

AUSTRALIA'S EXPORTS OF EDUCATION SERVICES¹

Introduction

Australia's education services exports have continued to grow in importance this decade. Since 1982, education services exports have grown at an average annual rate of around 14 per cent in volume terms, with their share in the value of total exports increasing from less than 1 per cent to almost 6 per cent in 2007. They have now displaced leisure travel services as Australia's largest service export. Indeed, education exports are now Australia's third largest export, behind only coal and iron ore.

This article examines the growth of education services exports in recent decades, the importance of Asia as a market for education exports and prospects for future growth.

Type and Composition of Education Exports

Exports of education services can be delivered either offshore (by the internet, correspondence or Australian professionals travelling overseas) or onshore (by foreign students entering Australia for the purpose of study). As shown in Table 1, around 97 per cent of the \$12.6 billion of education services exported in 2007 was delivered onshore through foreign students studying in Australia. This article focuses on this latter group.

Table 1: Australia's Education Exports^(a)

Category	2007 \$ million
<i>Travel services</i>	
Education-related (onshore)	12 196
<i>Personal, cultural & recreational services</i>	
Education services (offshore)	363
Total education services exports	12 559
Share of services exports (per cent)	26.1
Share of total exports (per cent)	5.8
(a) Current prices Source: ABS	

These services not only include tuition fees, but also the living expenses of foreign students while studying in Australia. In 2007, tuition fees accounted for 39 per cent of overseas student expenditure in Australia, with the balance representing spending by foreign students on goods and services, such as food, accommodation, transport and entertainment.

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Contribution of Education Services to Australian Exports

The contribution of education services exports to Australia’s export growth has risen markedly over recent decades, assisted in large part by the Australian Government’s decision to allow educational institutions to offer places to full fee-paying overseas students from 1986. Since 1982, education services exports have grown at an average annual rate of 14 per cent per annum in volume terms, compared with growth of around 6 per cent both in total services and in total exports over this period (Graph 1).

Over this period, education exports have increased markedly as a share of Australia’s total services exports, rising from less than 4 per cent in 1982 to 25 per cent in 2007, when education services displaced ‘other personal travel’ – a sub-category that captures travel services provided to leisure tourists – to become Australia’s largest service export. Education services exports now rank as one of Australia’s major exports behind coal and iron ore (Table 2).²

Composition of Australia’s Education Exports

There are significant differences in the export contribution of Australia’s various education sectors. The industry can be classified into five

sectors: higher education, English Language Intensive Courses for Overseas Students (ELICOS), Vocational Education and Training (VET), schools, and other awards sectors.³ Higher education has grown most and makes the largest contribution to exports of education services. It represented

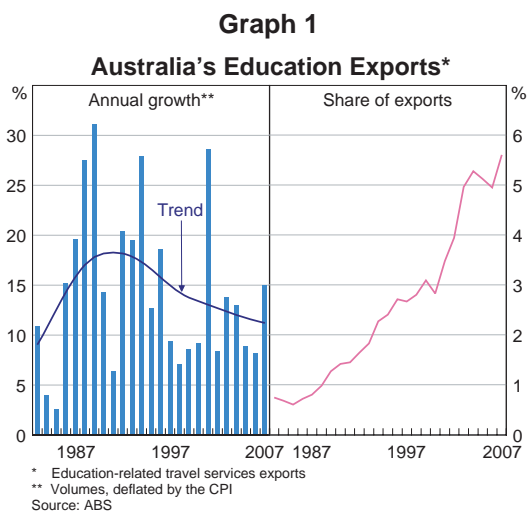


Table 2: Australia’s Major Exports
As a percentage share of total exports, 2007^(a)

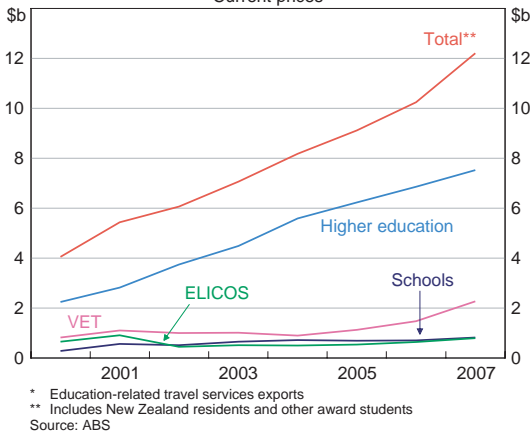
	Share
Coal	9.5
Iron ore	7.5
Education exports ^(b)	5.6
Other personal travel	5.4
Gold, non-monetary	5.2

(a) Current prices
(b) Education-related travel services exports
Source: ABS

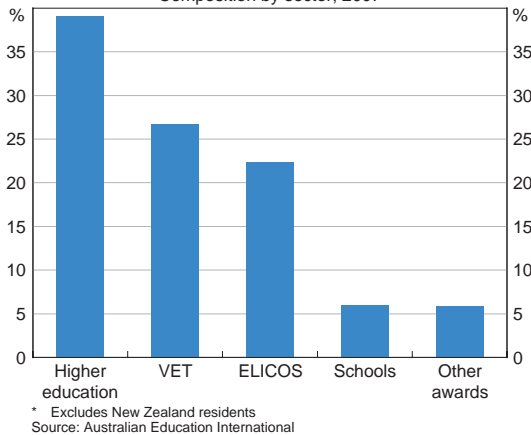
² To determine these rankings, we combine merchandise export data – at the 3-digit SITC level – with services export data at the balance of payments sub-category level of aggregation. Rankings may vary with the level of aggregation chosen.

³ The other awards sector includes bridging courses and studies that do not lead to formal qualifications. These sectors are not mutually exclusive, which means aggregate overseas enrolments can exceed overseas student numbers. For example, it is common for overseas students to undertake English language and higher education courses concurrently.

Graph 2
Australia's Education Exports*
 Current prices



Graph 3
Overseas Student Enrolments in Australia*
 Composition by sector, 2007



around 60 per cent of the value of education services exports in 2007 (Graph 2). This large share reflects both the number and average expenditure of foreign students enrolled in Australian university courses (Graph 3).

Drivers of Growth in Australia's Education Exports

There are several factors that have underpinned the rapid growth in the education exports sector over the past 25 years. In particular, the growth reflects both changes in the global economy and structural changes in Australia's education sector, including changes in government policy.

Until the mid 1980s Australia's involvement in providing education services to non-residents was directed by the Australian Government's foreign aid program. Nearly all overseas students studying in Australia over this period were either fully or partly subsidised by the Australian Government, with the number of overseas students capped by an annual quota. Following

reviews into Australia's approach to the education of overseas students, including the 1984 Jackson Report, a new policy was released in 1985.⁴ This policy introduced a number of measures, such as allowing universities and other educational institutions to offer places to full fee-paying overseas students, which encouraged the development of Australia's education exports sector. There were also changes in overseas student visa procedures aimed at helping educational institutions market their courses internationally. As a result of these changes, overseas student numbers increased significantly, and there has been a rise in the proportion of university funding sourced from fee-paying overseas students (Graph 4).

These changes in Australia's education policy occurred at a time when the Asian economies were experiencing rapid economic development, resulting in a significant increase in demand for

⁴ For more information, see *Industry Commission (1991), Exports of Education Services, Report No 12, Australian Government Publishing Service, Canberra.*

university education. This demand for education services from Asia has been reflected in increased use of educational institutions in developed economies, particularly in the higher education sector. Most economies with an established education system have experienced strong growth in overseas student numbers from Asia. However, Asia has been responsible for a much larger share of growth in overseas student numbers in Australia than in comparable developed countries. This is likely to reflect Australia's proximity and close trading relationship with the Asian region, combined with course offerings in English which are likely to be particularly attractive to overseas students. Price-competitive tuition fees also may have assisted Australian institutions in capturing a large share of the market, although the appreciation of the exchange rate since 2003 has worked in the opposite direction more recently. Reflecting these factors, in 2005, Australia ranked as the fifth largest recipient of overseas higher education students among OECD countries and the third largest English-speaking destination for overseas students behind the United States and the United Kingdom (Table 3).

While there was a concerted push by Australian educational institutions to diversify foreign student enrolments following the Asian financial crisis, Australia's education exports remain highly dependent on Asia, with nearly 80 per cent of Australia's overseas students coming from Asia. However, there has been a shift in the composition of Australia's education exports by market from within Asia. A decade ago countries such as Indonesia, Malaysia and South Korea were among the most significant sources of students. More recently, China and India have displaced these countries as Australia's most important export markets for education services

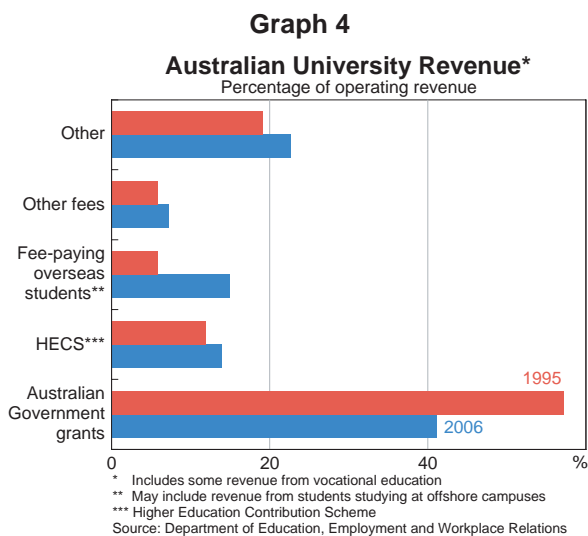


Table 3: Overseas Student Numbers
Higher education

Country	Number 2005 (’000s)	Average annual growth 2000–2005 (Per cent)
United States	590	4
United Kingdom	318	7
Germany ^(a)	260	7
France	237	12
Australia	177	11

(a) Excludes advanced research programs
 Source: OECD

Graph 5
Australia's Education Exports*
 Current prices

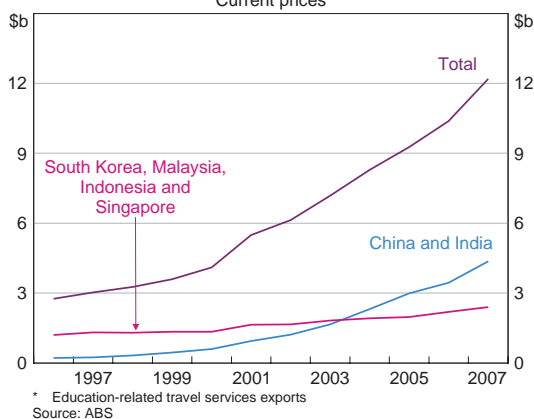


Table 4: Australia's Education Exports
 Percentage share of total; top 10 markets in 2007

	1997	2007
China	3.2	22.5
India	4.8	13.3
South Korea	11.2	7.9
Malaysia	12.2	5.5
Hong Kong	6.2	4.7
Thailand	5.3	4.1
Indonesia	13.4	4.0
Japan	7.5	2.9
Vietnam	2.2	2.4
Singapore	6.6	2.2

Source: ABS

(Graph 5). This has coincided with an acceleration in GDP and income growth in these countries, which has significantly increased demand for higher education in these large-population countries. For instance, the number of Chinese enrolments in Australia has more than doubled over the past five years while Indian enrolments have increased more than five-fold (albeit from a relatively low base). For both countries more than 40 per cent of enrolments in Australia are in the higher education sector. As a result, China and India's combined share of Australia's education exports has risen from less than one-tenth in 1997 to more than one-third in 2007 (Table 4).

Prospects for Future Growth

Growth in education exports has remained very strong so far this decade, with annual growth averaging 13 per cent over the decade to date, which is comparable with average annual growth recorded over the past 25 years. However, a number of factors suggest growth may slow in

the period ahead. These include greater competition from within the Asian region, the shift to offshore provision of education services by Australian universities, the higher Australian dollar, and limits on the capacity of Australia's higher education sector to accommodate further growth in overseas students.

Increases in the quality and capacity of educational institutions within Asia are also likely to temper demand for education imports over time. Some Asian countries, including Singapore, Malaysia and China, have recently introduced explicit 'import-substitution' policies, with the aim of becoming net exporters of education services. Increased public investment in universities, encouraging foreign universities to establish branch campuses and relaxing work restrictions on overseas students are some of the policies being used in these Asian countries to attract overseas students and keep domestic students at home. There are some signs that these policies

are already restraining growth in overseas enrolments in other established education exporters, such as the United States and the United Kingdom.⁵

Some Australian universities have established offshore campuses in Asia in recognition of the drive by Asian governments to increase their domestic higher education capacity, and, in 2006, around one-quarter of overseas students enrolled in Australian higher education institutions were studying at an offshore campus of an Australian university.⁶ However, although any profits will be included in the balance of payments, the services provided by these offshore campuses are not considered to be Australian exports, because the service is provided by an institution that is not resident in Australia to a student that is also a non-resident. Accordingly, the shift by Australian universities to the offshore provision of education services has the potential to erode Australia's education exports. However, this effect may be offset to the extent that these campuses attract overseas students to Australia, as offshore campuses are often used as a pathway for these students to complete their studies in Australia.

Conclusion

Education exports have sustained a strong pace of growth over an extended period and ranked as Australia's largest services export in 2007. This growth has been supported by demand for higher education services from Asia and the greater export orientation of Australian universities. In particular, not only has rapid growth in China and India been reflected in demand for Australian mineral resources, it has also supported a marked increase in Australia's education exports since the start of the decade. However, Asian countries have been investing in domestic education capacity and there are signs Australian universities may not be able to accommodate further significant increases in overseas student numbers. Although these factors are likely to result in a slowing in growth in Australia's education exports in the medium term, education exports are expected to outpace aggregate export growth such that their share in Australia's exports is likely to continue to increase over coming years. ✎

⁵ See *Australian Education International (2006)*, AEI Report to Industry 2005–06, Australian Government Publishing Service, Canberra.

⁶ See *Department of Employment, Education and Workplace Relations, Higher Education Statistics Collections*.