of treatment given to foreign providers under market access and national treatment for each mode of supply.

Restrictions by Mode of Supply for Market Access

A country making a full commitment on market access indicates there are no restrictions, while a partial commitment indicates that at least one restriction applies. Full and partial commitments cannot be withdrawn and no further restrictions can be introduced. Market access restrictions may apply to both nationals and foreigners and hence liberalization of restrictions can actually increase access for domestic service providers.

The maximum number of restrictions under market access apply to mode 3 (commercial presence) and the minimum number to mode 2 (consumption abroad) and mode 1 (cross-border supply). Of the 32 country commitments on higher education, 29 have made full commitments in consumption abroad (students studying abroad) and 25 in cross-border supply (distance and e-learning), while only 16 have made full commitments in commercial presence (twinning, franchising, branch campuses). Fourteen countries made partial commitments and two made no commitments in this mode of supply. Altogether, 15 countries made full commitments in all three modes of supply. These include two of the leading exporters - Australia and New Zealand - along with Switzerland, and the East and Central European countries (Annex 5).

Table 13: Summary of Specific Commitments - Education Services, 2002

Countries	Primary	Secondary	Higher	Adult.	Other
OECD Countries – Uruguay Round					
Australia		X	X		X
Austria	X	X		X	
Czech Republic	X	X	X	X	X
Hungary	X	X	X	X	
Japan	X	X	X	X	
Mexico	X	X	X		X
New Zealand	X	X	X		
Norway	X	X	X	X	X
Poland	X	X	X	X	
Slovak Republic	X	X	X	X	X
Switzerland	X	X	X	X	
Turkey	X	X	X		X
USA				X	X
EC (12)	X	X	X	X	
Sub total number of Schedules	*12*	*13*	*12*	*10*	*7*
Non- OECD Member Countries – Uruguay Round					
Bulgaria	X	X		X	
Congo RP			X		
Costa Rica	X	X	X		
Gambia	X			X	X
Ghana		X			X
Haiti				X	
Jamaica	X	X	X		
Lesotho	X	X	X	X	X
Liechtenstein	X	X	X	X	
Mali				X	
Panama	X	X	X		
Rwanda				X	
Sierra Leone	X	X	X	X	X
Slovenia		X	X	X	
Thailand	X	X		X	
Trinidad and Tobago			X		X
Sub total number of Schedules	*9*	*10*	*9*	*10*	*5*
Total Number of Schedules by 1998	**21**	**23**	**21**	**20**	**12**
New Non- OECD Member Countries by 2002					
Albania	X	X	X	X	
China	X	X	X	X	X
Chinese Taipei		X	X	X	X
Croatia		X	X	X	X
Estonia	X	X	X	X	X
Georgia	X	X	X	X	
Jordan	X	X	X	X	X
Kyrgyz Republic	X	X	X	X	
Latvia	X	X	X	X	
Lithuania	X	X	X	X	
Oman		X	X	X	X
Sub total number of Schedules	*8*	*11*	*11*	*11*	*6*
Total Number of Schedules by 2002	**29**	**34**	**32**	**31**	**18**

Note:
1. 'X'implies some commitment only and does not represent liberlialization.
2. The commitments of the member countries of the EU tabled by the EC are treated as one schedule.

Sources: WTO 1998, OECD/CIERI 2002

Types of Restrictions on Market Access and National Treatment

The market access provision prohibits six types of limitations on: (i) the number of suppliers (ii) the total value of service transactions or assets (iii) the total number of service operations or total quantity of service output (iv) the total number of natural persons that may be employed (v) measures that restrict or require specific types of legal entry or joint venture and (vi) participation of foreign capital. These are prohibited on the grounds that they can put new service providers at a disadvantage as some limitations affect fixed or marginal costs while others effectively set a ceiling on quantity supplied. By placing a limitation on one or more of these six measures, for any mode of supply, the country raises barriers to international trade in the service.

The restrictions on providers, by mode of supply, placed by the countries which made partial commitments in education are listed in Annex 6. Across all levels of education, the maximum limitations are on "commercial presence", but they are especially prominent in higher education with 20 limitations in all the schedules taken together. Most restrictions are on the "type of legal entity" such as a ban on "for-profit" providers.

Although the "national treatment" provision of the GATS does not specify measures on which foreign and domestic service providers are expected to get equal treatment, discriminatory measures are usually identified under the following labels: (i) taxes (ii) subsidies and grants (iii) nationality requirements for labor force (iv) residency requirements (v) licensing, standards, qualifications (vi) authorization requirements (vii) performance requirements (viii) technology transfer requirements (ix) local content, training requirements (x) ownership of property/land. Countries that impose discriminatory taxation or insist on using national workers or workers with national qualifications also impose barriers to the free exchange of services. There is considerable debate about when standards and licensing requirements are discriminatory and alter the conditions of competition between service suppliers.

Countries scheduling limitations under national treatment have done so for delivery of higher education services both under commercial presence and presence of natural persons (Annex 7). These include restrictions on nationality requirements (for instance, specifying the composition of the board of governors to include nations) and

licensing, standards and qualifications. China, for example, lists that the presence of natural persons shall be restricted to those with at least a Bachelor's degree, professional title or certificate with two years professional experience.

This analysis indicates two main conclusions. First, the majority of countries, especially among the importers, have not made binding commitments in higher education in any mode of delivery, including "consumption abroad" and "commercial presence", although they clearly permit these forms of trade in higher education. Even though most countries do not place restrictions on students studying abroad, they do not wish to make binding commitments in case there are changes to the external environment. For instance, a BOP crisis can cause countries to impose limits on purchase of foreign exchange for travel abroad as happened during the Asian financial crisis. Even those governments which actively encourage foreign participation in higher education have not made commitments in mode 3 (commercial presence), in order to give themselves greater freedom to negotiate with individual providers of their choice without an obligation to extend the same terms to other providers. Second, even among those countries which have made commitments, while very few impose hurdles on the movement of students abroad, many, including industrialized countries, wish to restrict access to foreign providers operating within their boundaries.

Issues raised in the Doha Round

The negotiation process under GATS involves submission of requests by a Member country to another country and offers by countries choosing to respond to a request. Requests would typically cover many sectors, while offers are made usually in the form of a single offer covering some or all requests. Since the offer has to be made to all member countries, under the MFN rule, a country is unlikely to respond to a request for making commitments on higher education unless it is willing to do so for all countries, or unless it is willing to grant market access in higher education in order to gain market access in other services. Neither requests nor offers have to be made public except at the discretion of the country concerned.

However, some information has either been made public or leaked to the press mostly with respect to market access issues in the United States. The European Community as well as Mexico and Brazil requested commitments from the United States in education services (Nielson, 2003). The EC made a request for commitments under modes 1, 2 and 3 for private higher educational services. Brazil, in its request, asked the US whether the commitments made in 1995 apply to the sub-federal level and also requested full commitment on national treatment for scholarships and grants through all modes of supply. Similarly, Mexico requested the US to remove all restrictions on national treatment for adult education services.

The US offer clarified that foreign education institutions could operate in the US only under the existing regulatory framework under which these institutions (i) must comply with the requirements of the jurisdiction in which the facility is located (ii) would not be eligible for federal and state funding while grants and scholarships would be restricted to US citizens (iii) could participate in the student loans programs only if they meet the same requirements as US institutions (iv) may be ineligible for land grants, preferential tax treatment and other public benefits and (v) would need to comply with all state regulations regarding accreditation and other standards (Nielson, 2003).

It is not clear to what extent this offer liberalizes entry into the United States higher education market. If students who attend foreign institutions are not eligible for scholarships and grants, these institutions face different market conditions compared to domestic institutions. The application of standards does not necessarily modify the conditions of competition for foreign providers if they are applied in a non-discriminatory way. Nonetheless, in the US, foreign operators in higher education face major disincentives due to differing state-level regulation and accreditation mechanisms, which effectively create barriers to access into the US market as a whole. The fact that it is difficult for foreign higher education providers to gain a foothold in the US, while the latter has been advocating the systematic dismantling of barriers to higher education trade in other countries, has been a major source of contention in the current round of negotiations.

In general, the representation and measurement of barriers to trade in higher education, and in services more generally, is complicated and quantitative estimates are

difficult to interpret. For instance, a recent computation of a "restrictiveness index" for commercial presence in education services shows that China, Malaysia, India (and many other South-East nations) are highly restricted because of several limitations on the number of foreign providers and on foreign investment in educational activities among other factors. In comparison, the United States, UK, Australia and Canada are relatively unrestricted (Nguyen-Hong and Wells, 2003). This is difficult to reconcile with the observed fact that China hosts many foreign providers in higher education while the United States has hardly any. Such indices, based on frequency measures of the more easily identified restrictions and subjective assessments on the relative weights to be given to these restrictions, are often of limited value in assessing the relative openness of different markets.

Clearly, one of the major concerns in the current round of negotiations is to establish a greater symmetry in market access conditions between the more developed countries and developing countries. The weakness of domestic regulation regarding private and/or foreign higher education provision in developing countries in contrast with the much more comprehensive regulatory structures in industrialized countries is one reason for the refusal of developing countries to make binding commitments on market opening in higher education. This disparity can lead to unequal levels of market access between the two groups of countries. For instance, although public universities from developing countries may not be able to compete in developed country markets due to a variety of factors, (because of lack of a good product, or because they are not permitted to function have offshore commercial operations, or because they lack financial capacity), it is conceivable that for-profit or corporate providers from certain developing countries could compete in niche markets in developed countries. This is made difficult because of regulatory frameworks present in developed country markets. At the same time, low quality providers from developed countries (including those which are not even recognized higher education institutions) can gain relatively easy access into unregulated developing country markets.

Bilateral Free Trade Agreements

The slow progress in the multilateral trade negotiations has prompted many countries to sign bilateral trade agreements and 20 such agreements have been signed in the last five years. However, a similar hesitancy to include education within the ambit of these treaties can be seen, although the MFN rule does not apply to such trade agreements. Access granted under free trade agreements (FTAs) is preferential and not granted to other WTO members. [11] The bilateral agreements involving Australia, USA and New Zealand and countries in Asia (which have not made commitments under GATS), where they mention education, do not make commitments on improving market access. The most common provision relates to the recognition of academic and professional qualifications, which is required to facilitate trade in other services, and which is more easily achieved in bilateral negotiations. For example, under the Singapore-Australia Free Trade Agreement (SAFTA), Singapore agreed to recognize the law degrees of eight Australian universities, compared to four earlier. Restrictions placed on market access and national treatment are similar to those made by countries with partial commitments under GATS. Further, none of the bilateral agreements make commitments on the issue of subsidies and grants. However, it is worth stressing that such bilateral trade agreements may promote trade in higher education even if sector specific clauses are not included, through liberalization of foreign investment or of trade in other services.

The on-gong negotiations between Australia and China for a Free Trade Agreement (FTA), which is likely to cover education, are instructive because they involve a major exporting and importing country, for which education is significant in the bilateral services trade. As an exporter, Australia is seeking modifications to domestic regulations on higher education provision in China including (i) changes to how approval is granted for academic programs above the bachelor's degree, which currently involves both provincial and central governments as well as reducing the time taken for securing approval (ii) recognition of Australian courses and qualifications, offered in China or through twinning arrangements, for public employment and admission to further study

[11] All bilateral agreements must be tabled with the WTO.

(iii) improved procedures for overseas transfer of funds to Australian providers and (iv) enhanced transparency on regulations and licensing requirements. Most of these affect the cost of doing business for the foreign provider while one, the recognition of qualifications, is the most important factor affecting student demand for Australian higher education, especially in an increasingly competitive higher education environment in China. If China agrees to these or other access conditions, which may be more favorable than its current GATS commitments, this would favor Australian higher education providers over WTO members.

V. Concerns and Issues Related to Trade in Higher Education

Apart from developing countries, many of which fear that they will lose from asymmetric services trade liberalization, academic institutions and communities in both developed and developing countries and other stakeholders have expressed reservations about trade in higher education. The opposition to the presence of foreign higher education providers is greater than the opposition to the movement of students abroad. This is somewhat paradoxical because the latter constitutes the largest segment of trade in higher education and has potentially the greatest negative impacts cited by the opponents of foreign providers (such as greater inequity in access to higher education, reduction of national capacity, brain drain etc). However, from the point of view of governments and universities in developing countries, the delivery of foreign higher education through "commercial presence" within a country can have the greatest direct impact on national higher education systems and hence evokes the greatest opposition. We therefore confine ourselves to the concerns about commercial presence, dealing first with those which pertain to developing countries in particular and subsequently with those of the academic community in both groups of countries.

Developing Countries

The concerns of developing countries regarding the liberalization of trade in higher education can be grouped under four broad headings: (i) unequal access to higher education markets between providers in developing and developed countries (ii) negative effects of competition on domestic higher education institutions (iii) influx of low quality foreign providers and (iv) worsening of equity in access to higher education.

Unequal access to higher education markets: domestic higher education institutions from developing countries could never emerge as global competitors unless they can operate in developed country markets as well; without this presence they would find it difficult to develop internationally marketable higher education. Difficulties of market access may arise from the lack of supply-side capacity mentioned earlier (knowledge, skills, finance,

etc) or by domestic regulation of higher education in industrialized countries, which effectively act as barriers to entry. In addition, higher education exporters in industrialized countries are provided support by the government or industry-led associations (through trade facilitation, market analysis, etc) whereas developing countries are unable to provide the same level of support to their higher education institutions.

Negative effects of competition on domestic institutions: domestic public universities, which have been chronically under-funded in many developing countries, sometimes for decades, would not be able to face competition from well-established public and private universities from OECD countries, which have become "efficient" in exporting their services after receiving many years of public funding.. To the extent that these institutions continue to receive public funds, it is easier for these institutions to penetrate other markets and establish a presence – even when, as is the case in the UK, Australia and New Zealand, the universities that are public at home operate as commercial ventures abroad. There is no agreement on what constitutes a "trade-distorting" subsidy in services. However, it should be clear that the courses marketed by the universities of these countries have been developed with the support of public resources over many years. Further, foreign providers will tend to focus on the "job-oriented" and professional courses, leaving aside the basic sciences where there are externalities for long-term development that the country should take into account. At the same time, while domestic institutions may be inefficient and 'non-competitive' in internationally marketable higher education, they play a role in national development and preservation of cultural heritage. Unlike inefficient firms in other services, they cannot simply exit the market without major adjustment costs or indeed without creating a situation that may undermine the country's long-term development. The introduction of competition in the most viable sections of the market would make it more difficult for domestic institutions to survive, or require enhanced public support if the opportunities for cross-subsidization across courses are diminished. Further, there may be adjustment effects in the market for higher education teachers and it is not certain that overall capacity would increase. For instance, if foreign providers recruit faculty from existing public universities at somewhat

higher rates than civil service rate, they would be able to provide a cheaper service but there may be no net addition to the number of teaching staff in the country. At the same time, this will make it more difficult for domestic institutions to attract faculty. Another negative effect on capacity arises from the fact that foreign providers may set up undergraduate courses to feed postgraduate courses at home, in effect creating a pipeline of graduate students who pay higher fees in the future. For the country, however, there may be a long term effect in terms of losing potential research students.

Influx of low quality foreign providers: In the absence of reliable information on the true benefit conferred by a foreign higher education qualification, student choices are likely to be influenced by the "brand image" of the foreign provider's country rather than the institution itself. Foreign providers invest heavily in marketing and advertising the "foreign brand" as the essence of quality and it takes time before the market becomes sufficiently sophisticated to place emphasis on quality, value and proven reputation. The reticence or inability of traditional high quality universities from the developed countries to enter developing countries with lower cost course offerings has allowed other private providers who do not necessarily have to protect a "brand image" in their own countries. Low income countries typically attract lower quality providers, often those which are not accredited in their countries, so that paradoxically, students may be paying more for a foreign education of uncertain value than for a domestic qualification with some value in the local market. A particularly serious problem is posed by "fly by night" operators, who operate for a few years and leave students stranded. The weakness or lack of domestic licensing or quality assurance/accreditation measures is a major factor raising these risks.

Increasing inequity in access to higher education: Richer students may be "creamed off" by external providers, while poorer students are increasingly accommodated in domestic public universities, accentuating the problems of unrestricted competition for the latter. External providers, including those who provide distance education, tend to be located in urban areas with higher purchasing power; their courses are self-financing and higher priced and hence attract the richer segments of the population. Urban areas are also more

preferable because of the ease of recruiting faculty and better communications infrastructure. Even if they continue to be guaranteed public financing, domestic public universities are placed at a disadvantage if they cater increasingly to students from disadvantaged backgrounds, since peer group effects affect both student performance and perceived quality.

Although these concerns are widespread and seem to be supported by anecdotal evidence, there needs to be greater analysis in individual countries to offer alternative policy options that could mitigate them. In particular, it would be useful to analyze the effects on the domestic higher education sector of increased foreign penetration, by collecting data on the teaching staff, salary levels, course offerings, enrolments, the social background of students and fees charged in domestic and foreign (or foreign partnered) institutions.

Countries are experimenting with domestic regulations in order to address these problems. Tables 14a and b document how regulations have changed in China and Malaysia, two leading importers that actively encouraged foreign collaborations. Table 14c presents the guidelines developed by different authorities in India, a country where official policy has been ambivalent towards the presence of foreign providers in higher education. China and Malaysia are moving towards greater review of the quality of programs and the soundness of foreign providers, after a period of virtual "laissez-faire" where there was little government direction. The progressive tightening of domestic regulations to control the functioning of foreign institutions is noteworthy because China made commitments in higher education under GATS at the time of WTO accession in 2001. Introducing new regulations *per se* is not in conflict with GATS commitments provided the latter had allowed scope for doing so and provided they are non-discriminatory. Malaysia, on the other hand, has made no commitments under GATS and has introduced policy changes that allow only those foreign institutions that are invited by the Ministry. This would have been virtually impossible within the ambit of a commitment under GATS. In India, which has also made no commitment under GATS, regulations regarding foreign providers relate only to technical institutions but there have been proposals for regulating general higher education providers. The latest of these proposals emanate from the high level committee appointed by the Central Government

Ministry of Human Resource Development which submitted its confidential report in 2006. The proposals emphasize attracting "high quality" institutions, to the extent of disallowing franchising and other models that are considered low quality. In this respect, the policy debate in India closely mirrors that in South Africa.

Domestic regulation of foreign partnerships and investment in higher education also seems to be influenced by the level of development of domestic higher education systems. The trend seems to be that the more developed the domestic system, the less the attraction for using foreign institutions to expand access, even when there is excess demand for higher education, and the greater the premium placed on quality. South Africa, Brazil and India have well developed higher education systems with a small core of high quality institutions, which set the standard for others. All three countries have been ambivalent or opposed to actively encouraging foreign providers, even though the first two clearly have sizeable excess demand, while India has unmet demand in specific disciplines. China, Malaysia and most South East Asian countries, by contrast, initially had few domestic higher education institutions of reputed quality. India recently began selectively promoting foreign collaborations, recognizing that it needs to upgrade the quality of graduates in key disciplines where it sees its competitive strength. In 2005, in a significant departure from the previous approach to collaboration in general higher education, an agreement was signed between five leading US universities, Indian institutions and the Government of India's Department of Science and Technology to collaborate in improving the quality of science and engineering education in India. Under the agreement, the US universities will send their faculty to teach in India at certain locations, with lessons being broadcast by the Indian education satellite to hundreds of public and private Indian institutions. An interesting aspect of this partnership is that it will be funded by leading software companies. The aim of this partnership is to increase the supply of high quality engineers from India, reflecting the coalescence of importers and exporters' interests of higher education services as well as the employers of highly skilled labor.[12]

[12] At the time of writing of this paper, the Government of India was reportedly actively considering legislation to enable foreign universities to set up campuses in India, while excluding franchises. This move corroborates the above assessment of India as an "excess demand" country in specific disciplines

Academic Community

Concerns in the academic community revolve around the following issues: (i) effects on institutional autonomy (ii) tenure of faculty and impacts on academic freedom (iii) intellectual property rights and (iv) undermining the role of higher education as an essential public service. The first three concerns relate to the need to change governance systems within traditional universities and regulations regarding the functioning of universities in order to compete with non-university higher education providers, either for-profit institutions or corporate universities. They are as pertinent for universities in developed countries as in developing countries, in the latter, the for-profit subsidiaries of public universities from developed countries fall into the same category. In order to be more market-oriented, develop appropriate curricula for different segments, and separate teaching from research, the consensual governance patterns of universities, relying largely on faculty collegiality, would need to change. Many leading US private universities find it difficult to launch overseas ventures partly because faculty preferences for research have to be factored in. Accommodating faculty research preferences is necessary because research contributes to the 'brand image' of the university. The presence of tenured faculty makes it difficult to compete on price. On the other hand, lack of tenure and increasing reliance on part time staff can impinge on academic freedom. In a situation where content development and delivery of the service are physically separated, and the content can be used in different locations, the question of who owns the rights to the instructional materials becomes paramount. For institutions in developing countries, this is a crucial issue that affects whether increased trade in higher education will be capacity-enhancing or whether faculty in these countries will specialize in the "low skill" jobs as instructors or facilitators of content delivery, rather than in contributing to the production and dissemination of academic knowledge.

A more fundamental issue relates to the perception among academics about the essential public good characteristics of higher education, which therefore, should be entirely or mostly financed, if not provided, by the state. Opposition to handing over the

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with a well-developed university system, which is seeking to make selective use of foreign partnerships to upgrade quality.

development of higher education to markets, and to its "commodification", is strong in the EU and in other countries where public provision is strong or where higher education has played a leading role in shaping national development. However, the visible shift to market-based higher education in almost all countries (except the EU) will force a re-thinking of the best strategies to promote the public good nature of higher education. In doing so, it may be useful to separate the function of skill development from the function of knowledge accumulation, both of which belong to the objectives of higher education.

Table 14: Regulations regarding foreign providers in education
a. China

2001 (GATS commitments)	
Cross-border supply (Mode 1)	No limitation
Commercial Presence (Mode 3)	Only through Joint Ventures with foreign majority ownership No national treatment
Individual service providers/professionals (Mode 4)	Subject to invitation or employment by Chinese institution, possession of BA, 2 years experience and professional title
2003 Ministry of Education Regulations	1. joint ventures must not be operated for profit as main objective 2. tuition fees may not be raised without approval 3. half the board of directors of joint ventures must be Chinese 4. development plans must be approved by two-thirds or more of the board members 5. the chief administrative officer responsible for hiring and firing staff must be a Chinese national 6. joint venture must have a Chinese partner 7. foreign religious institutions cannot be partners 8. the programs must follow China's educational policy and be in line with Chinese public morals and ethics.
2004 Ministry of Education Regulations	1. curriculum outline and list of teaching materials to be submitted to the ministry for approval.

Notes:
1. GATS commitments compiled from Mattoo (2002).
2. 2003 Regulations from Government of China (2003).
3. 2004 Regulations cited in Mooney (2006).

Table 14: Regulations regarding foreign providers in higher education
b. Malaysia

Prior to 2000	Private colleges could enter into twinning and franchising arrangements with partners of their choice
From 2000	1. New foreign partnerships and branch campuses will be set up only on invitation from Ministry of Education to the foreign institution 2. After invitation, the foreign higher education institution registers with MOE 3. Submit application for permission to conduct course 4. Each course must be accredited in home country; for professional programmes, they must be recognized by relevant professional association 5. National Accreditation Board assesses whether each course meets minimum standards 6. Submit documentation on course of study, teaching subjects, faculty, facilities, and rationale for providing course Branch campuses 1. Foreign university must establish a Malaysian company to operate campus; company must have majority Malaysian ownership 2. All programs must include compulsory subjects on national language, Malaysian society and religion
2005	For franchised programs, MOE will invite only those foreign institutions which rank high in national league tables as published by leading education journals/newspapers in home country
Note: Compiled from Ziguras (2003) for years prior to 2005.	

Table 14: Guidelines regarding foreign providers in higher education
c. India

AIU guidelines (1999)	1. Indian institution (partner) has adequate infrastructure and facilities as substantiated by the report of a Review Committee of the AIU 2. Program is implemented jointly by the foreign and the Indian universities, or academic institutions affiliated to them, with both contributing to the academic program in approximately equal measure 3. Foreign university gives an undertaking, in the form of a certificate, that the degree or diploma awarded to the student in India would be considered as equivalent to the corresponding degree or diploma awarded by the home university, and that it would be recognized in that country as being equivalent to the corresponding degree or diploma of the awarding university. To date, only one university has applied for the grant of equivalence.
Technical Institutions (AICTE regulations for foreign providers, 2003)	Preconditions: 1. Accreditation by authorized agency in home country 2. Proof of recognition and equivalence of degrees in home country 3. Bound by advice of AICTE regarding admissions, student eligibility and curriculum Registration conditions: 1. Institution provides information on faculty, fees, curriculum and financial resources 2. Committee of experts scrutinizes proposal 3. Initial approval, if granted, is for limited time Disallowed: 1. Franchise agreements
Technical Institutions (Revised AICTE regulations for foreign providers, 2005)	Revised guidelines (to apply also to existing two institutions): 1. Application from foreign institution to be accompanied by No-Objection Certificate from concerned Embassy in India, attesting to genuineness of institution in home country. 2. Foreign institutions must partner with existing, AICTE approved domestic institutions (new institutions cannot be created for the purpose) 3. Fees and intake for each course will be prescribed by AICTE 4. Educational innovations incorporating different modes of delivery will be allowed only if they have been used in parent country. Existing institutions have to comply with these new regulations within 6 months
General higher education (C.N. Rao Committee, 2006)	Disallowed: 1. Franchising or offshore study centres 2. Repatriation of profits to parent institutions 3. "Poaching of faculty" from Indian institutions Conditions for entry: 4. Foreign institution should be registered as deemed university under University Grants Council, which reports to Ministry opf Human Resource Development 5. "Substantial" security deposit, which can be forfeited if the institution closes 6. Twinning programs only with existing Indian institutions Temporary approval granted initially, to be extended depending on "performance"
Notes: 1. 1 Compiled from various sources; extracts from CN Rao Committee are based on newspaper reports as the official report is not yet available. 2. AIU = Association of Indian Universities. 3. AICTE = All India Council of Technical Education.	

VI. Trade and Higher Education Policy in Developing Countries

What the future holds

The international trade in higher education is likely to continue to grow rapidly and will increasingly impact domestic higher education systems in developing countries. The underlying factors driving this growth discussed earlier will not change; on the contrary, these factors are going to exert even greater effects in the future. The most fundamental is the greater integration of the global economy, and the liberalization of trade in other services and increased FDI flows in other sectors of the economy. Their effects on domestic higher education systems will be far larger than implied by the numbers of students enrolled in such programs, which will remain a small share of global tertiary enrolment in the foreseeable future.

Trade is already more important than aid in higher education; bilateral aid for higher education is unlikely to expand sharply and is largely tied to the donor country's economic, political or other realities. While bilateral aid creates competition with the main exporting nations that rely on trade and offers more choices for students, it may not have a large impact on the higher education systems of developing countries. The impact may be minimal because the number of overseas scholarships for individual countries is still limited in most cases.

The service delivery modes that are likely to grow rapidly and have the greatest impact on domestic higher education systems are those involving commercial presence and cross-border delivery (the latter includes e-learning and distance learning). Various projections show that the number of students studying abroad and the number of host countries will also increase; however, this mode of delivery of foreign higher education has less direct positive benefits for domestic systems in developing countries and, in the short run, it could also produce negative fiscal and economic effects due to the migration of highly skilled labor.[13] The other modes of delivery, which are currently relatively

[13] The evidence on this is again mixed. Increased remittances from migrants are a substantial economic resource for some countries, but some studies show that highly educated migrants tend to remit less than those with lower levels of education. Further, there is a loss of domestic tax revenues as these migrants are most likely to have paid taxes. However, there is evidence that highly skilled migrants are likely to

small in terms of overall supply, have enormous potential for growth and can also influence the supply of domestic higher education in developing countries. This is the case because these modes break down the higher education process into different components that can be "produced" around the world. The further spread and penetration of ICT, the development of new business models in higher education and the growth of trade in other services will accelerate the growth of these supply modes. They are likely to have the greatest impact on domestic higher education systems, offering new opportunities and many risks. At least certain subsectors of the higher education system will become increasingly differentiated from the traditional universities.

The "outsourcing" of university education based on the model of the offshore medical schools in the Caribbean is unlikely to become important in the near future. This model involves students of developed countries traveling to developing countries to procure higher education that is acceptable in their home countries but at a lower cost. However, this model can be viable only for countries in close proximity to each other, with a similar language and culture.

Currently, the main exporters of higher education services are the industrialized countries which have a comparative advantage in highly skilled labor, relevant technologies and the ability to produce services of perceived high quality. Competition will be increasingly based on quality *and* price. Certain developing countries, with a sufficiently large pool of academics and technological know-how, are likely to be able to offer relevant and high quality courses at lower costs than existing providers from developing countries. At present, intra-developing country trade is being developed through the "education hub" model pioneered by Malaysia, Singapore, Dubai and Qatar, which have used foreign universities to attract students from developing countries. However, other models can develop. Technology firms from these developing countries, perhaps in alliance with traditional or virtual universities, and leveraging their technology networks (satellite communications), are capable of emerging as serious competitors. This opens up the possibility of greater trade between developing countries, affording more choice and lower prices. Another possibility is that aspects of "content

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facilitate technology transfer and provide venture capital. As domestic economies improve, highly skilled migrants are also likely to return to their home countries.

development" are "outsourced" by higher education providers in developed countries to countries that offer lower wages for highly skilled labor in order to retain their competitive edge.

Higher education is increasingly regarded as essential to raising the overall economic competitiveness of the economy by producing highly skilled workers and creating technological innovation. Higher education is a powerful tool for social mobility and reducing societal and economic inequalities. Developing countries are striving to reach multiple objectives: improving access to higher education with greater social inclusion, enhancing quality and strengthening links with entrepreneurs. Determining the priorities of these multiple objectives is often the most difficult aspect of policy making. Many middle income countries such as China and Malaysia as well as countries in Latin America, have accorded a top priority to higher education in their strategies for accelerated economic development. As well, several low income countries view higher education as a vital key to global economic participation. Vietnam devised a program for higher education reform by 2020. India has established a Knowledge Commission and Pakistan a Higher Education Commission to re-structure tertiary education.

Formerly, higher education policy was largely influenced by domestic conditions and factors, namely the domestic labor market and national higher education institutions. These conditions are being transformed in almost all countries of the world, including low income SSA countries. In developing their higher education policies, countries need to look at regional and global labor market trends. Looking at regional and global labor market trends is crucial in light of increasing regional integration and the associated mobility of labor or capital. Such regional integration can occur even when there are no formal bilateral or regional free trade treaties. Further, in expanding and restructuring domestic higher education systems, developing countries will need to exploit the potential of, and minimize the risks associated with, the international trade in higher education services. Rather than ignoring trade in higher education services or trying to restrict it with outright prohibitions, it would be preferable to have a policy framework that takes this trade into account.

Countries need to bear in mind the substitutability between supply modes of a service while recognizing that the degree to which substitution occurs depends on the

nature of the service and technological possibilities. For instance, encouraging foreign providers can reduce the number of students going abroad to seek a foreign qualification. Restrictions on commercial presence or an environment that discourages foreign investment may encourage students to go abroad or to take e-learning and distance education programs, in which it is even more difficult to monitor to education quality.

In order to compete with the foreign providers and to maximize benefits from the trade in higher education, fundamental funding and governance reforms are required at public universities in developing countries. Protecting outdated curricula and teaching methods at these universities is a great disservice to their students. However, not providing public universities or tertiary institutions with the tools to reform themselves may lead to the loss of strategic assets that are vital for national development and are difficult to rebuild.

The objectives, role and level of public funding, public provision and regulation of tertiary education must be clearly delineated in order to maximize the potential of foreign trade in higher education. Countries must consider not only the division of responsibilities between domestic public and private tertiary institutions but also the responsibilities of and accountability mechanisms for foreign providers, including traditional universities, distance education providers and corporate universities. The division of responsibilities must be placed within an overall policy and strategic framework for tertiary education that links the strategy to the country's broader economic and social development goals.

Aligning policy objectives and regulatory priorities

While many of the concerns and negative effects discussed earlier are valid, it is also important to recognize that not all are equally important for all countries and at all times. Because initial conditions vary widely across countries and policy priorities on higher education are likely to change over time, country-specific analyses are required. However, some broad generalizations can provide useful pointers for policy development.

Prioritizing among policy objectives

While the objectives of increasing capacity and quality of tertiary education are appropriate in most countries, the relative priority given to each objective is likely to be different. It would also be useful to prioritize these objectives for the two basic functions of higher education, namely skill development, which relates to labor market demand in the short and medium run, and knowledge acquisition and innovation, which requires a longer term perspective. The relative importance of increasing capacity and improving quality may differ between different levels of education (short-duration, job-oriented courses/undergraduate academic courses and postgraduate courses) and the disciplines considered important to support economic development. Identifying the respective roles of the public and private sectors in achieving each of these objectives is also crucial. Job-oriented courses that bring more or less immediate private benefits to students can be left to the private sector. On the other hand, improving the quality of post-graduate education, which benefits the whole sector by raising teaching quality or raising the overall competitiveness of the economy through relevant research, technological adaptation and innovation, would require public funding and often provision. Promoting enrolment in science and technology disciplines or other areas of importance to national development, including the preservation and extension of cultural heritage, where the social benefits exceed private benefits would also require public support. Thus, the benefits and risks from each mode of foreign collaboration should be carefully evaluated.

Irrespective of the type of higher education provided or the mode of delivery, registration of all foreign higher education providers, including those providing education through the distance mode, should be considered a minimal requirement. This provides essential information both to the government and the public on course offerings and acts as a safeguard against fly by night providers.

Increasing access through the private sector

Although the private sector may be the best vehicle to broaden access rapidly, especially through short job-oriented courses, in many low income countries the private sector lacks this capacity. Often, the private sector consists of associations started by individual professionals, teachers or firms from outside the education sector. Some countries also

lack sufficient or well-functioning public institutions that could provide initial guidance in educational capacity building. Collaborations with foreign higher education institutions builds capacity in developing courses, improving teaching methods and instructional materials, as well as assessment. Typically, franchising and validation models are appropriate for these kinds of collaboration. Apart from increasing access, enhancement of teachers' skills, who often have only undergraduate degrees, is an important benefit. Accordingly, regulations that are too restrictive with respect to quality indicators of the foreign collaborator may defeat the policy objective. It may be necessary to evaluate local regulations to allow the use of programs, courses and instructional materials developed by a foreign provider in domestic private institutions.

Basic registration and licensing requirements to protect students and compliance with local laws are essential. Information required to assess the financial stability, legal competence and prior experience of the foreign partner in higher education could be considered essential licensing requirements. Rather than imposing prior conditions on inputs considered essential to quality, such as teacher-pupil ratio, or directly regulating fees, it may be preferable to mandate that information be provided to students to make choices, such as on accreditation status in the home country, the acceptability of the franchised/validated courses in the home country, pass rates and employability of pass students. Making this information publicly available would be an important task of the government to ensure that the market operates smoothly and to allow greater competition. The government can also facilitate the domestic private sector by preparing model collaboration agreements.

Improving quality in the public sector and the private sector for delivery of academic programs

Both undergraduate and postgraduate programs may be important but for many countries, the priority is to improve the quality of postgraduate program to ensure better teaching at the university level and build research skills. Assessing the capacity of the foreign provider is important to achieve this objective. It may be appropriate to require that only those providers that are recognized by their respective governments as higher education institutions and accredited by a recognized accrediting authority can collaborate in

supplying academic programs. This guarantees against the establishment of spurious institutions awarding fake degrees. Accreditation or quality assurance of the partnered courses themselves by either the foreign accrediting authority or domestic authorities is desirable but may simply not be feasible in some countries. Domestic capacity is often limited by an insufficient number of reviewers for quality assurance who have the required postgraduate training and up to date knowledge of developments in their field. In addition, when the pool of reviewers is small, the ability to carry out independent evaluations is constrained. Furnishing information on the ranking of the foreign institution in the home country is a useful first step, although in itself it does not guarantee the quality of the overseas program. Involving local business associations and professional associations in assessing the quality of programs may be one viable option.

Since capacity building is an important objective, governments can also play a role in ensuring that it is a key component of partnering agreements. Dual degree programs are often a means of reinforcing the quality of assurance dimension of twinning arrangements, as both parties have a stake in the final outcome; however, such mechanisms work only when there are institutions of comparable capacity. Twinning arrangements may be best suited for building capacity because quality should be monitored by the foreign provider through regular visits of administrators and faculty, reviews of student work and analyzing academic progress of students. Foreign providers usually set the criteria for faculty hired by partner institutions. However, some twinning arrangements fall short of these capacity building and quality enhancing objectives. On the other hand, some franchising agreements achieve capacity building results. Hence, the foundation for success lies in the details of the partnership agreements. To begin with, it may be easier to ensure the capacity building component in partnerships between domestic public higher education institutions and foreign institutions, which could then serve as a model for others. Enabling local faculty to participate in curriculum development and modification as well as faculty development are important mechanisms for capacity building. This may require giving positive incentives to faculty members in public institutions to participate. The transfer of new ideas and innovative practices in governance, financing and use of ICT are also important aspects of capacity development. Finally, the development of mechanisms for protecting intellectual

property rights of domestic institutions over courses that are jointly developed or benefit from local input may be important.

Creating a competitive environment for public institutions and generating spill over benefits

Reform of public universities may be difficult to introduce or sustain without external pressures. Creating a new domestic institution, public or private, that can bring in international best practice in curricula, teaching methods, research, governance and financing is often not possible with domestic resources alone. Branch campuses or the creation of international universities in partnership with foreign universities are options that can have considerable spill-over effects. However, in countries with nascent private sectors in higher education with limited financial capacity, the government has to actively participate in establishing new institutions and branch campuses in order to assure the stability of operations. This does not mean that the new institution must be a public institution, although public funding would probably be called for. Governments could also use investment incentives to attract foreign education providers, such as concessional access to land. In order to generate spill over benefits to the broader domestic higher education system from such ventures, partnership agreements, such as franchise or validation agreements, with local private or public institutions could be negotiated.

Fostering equity in access

Broadening of access to higher education is the best guarantee for improving equity but special measures for students who are underrepresented including girls, indigenous people, disadvantaged social groups, students from rural or economically backward regions, are often required to accelerate social mobility and to ensure political cohesiveness. Limitations on tuition fees and quotas often discourage foreign partners (although guidelines on fees and making information on fees widely available would allow students to compare prices of different courses). Providing scholarships to students from disadvantaged backgrounds to attend these institutions may be a better policy instrument. If there are quotas in place, another option is to consider a monetary "penalty" to be paid by the institution that does not choose to fill the quota; recuperated

funds could be used for providing financial assistance to disadvantaged groups. For instance, foreign banks operating in India are required to pay a penalty because they do not comply with regulations that apply to domestic banks on lending to "priority sectors" and rural banking. A similar principle could be applied in the case of foreign higher education institutions since domestic universities are required by the constitution to reserve about one-fifth of student places for students of Scheduled Castes and Tribes.

Contrary to general perception, sub-Saharan African countries can also exploit the window of opportunity offered by the trade in higher education services. With limited domestic public funding and multilateral and bilateral aid for higher education, inviting foreign partnerships is one way of attracting more resources (including private domestic resources) into the sector. Many SSA countries still do not face excessive demand for higher education, as the secondary enrolment ratio is comparatively low in these countries. Foreign partnerships can therefore be used to improve quality in the public sector or to gradually expand access by building capacity in the private sector, especially through short-duration, vocational courses. As foreign providers from developing countries enter the global market for higher education, SSA countries can also benefit from lower costs of international higher education. Clearly, while improvements in the overall investment climate and in the communications infrastructure are critical, a proactive government policy towards foreign providers will play a major role in ensuring that the trade in higher education promotes domestic policy goals for higher education.

ANNEXES

ANNEX 1

Country Groups

Tables 1,2, 3 and 4

North America: Canada, United States of America.

Latin America and the Caribbean: Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Mexico, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Turks and Caicos Islands, Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela.

EU 15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.

Central and Eastern Europe: Turkey, Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova (Republic of), Poland, Romania, Russian Federation, Serbia and Montenegro, Slovakia, Slovenia, The Former Yugoslav, Rep. of Macedonia, Ukraine.

Arab States: Algeria, Djibouti, Egypt, Libyan Arab Jamahiriya, Mauritania, Morocco, Sudan, Tunisia, Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestinian Autonomous Territories, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates, Yemen.

South and West Asia Afghanistan, Bangladesh, Bhutan, India, Iran Islamic Republic of, Maldives, Nepal, Pakistan, Sri Lanka.

East Asia and the Pacific: Brunei Darussalam, Cambodia, China, Hong Kong (China) SAR, Indonesia, Japan, Korea (Democratic People's Republic of), Korea (Republic of), Lao People's Democratic Republic, Macao (China), Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, Viet Nam, Australia, Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia (Federal States of), Nauru, New Zealand, Niue, Palau (Republic of), Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu.

Sub Saharan Africa: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Democratic Rep. of the Congo, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe,

Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Swaziland, Togo, Uganda, United Republic of Tanzania, Zambia, Zimbabwe.

Other: Cyprus, Israel, Andorra, Gibraltar, Holy See, Iceland, Liechtenstein, Malta, Monaco, Norway, San Marino, Switzerland.

List of OECD Countries

Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea R., Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States of America.

ANNEX 2

Data on Trade in Higher Education – Concepts and Sources

Traditional balance of payments (BOP) statistics do not adequately capture all forms of trade in services. Statistics on international trade in services (as of goods) are based on the concept of residence: international trade involves a transaction between residents and non-residents of a country. In BOP statistics, imports and exports of education services through students studying in a foreign country are captured under the head of "personal travel", which includes travel for recreation as well as for health and education. Expenditures under "education-related travel services" cover tuition fees and living expenses while the cost of transport to the place of study is not included. They exclude expenditures that are financed by the exporting country such as scholarships or other aid provided by the government/institution of the country where the student is studying. Apart from some OECD countries, few countries, however, provide the break-up of "personal travel" into the three sub-components of recreation, health and education. France, Germany and Japan do not provide "travel expenditures" on the sub-components. Even among those countries that do provide the sectoral break-up, data collection methods differ leading to variability in coverage and quality. Data from United States, Britain, Canada, Australia and New Zealand are generally considered reliable. Data are not disaggregated by level of education. Since currently not many students study abroad for lower levels of education, this is not a major limitation. The BOP statistics are an important source of information for the higher education exports of the main exporting countries. However, there is no comparable information on the value of imports of higher education for the main importing countries.

The usefulness of BOP statistics in relation to other modes of delivery is even more limited. In principle, BOP statistics also capture the supply of an education service by a domestic higher education institution overseas through two other modes: (i) via the internet, post or TV or (ii) by a resident lecturer traveling overseas on behalf of the institution. Hence, these data capture the cases of export of education services without the consumer (student) traveling to the exporting country or the exporting institution relocating to the country of the consumer. The expenditure under these services is included in the service type "other personal, cultural and recreational services". However, most countries do not provide a sectoral break-up of these expenditures and moreover, the data sources for this type of trade are highly variable since many institutions find it difficult to value these activities using their existing management and accounting systems.

The supply of higher education services in another country, through establishment of a branch campus or a joint venture with a foreign institution, is the least well documented aspect of the trade. The exporting country's BOP statistics exclude the value of such services because the higher education institution is not resident in the country and is providing a service to non-residents. Statistics on foreign investment provide information on the ownership of such higher education institutions and the BOP statistics would include income flows between the overseas affiliate and the "parent" institution. However, neither of these data sources identifies information separately for education.

ANNEX 3

Foreign Providers in Selected Developing Countries

	Total programs	Branch campuses	Twinning	Franchised /Validated	Remarks
East Asia					
China	1100 (2006)	4			Only 140 foreign joint programs were approved by Ministry of Education in 2004
Hong Kong			385 programs run by foreign institutions 473 programs operated by foreign institutions in collaboration with local institutions		
Malaysia		4	Almost all 560 private colleges have twinning/franchise agreements		
Philippines		3			
Thailand		2	13 Australian universities, 9 UK Universities and 1 German university		2 more branch campuses planned by Al-Azhar University of Egypt and Jinan University of China
Singapore		10	75 percent of students in private institutions (90,000) study in foreign/joint affiliate programs; 21,000 students study in foreign distance education programs		
Vietnam		3	At least 15 foreign higher education institutions offering franchised or joint degree programs with Vietnamese public universities		
South Asia					
India	131		131 programs comprising twinning, franchising, study and examination centres and joint degrees. The majority are franchised programs.		Only 3 twinning arrangements are approved by All India Council on Technical Education. None of the general education programs are recognized by University Grants Council
Sri Lanka			9	11	Programs where all the study time is in Sri Lanka are treated as 'franchised"; programs where study time is shared between the local and foreign institution is treated are treated as "twinned
Arab States					

Egypt		3	Some branch campuses offer franchised programs of other foreign universities		A new British university is under development
Oman			By law, all private providers should have external partner of "reputed quality"		
Dubai		16			Includes two universities from India and one from Pakistan
Qatar		5			
Latin America					
Caribbean Region	121		38	53	There are 16 study centres, some of which are denoted as off-shore campuses, and 14 external distance education programs
Argentina		5	17		At least 9 distance education programs in addition
Chile		3	45		
Colombia					
Mexico			19 twinning and franchise programs		7 distance education programs
Sub-Saharan Africa					
Angola					
Nigeria		1			Netherlands business school
Kenya		3			Includes one by Pakistan's Aga Khan University
South Africa		4			
Mauritius		2	More than 50 foreign universities and professional bodies offer local programs, mostly at the diploma or certificate level		

Notes and Sources:

1. This table draws information from a number of sources of which the most important are Altbach and Knight (2006); Brandon (2003); Garcia-Guadilla, Aupetit and Marquis (2002); Martin (2004); Mockiene (2001); NIEPA (2004) and Sulaiman (2005).
2. Information has been combined from various sources, including websites and newspaper reports.

ANNEX 4

Countries Classified by the Increase in Tertiary GER 1999-2004 and Tertiary GER, 1999

	Increase in Tertiary GER 1999-2004		
	Less than 5 percentage points increase	5-15 percentage points increase	More than 15 percentage point increase
Tertiary GER, 1999			
Less than 10	All Sub-Saharan African countries India Nepal Bangladesh Pakistan Morocco	Mauritius Trinidad and Tobago China	
10-20	S. Africa Algeria Iran Iraq UAE Tadjikistan Indonesia El Salvador Honduras Mexico	 Tunisia Saudi Arabia Jamaica Brazil Costa Rica Paraguay	 Cuba
21-30	Armenia Colombia	Czech Republic Slovakia Kyrgyzstan Turkey Jordan Malaysia Hong Kong Mongolia	Romania Kazakhstan
Over 30		Croatia Lebanon Thailand Bolivia Chile Uruguay	Belarus Estonia Georgia Hungary Latvia Lithuania Poland Slovenia Ukraine
Notes: 1. Based on Graph 3; not all countries are listed.			

ANNEX 5

Overview of Market Access Commitments for Education Services, 2002

New Schedules by 2002 (after 1998)

Sector	Members with full commitment for Modes 1-3	Cross-border supply (Mode 1)			Consumption abroad (Mode 2)			Commercial presence (Mode 3)		
		Full	Partial	No	Full	Partial	No	Full	Partial	No
Primary	3	3	1	3	7	0	0	5	2	0
Secondary	7	7	1	3	11	0	0	8	3	0
Higher	9	9	1	1	11	0	0	9	2	0
Adult	8	9	1	1	11	0	0	8	3	0
Other	3	4	1	1	6	0	0	4	2	0

Schedules by 1998

Sector	Members with full commitment for Modes 1-3	Cross-border supply (Mode 1)			Consumption abroad (Mode 2)			Commercial presence (Mode 3)		
		Full	Partial	No	Full	Partial	No	Full	Partial	No
Primary	3	10	4	6	16	1	3	7	11	2
Secondary	5	12	4	6	18	1	3	8	12	2
Higher	6	16	3	2	18	1	2	7	12	2
Adult	10	16	2	1	18	1	0	12	6	1
Other	6	11	1	0	12	0	0	16	4	2

Total Schedules by 2002

Sector	Members with full commitment for Modes 1-3	Cross-border supply (Mode 1)			Consumption abroad (Mode 2)			Commercial presence (Mode 3)		
		Full	Partial	No	Full	Partial	No	Full	Partial	No
Primary	6	13	5	9	23	1	3	12	13	2
Secondary	12	19	5	9	29	1	3	16	15	2
Higher	15	25	4	3	29	1	2	16	14	2
Adult	18	25	3	2	29	1	0	20	9	1
Other	9	15	2	1	18	0	0	20	6	2

Note:
1. Limitations on Mode 4 are usually covered in horizontal limitations.
2. Calculated by author based on documents indicated in sources.

Sources: WTO 1998, OECD/CIERI 2002.

ANNEX 6

Types of restrictive measures –market access (by number of schedules), 2002

Total Restricitive Measures by 2002

	Mode	a	c	d	e	f	g	h	Total
Primary	Cross border supply				2		2	2	6
	Consumption abroad						1		1
	Commercial presence				6	3	5	3	17
	Presence of natural per.			1		1		5	7
Secondary	Cross border supply				2		2	2	6
	Consumption abroad						1		1
	Commercial presence				6	3	6	3	18
	Presence of natural per.			1		1		5	7
Higher	Cross border supply				1		2	2	5
	Consumption abroad						1		1
	Commercial presence	2			6	2	7	3	20
	Presence of natural per.			1		1		5	7
Adult	Cross border supply				1		2	1	4
	Consumption abroad						1		1
	Commercial presence	1	1		3	2	4	2	13
	Presence of natural per.					1	1	2	4
Other	Cross border supply				2		1	2	5
	Consumption abroad								
	Commercial presence				2	2	3	2	9
	Presence of natural per.					1	1	4	6

Notes: The b group of restrictive measures was not relevant for education services and was therefore not included in this table

a Number of suppliers
b Value of transactions or assets
c Number of operations
d Number of natural persons
e Types of legal entity
f Participation of foreign capital
g Other market access measure
h National treatment limitation

Note:
1. Calculated by author based on documents indicated in sources.

Sources: WTO 1998, OECD/CIERI 2002.

ANNEX 7

Types of restrictive measures - national treatment (by number of schedules), 2002

Total Restricitive Measures by 2002

	Mode	a	b	c	d	e	f	g	h	m	n	Total
Primary	Cross border supply		1		1				1		1	4
	Consumption abroad											
	Commercial presence				3		2		2		3	10
	Presence of natural per.				2	1	4		3	1	1	12
Secondary	Cross border supply		1		1				1		1	4
	Consumption abroad											
	Commercial presence				4		2		2		3	11
	Presence of natural per.				2	1	4		3	3	1	14
Higher	Cross border supply		1		1				1		1	4
	Consumption abroad											
	Commercial presence				4		1		3		2	10
	Presence of natural per.	1			1	1	4	1		2	2	12
Adult	Cross border supply		2								1	3
	Consumption abroad		1									1
	Commercial presence		1	2		1		2		1	2	9
	Presence of natural per.		1			2	1			2	2	8
Other	Cross border supply		1									1
	Consumption abroad		1									1
	Commercial presence		1	2		1		2			2	8
	Presence of natural per.		1			1	1	2		2	2	9

Notes: The following categories of restrictive measures were not relevant for education services: c,i,,j,k and l.

a Tax measures
b Subsidies and grants
c Other financial measures
d Nationality requirements.
e Residency requirements
f Licensing, standards, qualifications
g Registration requirements
h Authorisation requirements
i Performance requirements
j Technology transfer requirements
k Local content, training requirements
l Ownership of property/land
m Other national treatment measure
n Market access limitation

Note:
1. Calculated by author based on documents indicated in sources.

Sources: WTO 1998, OECD/CIERI 2002.

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In recent years, the international trade in higher education services has grown rapidly in a variety of forms. The most common form of this trade, the movement of students to study in foreign universities, has been supplemented by the delivery of foreign higher education programs and institutions to transition and developing countries. In 2005, the annual exports from five leading exporters of higher education, exceeded by 10 times the annual commitments of multilateral and bilateral aid for higher education. Simultaneously, in importing countries, the annual value of higher education imports was large relative to their domestic public expenditure on higher education.

Factors propelling demand for foreign higher education services include the excess demand for domestic higher education and the need for internationally recognized qualifications in emerging regional and global markets for highly skilled labor. To help meet this demand and improve the quality of domestic institutions, several countries encourage foreign collaborations in higher education. The possible negative impact of such collaboration on under funded and inefficient domestic higher education systems is a cause of concern in many developing countries. As a result, despite the growth in international higher education trade, most developing countries have been unwilling to make binding commitments in the current round of General Agreement on Trade in Services (GATS) negotiations and in bilateral trade agreements. Nonetheless, trade in higher education is bound to increase and diversify, offering developing and low income countries with more higher education options in the expansion and strengthening of their domestic systems. The key challenges for countries are to prioritize policy objectives, choose among different options for achieving those objectives, including the judicious use of foreign provision of higher education, and align regulatory mechanisms accordingly.

The objectives of this paper are to provide policy makers in developing countries, Bank staff and others associated with higher education policy development with information on and analyses of the recent trends in international trade in higher education and to present the policy issues and options that arise from it.