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Opening Up Trade in Higher Education

A role for GATS?

J.R. Shackleton

The internationalisation of higher education

University Presidents, Vice-Chancellors and education ministers assert that higher education operates in an increasingly international market. However this type of assertion is often loose and rhetorical, part of a 'modernising' discourse relating more to the intellectual and organisational context of universities than to economic analysis. Few University Heads or ministers discuss educational globalisation in the more general context of trade in services. Rather than discuss the economic implications of growing sales of services to overseas students, academics stress opportunities for research and cultural exchange. Ministers, meanwhile, are often more concerned with boosting the skill levels of their own workforce, the need for a 'world-class' HE system to boost innovation and productivity, or social engineering issues about diversity and access.¹

Of course, these issues are not negligible. But it is instructive to think about higher education simply as an international service industry of growing importance. The quantitative contribution of HE to trade in services is now substantial, amounting currently to something in excess of 3% of total world services trade. In some countries its significance is particularly marked: "In Australia, New Zealand and the United States, educational services are respectively the third, fourth and the fifth largest export service" (Larsen *et al.*, 2002).

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¹ The recent UK White Paper on the future of higher education (Department for Education and Skills, 2003), for example, almost completely ignores international students.

Thinking in this way raises questions for those with an interest in international trade issues. For there are considerable barriers to trade in higher education, as in many other service fields. The international community has created the General Agreement on Trade in Services (GATS), part of the World Trade Organisation, in order to break down these barriers. To what extent does—or should—higher education fall under the GATS process?

Trade in services and the GATS process

Analysis of globalisation and trade liberalisation, whether favourable or unfavourable, still tends to focus on trade in goods. Thus much of the discussion of the difficulties of the World Trade Organisation's current Doha Round is concerned with topics such as the European Union's Common Agricultural Policy and US steel protectionism. Yet trade in services must not be neglected. Commercial services currently account for only around 20% of conventionally measured world trade, but exports of services have risen faster over the last decade than exports of merchandise, and commentators see greater potential in gains from liberalising services than from further liberalisation of merchandise trade.

Economic theory suggests several sources of gains from trade—and these apply to services as well as goods. They include specialisation and comparative advantage, the traditional 'static' gains from trade, and a range of 'dynamic' gains such as economies of scale and scope, learning by doing and the development of new expertise, the import of new skills and technologies, and greater competition in product and factor markets.²

In quantitative terms, potential gains from further trade in services are considerable. After all, services account for a very large share of GDP in most developed countries: in the EU, for example, around 70% on average. The European Commission has recently reasserted the need for an internal market strategy which, by cutting red tape, will significantly raise the proportion of intra-EU trade accounted for by services from its current 20% (Guerrera, 2003).³

² For a brief discussion, see Winters (2002).

³ Moreover, there is much potential in poorer economies, too: the World Bank has calculated that the expansion of service exports from developing countries could provide as much as \$6 trillion additional income to these countries by 2015, four times the estimated amount that could come from further liberalisation in manufacturing and agriculture put together.

It is easy to point to specific instances where gains are possible. There are currently huge barriers to trade in services (freight transport and insurance, for example). Typically these are non-tariff barriers. Provision of services is often a public or private monopoly in highly regulated sectors where national ownership is mandated.

The General Agreement on Trade in Services, which came into effect in 1995, is intended to extend multilateral rules and disciplines, and thus freer trade, from manufactures to the service field. As part of an initiative called GATS2000, related to the more general Doha Round, countries have tabled proposals to promote trade across broad service sectors.

The GATS process has three main elements. First, a framework of general rules, which (like those governing liberalisation of merchandise trade) cover matters such as transparency in the treatment of foreign suppliers and the ‘most-favoured-nation’ principle, a staple of international trade negotiations. Then there are annexes on specific service areas, of which 12 are distinguished.⁴ The third feature is a schedule setting out the liberalisation commitments of each WTO member.

In these schedules, each country sets out “horizontal commitments”, those applying across all sectors, in relation to each of the four trade modes⁵ which GATS distinguishes. These modes are briefly described in Table 1. Here any “limitations on market access” or “limitations on national treatment” must be shown.

Table 1: GATS trade categories

Trade mode	Title	Explanation and examples
Mode 1	“Cross-border supply”	Service provided abroad for domestic consumers: call centres for UK firms located in India
Mode 2	“Consumption Abroad”	Consumers travel abroad to consume service: tourism
Mode 3	“Commercial Presence”	Firms operating abroad: Disneyland Paris, McDonalds
Mode 4	“Presence of Natural Persons”	Workers travel abroad to work on a temporary basis: UK contract nurses providing health care in Saudi Arabia

⁴ Examples include transport, tourism, construction—and education. These are in turn broken down into a large number of subsectors. Thus educational services are split into primary, secondary, higher, adult and “other”.

⁵ The GATS process is not as yet widely understood, perhaps in part because of the jargon with which it is surrounded, and the fact that the categories it uses do not necessarily correspond to what many people think of as trade. Of the four modes shown in Table 1, for example, only the outputs of Modes 1 and 2 would show up, even conceptually, in conventional trade statistics.

For example, if a country places restrictions on foreign ownership (a Mode 3 limitation) across all sectors, this will be indicated in its schedule. For each of the 12 sectors, and for relevant sub-sectors, any more specific constraints on free trade must be spelt out for each of the modes. Each country enters into a negotiating round with as many or as few commitments to liberalisation as it wishes; the process is a voluntary one of negotiation. However, in addition to spelling out their own liberalisation commitments, member countries⁶ can propose negotiations on particular areas which they wish to open up to freer trade.

Higher education: types of service

There are abundant examples of higher education activity in all four GATS modes:

Mode 1: Cross-border supply

Distance learning and e-learning are examples of cross-border supply of HE services. Distance Learning has a long history, with the UK's University of London, for instance, offering external degrees worldwide for the best part of a century, and correspondence courses having been offered from a variety of sources for much of that time. The Open University, while primarily aimed at the UK market, has long had significant numbers of overseas students. Similarly, many professional bodies in fields such as accountancy have offered degree-equivalent qualifications for many years. In 1997, at least half a million students in developing countries were studying for UK professional qualifications alone (Bennell and Pearce, 1998).

But if the UK was a pioneer in this field, the development of the internet and satellite telecommunications in the last fifteen years has created opportunities for dramatic expansion of remote learning, and these possibilities have been taken up particularly avidly by American universities. One estimate (Hira, 2003) suggests that 710,000 students were enrolled on distance learning courses in American Universities in 1998, and that this was predicted to rise to well over 2 million by today. In addition, large numbers of 'corporate universities' such as those of McDonalds and

⁶ The European Union negotiates as a group.

Motorola are offering high-level training via the internet: 40% of Fortune 500 companies had such programmes by 2000 (*ibid.*). Only a fraction of these students, however, would have been cross-border.

It is possible that these developments have been over-hyped: few universities have created an obviously profitable business model for e-learning, and even some highly experienced organisations have burnt their fingers trying to enter new markets abroad. There are issues about perceived quality of offerings, and about ownership of intellectual property, which have not been fully resolved. Moreover, students generally seem to prefer interaction with fellow students and academic staff in real, rather than virtual, classrooms where this is possible and affordable.

So 'pure' distance and e-learning are likely to continue to be niche activities, but these technologies can be valuable supplements to mainstream higher education. To the extent that they are, and are likely to be increasingly, internationalised—with teachers in China using US material, for example—they clearly raise potential trade issues under GATS.

Mode 2: Consumption abroad

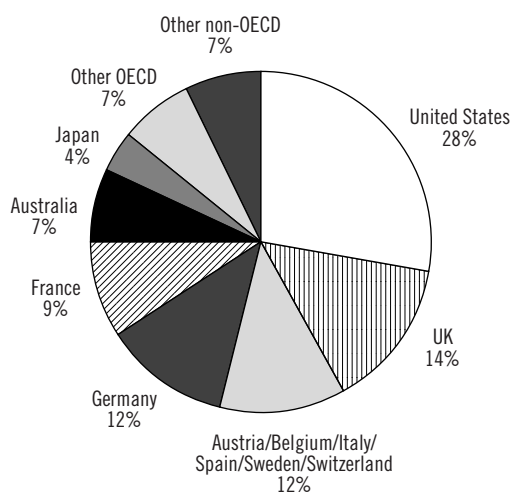
The most obvious part of trade in HE services is that made up of students moving to another country to study. Defining a 'foreign student' is not easy (OECD, 2001). Some countries classify students by citizenship, others by residence on application. Thus a daughter of Turkish family origin born in Germany may be classified as foreign, while the son of an Arab diplomat temporarily based in London may not be.

Best estimates suggest that there were around 1.8 million students travelling abroad for their tertiary education in OECD countries in 2000, and this number is expected to rise rapidly in future, with one Australian forecast suggesting a figure of 7.2 million by 2025.⁷

This is associated with substantial export earnings for key HE providers. It has been calculated that the average foreign student in seven countries for which data are available spends over \$20,000 per year on fees and living expenses in the host country. This implies that the value of the overall market in Mode 2 trade in educational services⁸ in the OECD in 1999 was around \$30 billion, or some 3% of total trade in services (Larsen *et al.*, 2002). For some exporting countries, HE's importance is much

⁷ Reported in Saville (2003).

⁸ Fees and living expenses.

Figure 1: Country share of total foreign students, 2001

Source: OECD, 2003

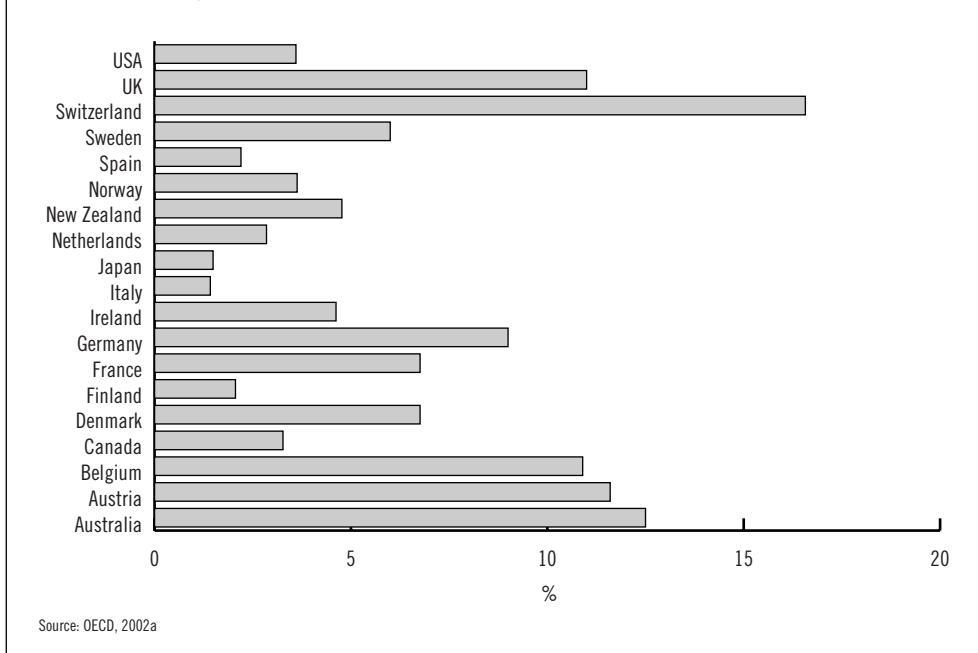
greater—in Australia, for example, educational services account for around 12% of the country's service exports.

Figures 1–3 and Table 2 show how the student body in many countries is now significantly international. Figure 1 shows that the United States is the leading destination for foreign students, with 28% of the total market in 2001.⁹ This reflects the disproportionate size of the American HE sector, and may give a slightly misleading picture. For despite the huge numbers of foreign students in American universities, they remain a relatively small minority of the total US student body—less than 4%, as Figure 2 demonstrates. Except for a limited number of well-known American universities, it would be wrong to class the American higher education system as a whole as one which is strongly international in flavour.

Indeed, Figure 2 gives a rather different perspective on internationalisation. Leaving aside anomalies such as Switzerland, Belgium, and Austria—small countries where special factors apply—the most 'internationalised' HE sectors are to be found in the UK and Australia. Universities in these countries expanded international recruitment

⁹ Though this proportion has been falling as other countries have expanded their international student numbers faster.

Figure 2: Proportion of students enrolled in tertiary education who are citizens of another country (2000)



dramatically over the 1990s. In the UK, there were around 70,000 foreign students in higher education at the end of the 1980s, but there are 250,000 today.

Looking at the international student body from another angle, Table 2 indicates the leading ‘importers’ of higher education services (i.e. those countries sending large numbers of students abroad). China leads the list, primarily because of the sheer size of its population. However, only a very small proportion of its students go abroad, as Figure 3 demonstrates. Figure 3 also shows that the two leading exporters of higher education services, the USA and the UK, send relatively few students abroad themselves. There therefore appears to be a clear international specialisation between countries rather than balanced flows of students in both directions.

Larsen *et al.* (2002) use data on imports and exports of educational services to calculate an indicator¹⁰ of countries’ ‘revealed comparative

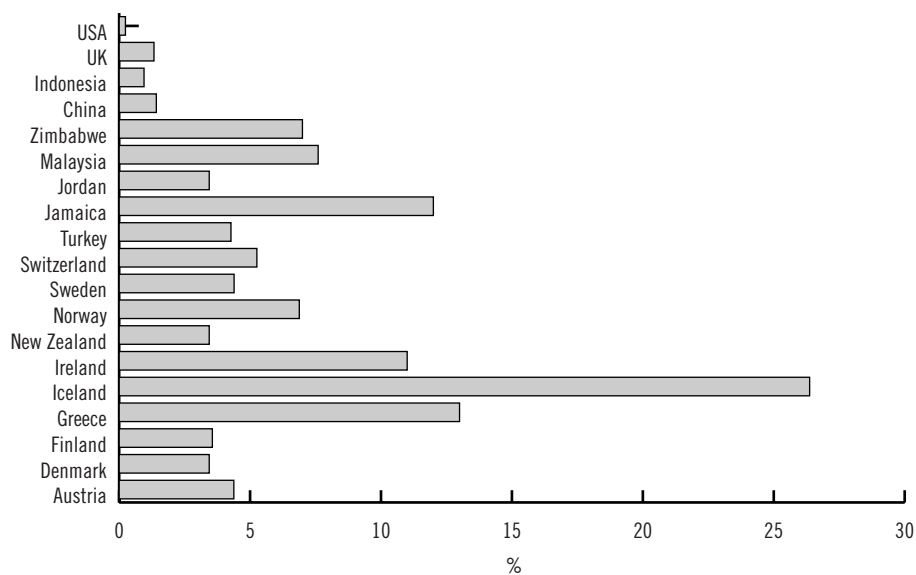
¹⁰ This is defined as exports (payments made by students studying in a host country) minus imports, expressed as a percentage of total services trade (Larsen *et al.*, 2002, p. 10).

Table 2: Number of tertiary foreign students in OECD countries—the top ten sending countries 1999

Rank	Country	No. of students sent to OECD countries	Share of total tertiary students abroad within the OECD area (%)
1	China	98,813	7
2	Korea	69,840	5
3	Japan	63,340	4
4	Greece	57,825	4
5	Germany	52,239	4
6	France	48,764	3
7	India	48,515	3
8	Turkey	44,009	3
9	Malaysia	40,873	3
10	Italy	39,487	3

Source: OECD, 2002b

Figure 3: Percentage of a country's students who are studying abroad (2000)



Source: OECD, 2002

advantage” in trading educational services. On this indicator, Australia appears to be the world’s most competitive exporter of educational services, with New Zealand second (although a minor player in absolute terms), the UK third and the USA fourth.

What explains the attractiveness of a country to international students? Students travelling abroad incur considerable costs, and they are likely to be among the most career-oriented of learners. They tend to be more heavily concentrated in business subjects, science, technology and computing than domestic students. They are likely to show some sophistication in their destination choices. The OECD (2001) suggests that the factors determining patterns of student mobility are the attraction of particular centres of expertise, cultural and linguistic factors, and specific institutional factors.

Taking these in turn, it is pointed out that many types of research involve critical masses of staff with expertise in a particular discipline or sub-discipline, and that there are economies of scale associated with expensive equipment in science and technology fields.¹¹ Thus first-movers in the United States or European countries establish a strong position which attracts students from all over the world. Small countries like Iceland or Jamaica which, as Figure 3 shows, send large proportions of students abroad, are unable to compete in these areas. Relatedly, Kim (1998) has shown that students from less-developed countries are attracted to countries where technology is developing rapidly. His work also suggests that, fears of a ‘brain drain’ notwithstanding, such countries make long-run gains in increased growth rates from students travelling abroad and returning in sufficient numbers, or repatriating funds, to boost the economy.

Cultural, and particularly linguistic, factors also play a strongly attractive role. The USA, the UK and Australia have a strong selling point in the English language—the most common medium in international commerce—and in their openness, ethnic diversity and relatively high living standards. However, other languages and cultural affiliations can also give an advantage. France’s top two sources of overseas students are Morocco and Algeria; Japan recruits heavily from Korea, and Austria has large numbers of students from Germany (OECD, 2001).

¹¹ Well over a third of all foreign students are in science, engineering, and technology.

The OECD also points to such institutional factors as openness to longer-term immigration and the existence of international exchange agreements between universities as influencing student destinations.

These factors are clearly relevant, but more detailed analysis of particular disciplines suggests other possible determinants of student flows. Research on medical students (Bourke, 2000), for example, suggests that constraints on the proportion of places offered to overseas students may be important in this case, as are recognition and accreditation issues, the reputation of a country and an institution, and information flows.

Potential students' knowledge in this market is increasing all the time, but it is inevitably imperfect. Word of mouth plays an important role, and this again means that there is first-mover advantage. Those higher education institutions, and countries, which are initially active in recruiting students reap continuing benefits as successful students' relatives and acquaintances seek to replicate their experience.

In the case of the two countries where international student numbers have grown most rapidly—the UK and Australia—their initial efforts occurred in the late 1980s and early 1990s as a result of financial pressures which had reduced their per capita resourcing for domestic students. Foreign students, once seen as objects of charity and heavily subsidised, were now viewed as a valuable market to be exploited. In the UK, too, the removal of the polytechnics (now the “new” or “modern” universities) from local government control released a considerable entrepreneurial potential and an appetite for new funding opportunities.

Mode 3: Commercial presence

There has also been the emergence of significant Mode 3 trade—overseas operations—through franchises, joint ventures and university branch operations. These operations offer syllabuses and qualifications similar to those offered in home countries to a market which cannot afford, or does not wish to pursue, study abroad. This market has expanded rapidly in recent years, encouraged in some cases by governments, like those of Hong Kong and mainland China, where supply of domestic university places has lagged behind a dramatic expansion of demand for higher education.

Institutions from three countries—the USA, the UK, and Australia—currently dominate the field, though other countries have also made some tentative moves in this direction. American universities most commonly

operate through directly-owned operations abroad. For example, the University of Maryland currently offers programmes in at least 20 countries (Hira, 2003). Although local staff will usually provide the bulk of the teaching, management is directly in the hands of the parent institution.

Australian and British universities, however, make relatively greater use of franchised programmes offered in partnership with local suppliers—public or private operations in the host country. The degree of collaboration can vary from an arms-length operation with minimum franchisor involvement, to a genuine joint programme with reciprocal exchange of staff and students.

Such operations rose dramatically in number in the 1990s. A 1997 survey (Bennell and Pearce, 1998) found at least 100,000 students enrolled on UK-validated programmes, and the authors thought that the true figure was more likely to be 135,000–140,000; it is probably in the region of 200,000 today. A survey conducted in Australia at the same time suggested that there were around 22,000 students on Australian validated courses offered overseas—a later estimate suggested 32,000 such students by May 1999.¹² It appears from the 1997 data that over 90% of these students were in just three countries—Hong Kong, Malaysia, and Singapore. Looking at this from the perspective of the countries involved, study on Australian validated programmes is now a very significant alternative to study abroad; in Hong Kong and Singapore there are more students now studying for Australian degrees at home than travel to Australia to study. UK universities also have a strong presence in South East Asia, but are rather more diversified worldwide than their Australian counterparts, with considerable involvement in China, India, the Middle East, and Eastern Europe.

About 75% of the UK universities responding to the 1997 survey were currently validating programmes overseas. Two interesting facts emerged.

First, ‘new’ universities—the former polytechnics—were much more active in this area than the old universities, accounting for about 65% of all enrolments. One advantage which UK (and Australian) institutions might be thought to possess over comparable institutions in the USA, for instance, is a national system of quality assurance which means that newer institutions do not depend solely on their own ‘brands’ but can point to external supervision and monitoring as a significant guarantee of standards.

¹² Larsen *et al.* (2002).

Second, there is a significant degree of concentration occurring in this field. In the UK sample, while 40% of institutions were small players, with less than 100 overseas enrolments, 6% had enrolments exceeding 5,000 in 1997. Clearly, there appears to be a strong market niche for some institutions.

Mode 4: Presence of natural persons

Historically, universities have encouraged mobility of staff between countries as a means of spreading and sharing knowledge. Apart from very short-term arrangements such as those facilitated by the European ERASMUS scheme,¹³ however, this is not easy. Work permits or restrictive entry qualifications and recruitment procedures mean that mobility is much easier for those at the top of the profession—internationally renowned professors or top university managers—than for more junior members of staff. In some countries there are nationality requirements for university posts. There may also be unusual qualifications requirements, such as the German *habilitation*, which can deter overseas applicants for posts.

Most countries have a proportion of their higher education staff drawn from other countries. But there are considerable differences between countries. One study finds that over 18% of junior staff in UK higher education have non-UK nationalities, while a comparable figure for Germany is less than half that. Its authors argue that having a large influx of non-native staff may be one reason for the UK's relatively high research productivity in terms of publications and research citations.¹⁴

Barriers to trade in higher education services

Despite the growth in numbers of foreign students and the entrepreneurial activity of higher education institutions, there remain significant barriers to free trade in higher education services. These barriers distort provision, create inefficiencies and cut consumers off from the benefits of wider choices.

For example, many countries subsidise their own students. But students are usually only given access to subsidies if studying in their own

¹³ In 1999–2000 just over 12,000 European academics spent some time in other European countries as a result of this scheme.

¹⁴ Kramer and Shackleton (2001).

country, at one of a limited range of (usually public sector) providers. There are exceptions: domestic students in Norway and Denmark are allowed to spend grants and loans in overseas educational institutions. Hong Kong and China are also examples of countries where governments support students abroad. Moreover, European Union students can move to another member country and receive subsidies on the same terms as the host country's students. However, a UK undergraduate, for example, cannot take the element of subsidy he or she would receive in the UK as a contribution to fees for a degree programme in the USA or Australia.

Fee subsidies in the UK are paid by the Higher Education Funding Councils to recognised UK higher education institutions. There are many private, usually American, higher education operations in the UK which do not receive these funds although they provide perfectly respectable courses.¹⁵ Recognition of universities and their qualifications is a state monopoly in almost every country and this is arguably sometimes a real barrier to labour market competition.

Japan has highly restrictive accreditation requirements, and does not recognise Japanese-based affiliates of American Universities, denying their graduates access to government and jobs in major corporations (US International Trade Commission, 1995). Greece and India recently created controversy by refusing to recognise some university qualifications obtained abroad. Indonesia places considerable limitations on overseas institutions operating in its territory, and Turkey allows foreign HE providers only to teach non-Turkish students (Hira, 2003).

Restrictions of this kind are occasionally lacking in transparency: some providers are allowed market access while others are denied as a result of special favours. There are also believed to be informal fee cartels limiting competition in some areas of HE, for example medical education (Bourke, 2000).

As indicated, there are restrictions on recruitment of foreign academic staff, often going beyond general restrictions on international labour mobility because of particular qualification requirements. There are also frequently constraints on foreign ownership of HE institutions—Australian universities have found that their affiliates in Korea must have

¹⁵ There is one exception. UK and other EU students at the University of Buckingham can obtain a non-means-tested grant of around £2,500 a year towards their fees.

a board with at least half Korean membership—which again limits entry into markets.

Where governments are, as in many countries, major providers of funding for higher education, they frequently exert considerable control over syllabus content, the governance of universities and pay and conditions of academic staff. At best such intervention may discourage innovation and entrepreneurship, and perpetuate a ‘public sector mentality’. Students in many countries are still treated as dependants and given little status or contact with their teachers. Academic years reflect traditional timetables which have little to do with modern consumer preferences, and many courses are too long (especially for those students who are in part-time employment). Virtual government monopoly in some countries may also have much more sinister effects, with, for example, political control of appointments, explicit or implicit quotas for particular ethnic groups, restrictions on HE opportunities for women, and corruption in admissions and the awarding of degrees.¹⁶

Regulation, restriction of choice, subsidies and other barriers to trade found in any other services field might be taken as *prima facie* evidence of potential gains from freer trade and market liberalisation, which the GATS process is intended to assist. Opponents of change might then be seen in some lights, by economists at least, as self-interested protectionists.

Should GATS apply, or is higher education different?

Widespread support for market liberalisation does not seem to be the case when it comes to higher education. There has been wide-ranging and apparently high-minded opposition, particularly in Europe and North America, to putting liberalisation of trade in HE services on the GATS agenda. This opposition comes from university representative groups, student groups, trade unions and governments.

¹⁶ Even in a country like the UK, where traditionally universities possessed significant autonomy and where there was considerable diversity in institutional structure, regulation has increased considerably. For example, subject “benchmarks” increasingly determine what can be taught, and government priorities dictate both a contentious “skills agenda” and increasing influence over admissions policy (Department for Education and Skills, 2003). The Government has also gradually increased its control over the governance and accountability of institutions, and has recently threatened the universities of Oxford and Cambridge with further restrictions on their freedom unless they undertake managerial and institutional reform on government-approved lines.

Opposition

Fear has been expressed that academic quality, individual teaching styles and distinct national cultures might be undermined. For example, Kelk and Worth point out that the GATS process requires mechanisms regulating trade in services on grounds of maintaining quality to be transparent while the quality assurance process needs to be such as to keep trade restrictions to a minimum. They claim that this will tend to:

reinforce a trend towards 'atomised' notions of quality, where quality assessment criteria become narrower and more prescriptive... This process... threatens to reduce HE to a series of minimalist, disconnected components... [institutions] look to replicate repeatedly the same core set of teaching materials... [this means] the loss of the right to exercise judgment as knowledge dissemination becomes more of an assembly-line process. (Kelk and Worth, 2002, p. 67)

Predictably, unions fear the influx of foreign competitors into previously protected domestic markets, and increased competition from foreign academics who might work more cheaply. The union position can be summed up in a press release from the UK's Association of University Teachers on a European-wide "GATS Day of Action" in March 2003:

If HE is included under the GATS framework, our members can expect detrimental effects in public funding, casualisation, professional autonomy, quality, academic freedom, intellectual property rights and student access.

Even more forceful sentiments have been expressed in North America, where those in favour of liberalisation of trade in HE have been denounced as "unelected, unaccountable corporate goons" (Fraser and O'Sullivan, 1999).

The role of the state

A calmer reflection might start from first principles. Government intervention in higher education has been justified by economists on a number of grounds (critically reviewed in Tooley, 1997). These include the existence of externalities (benefits to society as a whole which are not fully reflected in the benefits accruing to individual students); knowledge imperfections which prevent potential students from being fully aware of the returns to higher education or being able to distinguish accurately

between providers; and equity grounds (some potential students do not have access to adequate funding).

Opinions about the validity of these rationalisations differ, and it can be pointed out that some of them apply rather less today than they did in the past: knowledge about higher education, for instance, is now much more widely available, while rising living standards have made higher education accessible to a wider proportion of the population. Recent changes in policy—for example, the introduction of fees in Australia and the UK—have opened up debate about how far, and in what way, the state really needs to be involved in higher education.

Defenders of close and continuous state involvement in higher education worry that the GATS process might threaten the current level of government subsidies, or require these subsidies also to be available to other, non-domestic, providers. GATS might also bring into question the widespread practice of cross-subsidisation of unpopular or expensive courses, and thus lead to closure of economically marginal subjects which nevertheless are held to possess some wider social value.

These concerns, as we shall see shortly, are somewhat alarmist, as governments under GATS retain the power to determine subsidies for clear social purposes—although they might benefit from thinking through more carefully exactly what function these subsidies are meant to serve.

There is, in fact, a genuine issue of whether universities should be treated, for the purpose of the GATS process, in just the same way as commercial for-profit companies.

The public-private boundary

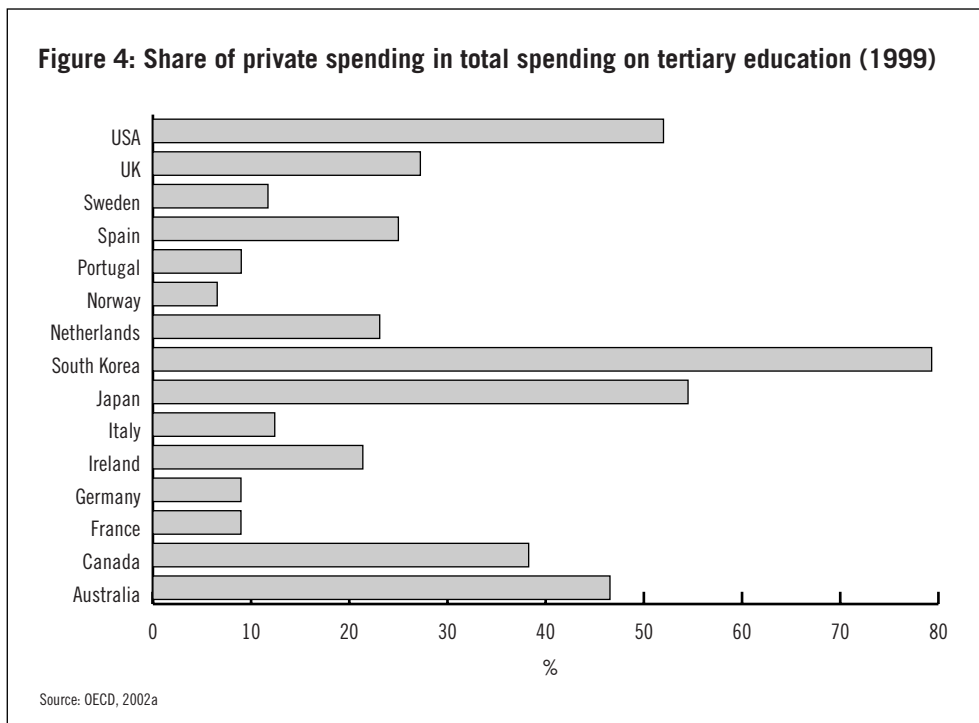
One argument for excluding higher education from the GATS process invokes what is called the “carve-out”, written into Article 1.3 of the GATS. This excludes “services supplied in the exercise of governmental authority”. By this was meant services not supplied on a commercial basis or in competition with other suppliers:

GATS negotiators understood this to cover ‘public services’ broadly (if somewhat loosely) defined, including public health and education services. But public/private frontiers are inherently murky, vary significantly across countries and sectors, and are subject to change...Governments have to date chosen not to clarify the scope of the GATS public services carve-out. (Sauvé, 2002, p. 3)

But this is the problem. Nobody is suggesting that the GATS covers, for example, the services of the police or the army, universally paid for out of taxation and not subject to competition. However, higher education is different: it is now very much a mixed economy.

In a number of countries, private spending on tertiary education is the dominant element of expenditure. In South Korea, Japan, and the United States private spending on tuition fees exceeds government spending. In Australia the proportion is approaching 50%, while in the UK over a quarter of expenditure on HE now comes from private sources: proposals to introduce “top-up” fees (Department for Education and Skills, 2003) will increase this proportion over time. Continental European university systems such as those of France, Germany, and Italy, where private spending is only around 10% of total HE spending, are rather different. But even here, things are changing: there have been moves in Germany and Italy to increase the share of costs borne by students.

Figure 4 shows the share of private spending on tertiary education in a range of countries, but note that it only covers teaching. Many universities



also have sizeable incomes from private research funding bodies, consultancy, provision of training services, rent of facilities, spin-off companies, publishing, exploitation of intellectual property and so forth. In the UK, for example, some institutions have only a small proportion of their total income directly from government: London Business School 9%, the London School of Economics 19%, Surrey University 25%.

Pressures to increase private funding are making universities more sensitive to the interests of their clients, whether students, their employers or other businesses. They are competing much more obviously in terms of marketing, targeted recruitment, course content and structure and price; they are adopting managerial structures rather than traditional collegiate forms, more ruthlessness in closing expensive and less prestigious parts of their operations, and greater willingness to seek mergers.¹⁷

Critics claim that universities are 'not-for-profit' organisations and should therefore be excluded from GATS coverage for that reason alone. However, this does not seem a sufficient reason if universities are behaving very much like profit-maximisers in some of their activities, or using privately generated funds to cross-subsidise teaching in others. They are certainly subject to domestic competition law, as the UK Education Secretary has pointed out to universities which might be considering acting together to determine 'top-up' fees.

There is anyway a blurring of the private-for-profit and public-not-for-profit boundary as universities sign up with corporations to deliver services to corporate universities¹⁸ or to provide company-specific MBAs. Nor are these innovations confined to the market leaders: James Tooley (2001) points to numerous examples of private sector developments in the higher education sector of developing countries.

Higher education institutions are therefore nowadays selling at least some services on a commercial basis, in competition with other suppliers, and seem thus to fall clearly within the scope of GATS.

¹⁷ For example, the recent merger in the UK between the University of Manchester and UMIST, and the creation of London Metropolitan University from London Guildhall and North London. Arguably further mergers are needed in the UK, where many universities are very small and costly to run by comparison with their international competitors.

¹⁸ See Taylor and Paton (2002) for discussion.

GATS so far

To reiterate the point made earlier, GATS is a *voluntary* process. Countries do not have to make any commitments at all:

none of the existing provisions of GATS or the commitments made by individual countries compel WTO member countries to liberalize any sector that they wish to protect or leave outside the trade policy framework. (Sauvé, 2002, p. 11)

HE proposals

Despite—or perhaps because of—the concerns of opponents, GATS seems so far to have been something of a damp squib in relation to higher education. Less than a third of WTO members have made any commitments at all in relation to the sector, and most of these apply to relatively uncontroversial issues such as freedom for students to move between countries (Mode 2—consumption abroad).

Only four members—the United States, Australia, New Zealand, and Japan—have made negotiating proposals. And these are certainly very modest in form. Those from the USA are concentrated on removing restrictions on offering HE services via electronic means and on setting up accredited teaching facilities in other countries. The Australian proposal stresses the need for all countries to allow students access to the best services. New Zealand wants to broaden the scope of higher education to recognise the role of non-traditional providers and of student recruitment agencies, while Japan seeks greater clarity on the equivalence of different countries' degrees. All four proposers make it clear that they do not wish in this negotiating round to question a government's right to regulate to meet domestic policy objectives or to provide subsidies to higher education—let alone, as the US communication puts it, to “seek to displace public education systems”.

The European Commission, which negotiates within the GATS process for the European Union as a whole, has ruled out any commitments to liberalising higher education in the current round of negotiations, even though ten out of nineteen members or members-elect requested that commitments on HE be included in the package of EU proposals.

The Bologna Declaration: a substitute for GATS?

European governments seem much happier with a regional approach to the internationalisation of higher education. The Bologna Declaration of 1999 brought together Ministers of Education from a large number of European countries, by no means exclusively from the EU, to initiate a process leading to a “European area of higher education”, a “common social and cultural space”. But is Bologna an adequate substitute for GATS?

This high-sounding declaration seeks to develop a common framework of qualifications, a credit transfer scheme, freer movement of staff and students, and perhaps a common quality assurance methodology. The context is one of promoting European values, which may have seemed to be under threat, but there is a significant economic element to this:

We must in particular look at the objective of increasing the international competitiveness of the European system of higher education...we need to ensure that the European higher education system acquires a world-wide degree of attraction.

Reading this in the context of the GATS debate, it is possible to see the Bologna Declaration as the equivalent of creating a regional free trade area. While it is at first glance difficult to disagree with the fine sentiments expressed—and officially the Bologna signatories support building links with other parts of the world—there is the danger that measures to serve particular interests within Europe could erect further protective barriers to trade with the wider world.

For example, subsidies to student movement within Europe have a tendency to create what economists call ‘trade diversion’—Estonians who might have gone to the United States or Canada go to Ireland instead. If America and Canada retaliate by subsidising movement within North America and thus deter students from going to European countries, it is by no means clear that this is a sensible way forward. Thoughtful politicians are nowadays well aware of the problems created by regional trade blocs, which are very difficult to dissolve once established. It seems inadvisable to create or reinforce such blocs in higher education.

Freer trade means specialisation and returns to comparative advantage; if the USA, Australia and the UK offer a more attractive environment for study than elsewhere, it is not clear why governments should be

encouraged to take measures to divert students to France, Italy, or Germany. In this sense, Bologna is not a substitute for the GATS process but its antithesis.

Conclusions

Higher education involves students in large financial commitments undertaken primarily in order to improve job prospects. It is important that students, like purchasers of other goods and services, are given an appropriate range of choice, some assurance of quality and a fair and transparent pricing system.

Despite the growth in student mobility and the spread of other forms of internationalisation, there remain significant barriers to free trade in higher education services. Governments everywhere have very considerable, and often excessive, control over the provision and regulation of higher education.

Within the general trend to trade liberalisation, higher education should not be excluded. The GATS framework, intended to liberalise trade in services, has so far proved to have had little impact in HE as governments have been unwilling—probably as a result of pressure from interested providers, rather than from customers or voters—to use it to promote greater competition.

But the pressure to liberalise the HE sector is likely to grow as the numbers in universities (both nationally and internationally) continue to increase, traditional methods of teaching and learning are shaken up, and the share of government funding in HE continues to fall. Regional ‘solutions’ like the Bologna Declaration are inadequate, if not positively harmful.

Thinking about HE only from the perspective of one country or groups of countries perpetuates the belief that governments know best about the higher education to which their citizens aspire. Today’s students are no longer a small, highly subsidised elite with similar tastes and attitudes to those of their parents’ generation. They operate in an expanding and changing world market for jobs and services. They recognise that they are paying, directly or indirectly, for their time at University and will increasingly insist on being able to access the best quality of education, just as they will want the best cars, the best computers, the best food and the best health care.

GATS is therefore likely to be of increasing salience in a world where the provision of HE is a mixed economy and where even traditionally ‘not-for-profit’ educational providers are increasingly driven by commercial imperatives. There needs to be more willingness to question the purpose and methods of government regulation, greater competition and freer entry for HE providers, more transparency about subsidies and preferential treatment between countries. If governments need to grasp this, Universities and their staff should also embrace the future, rather than fear it. Both their own long-run interests and the general welfare are likely to be better served if they do so.

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