

Speech to Australian Services Roundtable

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I've been asked this evening to speak about education as an export.

We all know that the value of Australia's exports of education services is large and getting larger. In the latest figures for the year to September 2009, the ABS values education exports at \$16.6 billion. It is now Australia's third largest export behind coal and iron ore.

This is considerably larger than the year before. In fact there has not been one year in the past 30 in which education exports have declined – even in the Asian economic crisis 10 years ago which was the most difficult environment that the education export industry has yet experienced. Global demand for international education has tracked the same way. 9/11 merely displaced demand for the USA to Australia and Britain.

It is perhaps surprising that this major export industry has been built in a little less than 25 years, driven for most of the first 15 or so by the public higher education sector with as few as 10 to 20 universities tapping pent up demand and pulling other education sector players along with them.

What factors drove Australia's success? First, it must be admitted, serendipity played its part. Australia has the luck to be an English-speaking, developed country in a region of the world where people have a hunger for quality, post-secondary school education.

The growing middle classes of the Asian region want their children to be taught in English and their own countries do not nearly have enough places in post-secondary education to meet the demand. It was Australia's good fortune to be positioned near Asia and able to supply education at the time when Asians wanted it and were able to afford it.

On top of all this, growth in international education is being driven by many factors which are part of globalisation – freer movements of people, lucrative jobs available in the international economy, lower travel costs, much lower communication costs, the internet, and so on.

But the development of this industry was not just due to external factors. Australia was also ready to embrace Asia, wanting to build the long-term relationships in the region which come from educating large numbers of young people from neighbouring countries.

Government also played a key role. In the mid-1980s the Hawke Government adopted a new policy of allowing fee-paying overseas students to study in Australian universities and permitting universities to keep the revenue they earned in this activity.

Interestingly, one of the motives for this change was to educate international students in far greater numbers so that there was a greater economic development impact in the region. But as higher education funding began to be squeezed in the early 1990s – applying financial pressure on universities which has never let up since – universities turned to international students as a source of revenue to make up the funding gap

Universities thus had a strong motive to expand their international student numbers as much as they could. And while this led to strong growth in education exports, over the longer term there has also been a negative impact. The need to fund other university activities from international student fees means that universities have been reluctant to invest properly in developing international education. We would today have better facilities and programs for international students, and be more competitive internationally, if this constraint had not been there.

Finally, old-fashioned entrepreneurial zeal also played its role in developing education exports. Interestingly, the impetus originally came from public

educational institutions. But private capital is increasingly being invested in international education and, today, most international students in Australia are being educated by private education providers. The vast majority of them offer very high quality courses. But, as we have recently seen, governments need to enforce standards to keep out unethical and unscrupulous operators.

In the past year international education has reached a landmark point. It has become widely recognised – by policy makers, by business and by the informed public - as one of Australia's major exports.

Looking back over our economic history we see that Australians once saw themselves as “riding on the sheep's back”. In the years of the minerals boom, our exports of iron ore and coal joined agriculture in underpinning our prosperity. In more recent years tourism joined the list of export industries in which Australia performed very well, and developed world class expertise.

These industries form the list of what could be described as “Australia's iconic exports”, the export industries which have changed Australia. I believe education has now joined them.

One reason is that the sheer size of education exports is now appreciated. For years the statistics have shown international education's growing value, but only recently has that fact become more widely realised.

Another reason is that the impact of international students on our cities is now very apparent. They have played a very large part in reviving inner city street life, and building a cosmopolitan character in Australia's major cities.

A third reason is the impact which international education has had, and is having, on Australia's relationships with other countries in our region. More than one million international students have studied in Australia, graduated and returned home.

These one million people spent a formative part of their life in Australia and built their career on their Australian education. Some of them have gone on to fill influential positions in their home countries.

Did you know, for example, that Indonesia's recently elected vice president, Boediono, graduated from the University of Western Australia and Monash University and was also an economics researcher at ANU? Also Indonesia's new foreign minister, Marty Natalegawa, is an ANU graduate.

In fact, in the past few decades, Australian alumni have filled many senior political and government positions in South East Asian nations. Currently three ministers in the Singapore cabinet are Australian graduates.

Australian alumni also make a significant contribution to Australia's international trade. Last year my company, IDP Education, conducted a large survey of young international graduates from Australia – all with less than three years work experience. Yet over 20% of these young graduates said they managed or controlled an international supply chain involving an Australian business or industry.

The impact of international education in building Australia's "soft power" in the region is rightly beginning to attract attention, and Universities Australia last month published a very welcome report which covered this topic.

A fourth reason is that education occupies a unique position among Australia's major exports – it is a knowledge industry. It is a major employer of highly educated, skilled workers. It has created 126,000 jobs in Australia according to Access Economics.

The final reason why education deserves the status of an iconic export is the major flow-on effect it has on other sectors of the economy. The nearly 600,000 students in Australia are 600,000 extra residents who all spend on food, accommodation, communications, transport, entertainment and other personal needs.

No industry grows as fast as education exports have grown without meeting challenges and, as we know, there have been some recently.

There has been a regulatory challenge. Responsibility for regulation is divided between federal and state levels of government and rapid growth overwhelmed the ability of regulators, particularly at state level, to adequately police the private college sector.

There has also been a challenge in policy making. Since 2001 Australia has been actively courting international students with the right qualifications to become skilled migrants to fill the skill shortages which Australia continues to face. This is a well-conceived, well-intended policy, but it has had problems in its execution.

But governments, at both federal and state level, have recognised the need to deal with these two issues and changes are already in place to deal with them.

States have toughened up their audits of private colleges which I expect will weed out the minority of colleges which have acted unethically. And the federal government has already made changes in migration policy to deal with too easy access to skilled migration.

On top of this, the federal government is also conducting a review of the Education Services for Overseas Students Act, and the Senate inquiry into International Student Welfare is due to report this month.

Safety of students has become another challenging issue after widespread publicity in Australia and India earlier this year. Some of the problem is media fed. With nearly 600,000 international students in Australia, some will suffer unfortunate circumstances, some will become victims of crime, some will meet with their deaths, and these events are easily sensationalised.

It's important to note that the vast majority of international students do not experience significant safety issues. One interesting fact based on available data is that the death rate for international students in Australia is far below the rate for Australians of comparable age.

But the responsibility is still on us to do all we can to ensure the safety of international students, which means that we in the industry need to continue working closely with government agencies to improve safety.

I know that we will surmount these challenges and I believe that international education will continue to grow and cement its place as one of Australia's key exports.

Why have we succeeded so far?

Australia started out as very much the underdog in international education.

The two leading countries are the US and Britain, which both have an "education brand" in Oxbridge and the Ivy League universities which stretches back many hundreds of years.

We still lag the US and Britain in international student numbers which is not surprising given our relative sizes. But although we are in third position, we are a strongly competitive number three.

However we have managed to outperform the US and Britain in the innovation we have brought to international education. Here we are a world-leader.

- Australia pioneered university pathway courses which gave students who need extra tuition in English language, or in subject material, a pathway into university.
- Australia developed its markets using student placement agencies, such as my company IDP Education

- Australia built up transnational education, that is Australian education institutions with campuses overseas
- Australian universities were willing to accept new students in either first or second semester and this flexibility assisted students from countries with different academic years

We are also improving on the research front and I expect we will see further dividends in this area as numbers of international research students in Australian universities grow.

It's very relevant that Australian university alumni are being recognised at the highest level. In the last four years Australians who graduated from Australian universities have won three Nobel Prizes and a Fields Medal (the equivalent of the Nobel in mathematics).^{*} That is a record which speaks for itself.

As a result of its success Australia has built up people, products and systems in international education which are now in high demand in other countries in the world. It is similar to the way that Australian expertise in agriculture and mining is highly valued around the world and has become a services export industry in its own right.

Can we sustain our success in education exports?

The answer is certainly yes because the high growth demand for education in Asia is not over.

According to the World Bank, the middle class of South and East Asia accounted for 1.4% of global population and 2.1% of global income in 2000.

By 2030 the World Bank forecasts this same group will account for 8.9% of population and 7.7% of global income – much higher than middle class growth in other developing regions

In order to compete in a knowledge-based world these growing economies are building a system of mass higher education. But they can't achieve this through government-funded institutions alone. Limitations on the tax base and pressure on government finances, means that most higher education growth will be in private provision and user pays systems. And this means continued growth in demand for fee-paying international student places in Australian institutions.

Another factor which I expect will continue to drive international education in Australia is our skill shortages. We will continue to need an influx of skilled migrants to ensure we are competitive in the knowledge-based global economy. In the next two decades Australia will find itself competing vigorously for skilled and professional labour against most of the world's major economies, including China.

And international students who graduate from Australian institutions are very good skilled migrants. They hold an Australian qualification and, because they have lived in Australia while studying, they are familiar with and accustomed to Australia.

It is necessary for the federal government to adjust its skilled migration scheme to prevent it being misused by unscrupulous operators. But properly qualified international students continue to be a great asset to Australia as skilled migrants and should be encouraged.

At the moment, with the Senate inquiry and the ESOS review, education exports are in the spotlight. The outcome of these reviews, and the shape of future regulation of the industry, could be critical.

International education occupies a unique position among our export industries in which there is major involvement from both the public and private sectors.

To elaborate, education providers include public universities, TAFEs and public schools, which built the core of the education export industry through their entrepreneurial enterprise. But a growing part of the industry, private vocational colleges and English colleges, is private and this will continue to expand, challenging the public sector institutions, including universities.

In this environment government needs to be clear about where it needs to intervene and where it doesn't. Government needs to regulate effectively, but keep its touch as light as practically possible. This is an area which experience shows takes hard work to get right. We need good channels of communication and effective representation with government.

For these reasons I'm very pleased at the growing involvement of the Australian Services Roundtable in the education export industry. The Roundtable is well recognised and valued by industry and government as an effective forum for policy development and representation and I look forward to a very effective partnership between the ASR and international education.

I've already described how the public education sector drove development of the international education industry over most of its first 25 years. In the next 25 years the private sector will take a far greater role as education's emergence as a global industry opens up new opportunities.

Mobile private capital will be increasingly available to access the returns which the industry has demonstrated it can provide. We will see many more public-private partnerships, and see consolidation and aggregation as education businesses pursue efficiencies of scale. There will also be emerging opportunities in linking the large customer base in international education to other opportunities in the value chain – everything from offering students accommodation, communications and financial services; to new models of course delivery and testing; and developing integrated IT platforms to support student services.

Underlying the decision to invest in education is the knowledge that the sector resists the business cycle. As we have seen in the past year, demand for education remains strong in weak economic conditions. When the labour market is weak, students stay on in education and those in the workforce look for retraining opportunities.

US investment bank Berkery Noyes has paid close attention to the education industry and sees many different kinds of opportunities emerging world-wide:

“Many companies are increasingly taking a more aggressive stance toward accessing new markets outside the United States and/or finding opportunities to deliver products and services into consumer channels.”

“The biggest beneficiaries of this movement have been language learning businesses, both centre and/ or site-based models delivering instructional programs to students and professionals and online delivered instructional programs and resources. Similarly, a host of consumer-directed online businesses have emerged marrying remedial and enrichment maths and language arts programs with engaging gaming and competition-like qualities.”

For all of these reasons I believe we can say with certainty that education's time has arrived.

Thank you very much.

* Elizabeth Blackburn, 1999 Nobel Prize for Medicine; Barry Marshall, 1995 Nobel Prize for Medicine; Robin Warren, 1995 Nobel Prize for Medicine; Terry Tao. 2006 Fields Medal.