

Australian Services Trade in the Global Economy

Excerpt: Education



Executive summary

The ongoing structural transformation towards a services economy, across all countries and at all levels of development, has immense potential to improve the well-being of Australians. Technology has reduced trade and transaction costs for both goods and services, thereby facilitating more complex and services-intensive production networks. Telecommunications, audio-visual and computer services constitute a digital network at the heart of the world trading system. Transportation, courier, logistics and distribution services form the backbone of global supply chains. Legal, accounting, insurance and banking services are essential enablers of trade and finance. Architectural, engineering, mining and constructions services are a fundamental foundation of physical infrastructure. Health, education and tourism services are at the heart of better lives.

Yet impediments to services trade remain pervasive, while trade and regulatory policy in these individual services sectors are often made with limited regard for economy-wide impacts. This report aims to provide a better understanding of Australia's services performance in the global economy, to inform trade and regulatory policy makers of the likely effects of unilateral or concerted reforms and to help prioritise policy action. Taken together, the main findings seek to contribute to a national strategy by which Australia can fully capitalize on the strength of its services sectors and exporters to ensure that services trade works for all Australians.

Main findings

Services are Australia's gateway to global markets

Australia's regional and global services trade and productivity performance is strong. Services exports, and services embedded in other exports such as food products, machinery and electronics, account for half of Australia's exported domestic value added. There is evidence, however, that Australian services suppliers face increasing competition. As such, a national services trade strategy can help sustain and strengthen Australia's comparative advantages.

Australia's services regulatory environment is a source of strength

Australians benefit from an open, efficient and generally pro-competitive regulatory environment that is favourable relative to many of its peers. Australia's domestic regulatory regime is more liberal than average in 21 of the 22 services sectors measured by OECD Services Trade Restrictiveness Indicators. There is scope for improvement in all sectors, however, and a targeted regulatory reform agenda can ensure that Australia's business environment remains a source of international competitiveness.

Global services sector growth is an opportunity for Australians

Technical progress, urbanisation and fast-growing markets are driving a rising share of services in consumption across the globe, and Australian exporters are well positioned to capitalize on these trends. Rapid change and dynamic demand factors, however, require adaptation and new approaches to maintain existing strongholds and gain ground in new and diversified markets, especially in strategic sectors such as education, travel and tourism services.

Ambitious services trade policy can transform bottlenecks into gateways

Services trade restrictions and regulatory heterogeneity impose costs on services and manufacturing sectors, with a disproportionate burden falling on small and medium sized enterprises (SMEs). Enhanced commercial opportunities for Australian exporters can be secured by concerted efforts to encourage behind-the-border regulatory reforms in key markets (through fora such as the G20 and APEC), coupled with an ambitious trade negotiating agenda to secure new market access and bind applied regulatory regimes.

Strategic national reforms can boost Australia's services trade competitiveness

Services generate more than two-thirds of global gross domestic product (GDP), attract over three-quarters of foreign direct investment (FDI) in advanced economies, employ the most workers, and create most new jobs globally. The OECD recommends that countries adopt a whole-of-government approach to co-ordinated services trade policy and regulatory reforms as a driver of inclusive economic growth and employment, and encourages Australia to seize this opportunity. Horizontal and sector-specific policy conclusions are presented in the final chapter of this report.

Whole-of-report policy conclusions

The analysis carried out in this report highlights the importance of services in the Australian economy. Evidence demonstrates the relative strength of Australia's services trade and productivity performance, and the opportunities arising from Australia's proximity to the world's most dynamic region. The report also highlights the challenges faced by Australian services exporting firms, including the risk of losing ground in stronghold sectors such as education and tourism. Furthermore, the empirical evidence included in the report highlights how services trade restrictions in foreign countries prevent Australia from exploiting its full export potential.

In this context, there is significant potential for services to sustain productivity and enhance the global competitiveness of Australian businesses. This section delineates key factors to be considered in response to the opportunities and challenges posed by a rising degree of globalisation and a growing tradability of services. On this basis, a strategic whole-of-government approach to the performance of Australian services in the global economy can help Australians fully capitalize on the strength of its services sectors and exporters to ensure that services trade works for all.

General key findings

- It is important to continue to promote regulatory reforms and the reduction of services trade restrictions in the applied regimes of priority markets abroad by, inter alia, advocating the potential of services reforms to drive inclusive economic growth and employment, ensuring the effective implementation of the APEC Services Competitiveness Roadmap and encouraging national and collective actions consistent with the G20 Strategy for Global Trade Growth.
- In addition to existing FTAs, it would be beneficial to continue pursuing bilateral, plurilateral, regional and multilateral trade agreements with ambitious market access, national treatment and domestic regulation provisions for services. Besides maximising the economic benefits accruing to Australians, this would also lock applied regimes and thereby secure a predictable and rules-based environment for services trade and investment. OECD empirical analysis confirms that the legal bindings found in services trade agreements tend to have a positive effect on services trade by reducing uncertainty.
- Continued investment in an efficient and effective visa system is desirable. The envisaged streamlining of the current visa system would be beneficial to international visitors, international students, and domestic as well as foreign businesses.
- Consideration could be given to the relationship between the Temporary Skill Shortage (TSS) visa and the cost of recruiting highly qualified foreign workers, and the ability of some international students to apply for jobs on the list of skilled occupations (with concomitant implications for the education sector).
- Australia ensures that data can flow freely across borders, while respecting privacy and security considerations. It is important to continue facilitating an environment that enables digital trade, through free trade agreements, harmonisation of standards and implementation of trade facilitation measures.
- Despite efforts to improve coordination of government initiatives promoting export capability, innovation and growth, there is still some work to do to increase transparency and to improve the dialogue between the different level

of government agencies and transparency. Firms find it difficult to navigate through the different programmes available to them. Also, there is a lack of co-operation between businesses and other actors, such as universities or research institutes. Hence, as recommended in the OECD *Economic Surveys: Australia 2017*, there is a need to develop a more integrated, “whole-of-government” approach to science, research and innovation and consolidate innovation support programmes. This approach could help to reduce the number of support schemes for innovative SMEs and exporters, facilitating the management and efficiency of the different schemes, allowing for more generous programmes while keeping total expenditure constant.

- A review of the R&D Tax Incentive, a program supporting business innovation, found that smaller firms face compliance costs of up to 23% of the of the program benefits. The Government continued efforts, through the recently announced reforms of the R&D TI, to improve the integrity of the program, continue assist smaller companies and refocus support for larger companies undertaking higher intensity R&D, are commendable. However, in line with other recommendations (Ferris et al., 2016), it would be desirable to improve also the administration of the R&D TI program by reducing compliance costs. This would increase companies accessibility and ensure a more inclusive participation.
- Application processes for government support schemes, such as the Export Market Development Grant (EMDG) are often time consuming and unnecessarily burdensome. Many firms turn to professional consultants for these processes. Application and reporting could be simplified so that firms could reap the full amount of the incentives available.
- The paucity of official statistical trade data, including the lack of Foreign Affiliate Trade Statistics (FATS), complicates the understanding of Australia’s strength and weaknesses in services. Improving the statistical base would allow for a more robust analysis of services trade and investment. While efforts in this direction are underway, the timely implementation of an annual survey to collect on a regular basis information on inwards, but also outwards, foreign affiliate sales and a harmonisation of the disaggregation level for the collection of trade statistics and business statistics are essential for an accurate investigation of the benefits of FTAs.

Education

- Demand for Australia’s on-shore education services might be boosted by efficient and well-managed student visas settings. In that respect, monitoring the effectiveness of the new Simplified Student Visa Framework and improving processing times could deliver long-term benefits. Ongoing review of Student visa policy settings should be sought to ensure student visa services continue to remain internationally competitive.
- Australia's off-shore provision of education services might be limited by barriers to the establishment of wholly foreign-owned campuses, and therefore mandatory partnership requirements with local education providers, and temporary movement of Australian academic and teaching staff abroad. To address some of these barriers, new trade negotiations or amendment of existing agreements could pave the way for greater market access and liberalisation for Australian education providers abroad, particularly in the Asia-Pacific region.
- The recognition of Australian qualifications delivered offshore is another barrier to Australian transnational education. While FTAs can play a role in

some circumstances to overcome this barrier, decision-makers could be encouraged to work towards improved recognition arrangements through multilateral fora.



Insights into strategic sectors: Challenges and opportunities for Australian education services exports

As already seen in chapter 3, education contributes largely to Australia's exports.ⁱ This section concentrates on the main barriers and opportunities for Australia's exports of educational services. A particular emphasis is put on the Asia-Pacific region, where Australia could make good use of its proximity and trade linkages to fast-growing Asian markets. Australia could further diversify its trading partners to ensure a more sustainable long-term export growth for the education sector by tapping into the great opportunities emerging from ASEAN economies. In fact, the ASEAN population, of which over 65% is under 35, has a strong appetite for education and skills development (McKinsey, 2014). Australia could leverage on its long-standing expertise in providing high quality international education and take advantage of ASEAN strong commitment to human resources development.

However, it is worth keeping in mind that the nature of education supply and demand is changing. Traditionally, students from non-English-speaking countries looking for a study experience abroad would select English-speaking countries. China, Malaysia and India are now beginning to challenge this trend and are working to become major education destinations providing high-quality education services domestically to their own students as well as foreign ones, by offering price-competitive courses in English.

The significance of Australian education services exports

Australia's on-shore education exports (e.g. education services provided to international students enrolled in Australian educational institutions) were valued at about AUD 22 billion in 2016.ⁱⁱ Education services accounted for 31% of total services exports in 2016, up from barely 12% in 2000.ⁱⁱⁱ International education supports more than 130 000 jobs (Deloitte, 2015a) and is Australia's third largest export and the most important services export sector. In 2016, there were nearly 400 000 international students enrolled in higher education courses, 8% up from 2015.^{iv} Export growth has been remarkable over the past two decades, helped by Australia's proximity to fast growing markets in Asia-Pacific region. In particular, students from China and India accounted for nearly 40% of Australia's total enrolments in 2016.^v Australian off-shore provision of education services (i.e. revenues from Australian campuses abroad or from online courses) was worth AUD 434 million in 2014. However, the value of off-shore education provision is small compared to that of on-shore exports, valued in 2014 at AUD 17 billion (DFAT, 2017). Yet, in that same year, off-shore campuses, most of which are based in Asian countries, enrolled about one-quarter of all international students studying at Australian education institutes (PC, 2015b).^{vi}

Vocational education training (VET) by Australian education providers is also an important component of Australian education services exports. In 2016, VET cross-border exports (e.g. training offered on-shore to international students and professionals) was 17% of total education services exports, the second highest component after higher and tertiary education (69%). While the value of off-shore provision of VET is not available, data published by the Department of Education and Training (DET) shows that in 2016 there were over 39 000 enrolments overseas, with the vast majority offered by Technical And Further Education (TAFE) institutes and largely delivered in China (nearly 70%), Kuwait (6%), the United Arab Emirates, Fiji and Mauritius (around 3% each).^{vii}

Australia is a popular destination for international students. The United Nations Educational, Scientific and Cultural Organization (UNESCO) ranked Australia the third most popular destination of international students in 2015, after the United States and the United Kingdom, attracting 6% of the global total of internationally mobile students.^{viii} A 2016 survey of more than 65,000 international students studying in

Australia by the DET shows that the key factors that influenced higher education student's choice to study in Australia included the reputation of Australian qualification (95%), of the education system in Australia (94%), of the higher education provider (92%), and a generally safe and secure setting (93%). Over 89% of respondents were satisfied with their overall experience of studying in Australia.^{ix}

Australia's international education sector is supported by a well-established regulatory environment. Australia has two quality assurance frameworks for the provision of higher education and Vocational Education and Training (VET): the *Higher Education Standards Framework (Threshold Standards) 2011* and the *National Vocational Education and Training Regulator Act 2011*. The Tertiary Education Quality and Standards Agency (TEQSA) is Australia's independent national quality assurance and regulatory agency for higher education. In addition, the Australian Skills Quality Authority (ASQA) is the national regulator for Australia's vocational education and training sector. ASQA regulates courses and training providers to ensure nationally approved quality standards are met within the VET Sector. Furthermore, the international education sector in Australia is underpinned by strong consumer protection measures for international students, through the *Education Services for Overseas Students (ESOS) Act* (discussed in more details below), which sets out the legislative requirements and standards for the quality assurance, and Tuition Protection Service (TPS).^x Consumer protection, qualification frameworks and national quality assurance standards are essential to establish and maintain Australia's valuable reputation for high-quality education.

Box Error! No text of specified style in document..1. Trade negotiations in higher education services

Education is still one of the least committed sectors under the GATS. Only 62 WTO Members have made commitments in one or more education sub-sectors, and only 53 (including Australia) for higher education services. Asia-Pacific economies with commitments in higher education services include Cambodia, Chinese Taipei, Japan, Lao People's Democratic Republic, China, and Viet Nam.

On a bilateral level, Australia has concluded FTAs including services provisions with several Asian economies. Some of these agreements aim to facilitate on-shore and off-shore provision of education services among its parties. For example, under ChAFTA, there is a focus on the mutual abilities of education institutions from the two economies to market themselves, improve their public profile and provide recruitment opportunities in both economies and to facilitate mobility through recognition of prior qualifications. Australia and China also have a MoU on education cooperation, including information exchange briefings on VET policy reform and joint research on occupational standards in priority areas. Similarly, JAEPA (2015) aims to improve recognition of qualifications issued in both economies, strengthening student mobility and guaranteeing equal access to education providers. JAEPA's recognition of qualifications has contributed to Japan formally recognising Australian bachelor degrees for entry into postgraduate programmes in Japanese institutions, making Australia's education services more attractive in Japan.

MAFTA (2013) is another FTA with positive list commitments on higher education services provision. It has enabled the commercial establishment of privately funded higher education institutions, including university campuses in each respective country, with up to 70% Australian ownership for establishments in Malaysia (100% after 2015). Malaysia has raised the quota on Australian lecturers teaching in Malay universities from 20% to 30%. SAFTA (2011) also covers higher education services, with provisions focused on mutual recognition of previously obtained degrees with course accreditation and professional experience. Majority ownership of higher education institutions is possible under TAFTA. Through the ASEAN-Australia-New Zealand Free Trade Agreement, Laos committed to allow wholly owned foreign subsidiaries in higher education. Moreover, in 2011, Australia and Viet Nam signed a MoU on cooperation in VET, including mobility of personal data and materials, quality assurance, qualification recognition, accreditation and access for foreign institutions (DET, 2013).

Sources: WTO Integrated Trade Intelligence Portal (I-TIP), DFAT, and Austrade.

Providing education services to international students or training students and professionals on-shore (Mode 2), and teaching international students in campuses located abroad or offering English language/skill training courses to students and businesses overseas (Mode 3), are just two ways Australian institutions export their educational services. Australia exports educational services also through distance learning (Mode 1), or through the temporary visits by Australian academics or teachers to foreign education institutions (Mode 4).^{xi} Barriers in the destination country can affect all these modes. However, some characteristics of the Australian domestic regulation may affect Australian education services exports. These might equally influence on-shore provision of educational services to international students.

Outside Australia, trade negotiations have gradually reduced barriers to market access and national treatment. Education services in the region are slowly becoming more liberalised following specific commitments found in the World Trade Organisation's (WTO) General Agreement on Trade in Services (GATS) and those negotiated in Free Trade Agreements (FTAs). Nevertheless, negotiating commitments around higher education so far remains rather limited, and despite these efforts, residual limitations are still present at home and abroad.

Australia's domestic regulation

Elements of national regulation that might affect the demand for educational services by international students are:

- **Australia's student visa framework**

Inefficient visa processes are a key barrier to potential international students. Acknowledging this, in mid-2016, the Australian Government implemented a new Simplified Student Visa Framework (SSVF), aiming to minimise the cost of regulatory and administrative compliance associated with student visa applications and handling.^{xii} The SSVF is definitively an improvement on the previous rather complex student visa framework, which encompassed eight visa subclasses, an Assessment Level framework and Streamlined Visa Processing (SVP) arrangements. The two most significant changes under this new framework are a reduction in the number of visa subclasses from eight to two, and the introduction of a single immigration risk framework, under which all international students are assessed, regardless of the programme of study.^{xiii} The SSVF risk rating system assigns to each country and Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS) registered education provider a risk level from 1 (low risk) to 3 (high risk, subject to more rigorous checks). Risk ratings are reviewed periodically by the DoHA and are not made public, to reduce targeting of specific education providers by non-genuine students. It is too early to say whether the SSVF will be able to address some of the negative effects generated by the SVP framework, including market distortions for education providers and 'course-hopping' practices introduced by limiting the number of education providers eligible for streamlined visa arrangements (Box 5.4 **Error! Reference source not found.**).^{xiv}

- **Student benefits and financial assistance**

The Australian Government provides financial support for local students but seldom for international students. Financial support can come in the form of loans.^{xv} Government grants and privately funded scholarships also help to assist foreign students.^{xvi} Nevertheless, the inability to access financial support for education is a barrier for prospective international students. Similarly, not being able to access other student benefits might influence international students' decision to study overseas. Reduced fare transport concessions are an example of such benefits. International students of higher degree in Australia might only be able to access concession-priced public transport in certain states and territories.^{xvii}

Box Error! No text of specified style in document..2. Education providers' perceptions on the Simplified Student Visa Framework

The preparation of this report involved a public consultation with businesses of different sizes and from several services sectors. The consultation was facilitated by the Australian Department of Foreign Affairs and Trade and the Australian Services Roundtable. In a first phase, semi-structured interviews gathered businesses' perceptions on sector-specific matters. In the second phase, the same businesses filled out a questionnaire on a wide range of subjects aimed at assessing obstacles to trade in foreign markets and at home, and the effectiveness of government initiatives. Ten education providers were interviewed, including senior managers, deputy vice chancellors and executive deans from several Australian universities, TAFEs, English language providers and other private Registered Training Organisations (RTOs), across five Australian states. These providers were asked to describe their direct experiences with the new immigration risk rating system. Although DoHA data suggest that the majority of applications lodged outside Australia are processed on average in 20 calendar days and that the grant rate continues to be relatively high under the SSVF, the educational providers interviewed expressed some reservations about the new risk rating system.

Given the demonstrated importance of education exports in the context of Australia's services trade performance, the results of these consultations highlight the importance of diligent policy attention in the following areas:

- The role of service providers in immigration risk management.
- The relationship between visa processing times and the start of courses, scholarships and business relationships with foreign education providers (or other arrangements with foreign governments).
- The provision of feedback on visa rejections.

Information requirements related to the travel history of the student visa applicants (and their families) and online payments.

- **Online education**

International students holding a student visa and enrolled with an Australian education provider may not complete more than one quarter of their total course by distance and/or online learning. Understandably, this quantitative limitation to e-learning comes from the need to manage the risk of non-compliance with visa requirements should international students opt to work instead of attending classes on campus. However, limiting e-learning might harm both the education provider (incurring higher costs) and the 'genuine' student, who might choose a more technology-savvy foreign education institute. Austrade has stressed the importance for Australia's competitiveness to cater for learner and employer demands for borderless learning 24/7 in its *Australian International Education 2025 market development roadmap* (Austrade, 2016). This roadmap recognises the changing demands of students and their increasing preference for a more flexible and "borderless" delivery of education services (including online and through transnational education experiences). Recognising these demand shifts, the e-learning cap will be raised from 25% to one-third of the student's course from 1 January 2018, following a review of the *ESOS framework* (PC, 2015a).^{xviii}

- **Access to post-study employment**

The reform of the Temporary Work (Skilled) visa program (subclass 457) (**Error! Reference source not found.**) might have some consequences for the ability of some international students to stay in Australia after graduation. In

fact, under the TSS visa program (subclass 482), which abolishes and replaces subclass 457, applicants are required to have a minimum of two years' work experience relevant to a specific occupation. Only international students holding higher education degrees from Australian education providers and who, through the Temporary Graduate visa (subclass 485) Post-study work stream, have acquired the qualifying working experience, will be able to apply for the new TSS visa, provided the qualification is related to an occupation on the list of eligible skilled occupations.^{xix} Students who do not hold a bachelor degree qualification may be impacted; however, there is the potential to recognise prior work experience by these students or experience from work experience undertaken on a part time basis while studying, as well as experience as part of an industry placement under their qualification. **Box Error! No text of specified style in document..3** presents an international comparison of post-study work visas.

Among the elements that might affect the supply side of education services are domestic regulatory requirements, and quality and accountability standards. These are there to safeguard students' interests and, in the specific case, to ensure that international students get a high-quality learning experience that meets their needs. A brief overview of major regulatory requirements is reported below:^{xx}

- The provision of higher education services to international students is governed by the *ESOS Act 2000*. Institutions and their courses must be registered on CRICOS in order to enrol overseas students to study in Australia on a student visa. In addition, higher education providers can only accept international students after meeting quality standards required by the *National Code of Practice for Registration Authorities and Providers of Education and Training to Overseas Students 2018 (The National Code 2008)*. Besides these two requirements, education providers need to register on the CRICOS.^{xxi}
- Providers of *English Language Intensive Courses for Overseas Students (ELICOS)* must adhere to additional regulatory requirements and a set of national standards, the ELICOS standards 2018, which are sector-specific and cover standards for the provider, the course (its delivery and assessment), and for educational resources, the physical premises and standards of business management.^{xxii}

Additional requirements on tuition assurance as well as quality and accountability standards, as outlined in the *Higher Education Support Act 2003 (HESA)*, must be met in order for national students to be eligible for government support. These requirements concern financial viability, quality, fairness to students, arrangements for student contributions and tuition fees. Foreign e-learning providers must be registered with the Australian Government's *Tertiary Education Quality and Standards Agency (TEQSA)*.^{xxiii} Registration is not necessary for foreign providers that partner up with an established Australian university. Recent initiatives adopted by the Australian Government aim at enhancing the education system. These include revisions to the *National Code of Practice for Providers of Education and Training to Overseas Students 2018*, designed to provide stronger student protection, and the recent amendments to the *ESOS Act*, aimed at ensuring all registered education providers act with integrity. Nevertheless, education providers that intend to establish campuses or subsidiaries abroad, or that want to negotiate strategic partnerships with foreign education institutes, still face considerable regulatory differences between the Australian quality assurance schemes (TEQSA or ASQA) and the respective quality and accountability standards of the foreign country where they would like to do business.

Box Error! No text of specified style in document..3. Comparison of Post-study Work visas in English-speaking countries

The option of staying on after graduation to undertake qualified work is one element that prospective students consider when choosing their study abroad destination. Therefore, offering effective post-study working opportunities is as essential as building a strong university brand with international recognition.

Australia's post-study working arrangements allow international students who have recently graduated from an Australian educational institution to apply for a Temporary Graduate visa and stay for a period of time ranging from 18 months to four years, depending on the level of qualification they obtain in Australia. The number of Temporary Graduate visas lodged with the DoHA continues to rise over time. In 2015-16 there were over 34 000 visas lodged (the majority of which in the Post-Study Work stream), up by 42% compared to the previous period. Like Australia, other English-speaking countries, such as the United States, the United Kingdom and Canada, have similar working arrangements.

United States: international students can stay for up to 60 days after their studies end. Those that graduate with F-1 status, and provided their studies lasted longer than nine months, can stay and work for a total of 12 months after graduation (Optional Practical Training, OPT). Students who graduate with a science, technology, engineering and math (STEM) degree can, since March 2016, apply for a 24-month extension of their OPT, giving them the possibility of three years working experience. Once OPT expires an H-1B visa (specialty occupation) will be required to continue working in the United States.

United Kingdom: the post-study work visa route was closed in line with changes to immigration policy in 2012. Typically, non-EU graduates have only four months after their studies end to look for a job. If in that time they secure a job at a particular skill level that pays at least GBP 20 800, then they can apply for a Tier 2 (General) visa. This process is, however, more complicated for non-EU graduates as jobs have to be first advertised to workers in European Economic Area (EEA) before being offered to non-EEA immigrants, unless these jobs are on the shortage occupation list. The closest to a post-study working visa still available in the United Kingdom is the Tier 4 Doctoral Extension Scheme, available for PhD students who want to stay for an additional year to work or look for a job. To push its competitive edge as an innovation centre, the United Kingdom allows graduates with a genuine and credible business idea to apply for a Tier 1 Graduate Entrepreneur visa, which allows graduates that meet a set of eligibility requirements and that want to set up and run a business in the country to stay for up to three years and four months, with the possibility of renewal.

Canada: Study Permits become invalid 90 days after graduation; however, foreign graduates can still apply for a Post-Graduation Work Permit Program (PGWPP) if they studied in Canada for at least 8 months and for a maximum of three years. The duration of stay of the PGWPP is equal to the length of full-time studying program. Studying in Canada also helps international graduates to qualify for permanent residency through programs like Express Entry.

Australian education providers considered post-study work arrangements just as important as an effective student visa framework and the global ranking of Australian education institutions. In fact, foreign students who can complement their studies with a professional experience are not only able to offset part of their education costs, but are also, and more importantly, able to build their professional skills, gain new insights into new working environments and build lasting professional connections. These working ties are essential not just for those that remain in the country as they increase employability outcomes, and might even contribute to developing new businesses in Australia, but also for graduates that eventually return to their home country, as these could be good leverage points for subsequent business interactions with Australia. Hence, well designed post-study work visas not only promote strategies attracting prospective international students but also trade and future business opportunities by building people-to-people links.

Participants in the business consultations found adherence to local quality standards even more challenging in foreign countries that did not have a national strategy and rather relied on state or provincial frameworks. Further alignment and harmonisation of quality standards would facilitate investment in transnational education as well as increase business partnerships in foreign markets. This is a large task, particularly when the two countries start from very different quality frameworks. The Australian Government is working to harmonise standards bilaterally or in international fora (e.g. China-Australia MOU on qualification recognitions in higher education, or APEC education strategy, and to reach some form of economic cooperation with less developed and emerging countries.

Regulatory challenges abroad

Barriers exist within the Asia-Pacific region to Australian exports of education services via commercial presence abroad (off-shore provision), domestic consumption by overseas students (in terms of recognition of Australian qualifications in their country of origin) and temporary movement of Australian academic and teaching staff abroad. Some economies allow Australia to set up overseas campuses, establishing branches of Australian institutions overseas and developing further offshore education services (Deloitte, 2015a). Among those campuses that have been successful in their international expansion abroad are Wollongong University's campus in Dubai (where enrolments have risen by 41% in the last five years), James Cook University in Singapore, Monash University's campuses in Malaysia and South Africa, Curtin University in Malaysia, and RMIT University's two campuses in Viet Nam. In 2014, there were over 800 higher education programmes offered by Australian universities abroad (Universities Australia website). Thousands of formal agreements are signed every year between Australian universities and those in foreign markets (Box Error! **No text of specified style in document.**.4). In 2016, 9 171 agreements in place were (up from 7 133 in 2012), facilitating Australian universities entry into foreign markets.

Barriers to Australian providers abroad can include a high level of control by local authorities and the need to wade through numerous domestic administrative hurdles and local content requirements before they can establish a commercial presence, including a stand-alone campus. This is the case in Indonesia, where Australian providers must be in partnership with an approved Indonesian higher education institution. In China, foreign higher education institutions may only be established as a joint venture where the head of the institution is a Chinese citizen. Australian providers also face some limitations on the number of their joint venture campuses in China and on how many times the same course can be repeated across Chinese campuses.

The Philippines maintains a foreign equity cap of up to 40% of ownership for investors in educational institutions other than those established by religious groups and mission boards (SEC, 2015). The Commission on Higher Education (CHED), the independent government regulator of higher education services in the Philippines, has tight control over all colleges and universities in the country. The commission regulates the closure, programme offerings, building specifications and tuition fees that universities are required to charge. Only a few private universities and colleges are granted autonomy or deregulated status.

By contrast, Viet Nam allows 100% foreign-owned investments and campuses to open under the 2005 *Decree 73/2012ND-CP, Investment Law* (Australian Government, 2013). Foreign providers of education in Viet Nam may establish as fully foreign-owned institutions, joint ventures, business cooperation contracts or representative offices, all of which are considered Vietnamese legal entities. Under business cooperation contracts, foreign providers can partner with Vietnamese investors without creating a new entity.

Box Error! No text of specified style in document.4. Entry modes for Australian education providers

Australian education institutions can expand their presence overseas following different business models. Universities can establish a fully-fledged university abroad or open only a campus to offer specific courses to domestic and third-country students. Some of these foreign establishments act as ‘feeder campuses’ by offering pre-university course or English language training. Feeder campuses can also provide the initial part of a programme overseas and then channel students to Australia, either to complete the rest of the programme or to upgrade to a higher degree/qualification.

Other education providers choose to operate through partnership agreements. These can take the form of joint ventures or licensing agreements, and might not necessarily be driven by the regulatory conditions found on site. A partnership can be a very effective way of overcoming some implicit and hidden barriers. A local partner would not only offer the infrastructure and better access to resident workforce, but also its extensive knowledge of the local demand, compliance with domestic regulation and red-tape, accreditation requirements, marketing to and recruiting new students (both domestic and international), and so on. A strategic partnership can also be an entry point into third foreign markets. Some providers have indicated in the business consultation that partnerships allowed them to expand their presence abroad simply by following their partners into new foreign countries.

Partnerships can be another way of overcoming the competition faced in foreign markets. Foreign private providers might find it harder to enter markets where the domestic provider is heavily subsidised by the local government. Some businesses also indicated that subsidies could benefit foreign education providers when their respective governments back them. This can be the case for ELICOS providers in some Asian markets competing with English providers, which are strongly supported by their own foreign government agencies, such as the British Council.

Some VET providers, particularly those with a relatively large global footprint, make frequent use of licensing agreements, where the foreign teaching staff is trained in Australia and once a certain level of competence and skill is attained, return to the provider overseas and deliver qualifications that are fully recognised in Australia. The Australian education provider is responsible for the intellectual property of courses and curricula offered abroad. The Australian institution also conducts quality controls to ensure that Australian accreditation standards are met. However, finding the right partner is critical for this model. In that respect, some VET providers have expressed doubts on whether such licensing agreements are a sustainable and efficient business model in the long run. Other forms of collaboration, such as joint ventures, would allow closer monitoring of the inputs and performance of the local partner. Experience with partners in certain foreign markets suggests this might be a critical factor.

Despite the degree of freedom that foreign investors enjoy in Viet Nam, there are still minimum capital investment requirements for prospective foreign institutions.^{xxiv} For example, a foreign-invested university must secure a minimum investment of VND150 million (approximately AUD 7 500) per student. More broadly, there is also a ban on acquiring and renting land in Viet Nam.

Australia and Viet Nam renewed two MOU for Cooperation in Education and Training in March 2018, outlining cooperation across all levels of education, including school education, English language collaboration, higher education and training.

Viet Nam and the Philippines both have restrictions on curricula, inscribed in their AANZFTA schedule of services commitments. In the Philippines, the status of post-graduate business programmes is decided by a technical panel of experts. In Viet Nam, adult education and other education services including foreign language training content must be approved by Viet Nam's Ministry of Education and Training, and foreign firms are also subject to restrictions on advertising online. Australian education exporters may have more investment opportunities in China, as indicated in China's 13th Five-Year Plan for Economic and Social Development (2016-2020). The plan suggests that private

capital participation in education will be eased and favourable policies launched, so that the range of educational services available to consumers can be diversified and extended (KPMG, 2016). Limitations to temporary movement of Australian academics and teachers

Viet Nam restricts the recruitment of foreign teachers: 60% of course modules must be delivered by permanent teachers, although twinning programmes allow foreign courses to be taught in Viet Nam. The Vietnamese Ministry of Education and Training (MOET) or Presidents of certain Vietnamese universities are responsible for their approval at all levels. Equivalency needs to be set for curricula, facilities, legal status, quality assurance and accreditation. For twinning programmes, foreign teachers must have at least five years of experience and their qualifications need to be recognised by the competent authority.^{xxv} To work as teachers in China, foreigners need a Z (work) visa (which requires a bachelor's degree), the necessary professional skills, two years of work experience, two sets of medical exams, no criminal record and English as their first language. The visa must be obtained from the applicants' home country or Hong Kong, China. Teachers typically will also need a Foreign Experts Certificate (SAFEA) and an Invitation Letter from the institution they will be working for.^{xxvi}

Government initiatives to boost the competitiveness of the sector

Australia's higher education market relies on attracting international students to study in Australia or at an Australian institution abroad. The DET has created a *National Strategy for International Education 2025* designed to increase the competitiveness of the Australian international education sector. This ten-year blueprint has three objectives: strengthening the sector's fundamentals by maintaining high quality education, training and research, fostering a positive student experience and ensuring effective quality assurance and regulation; enhancing partnerships with other universities, academics, institutions and governments, to build and maintain global and domestic connections, and promote mobility; and becoming globally competitive and responding flexibly to changing demands and opportunities.

Austrade has created the *Australian International Education 2025 market development (AIE2025)* roadmap to ensure that Australian institutions can be agile and responsive to the changing demands of the sector (Austrade, 2016a). The roadmap responds to possible market changes including borderless learning, technology utilisation and attracting capital flows from global sources (Box **Error! No text of specified style in document.**5).

The Department of Foreign Affairs and Trade (DFAT) has set up the *Australian Global Alumni Engagement Strategy 2016-2020* to promote connection and engagement with the more than 2.5 million international students that have studied at Australian institutions. This strategy is planned to provide recent alumni with career and networking opportunities, and to inform them of special government-funded opportunities to undertake high-level research projects (DFAT, 2016).

Additionally, all states and territories have state-wide comprehensive plans for the education sector, except to some extent Western Australia (WA). Stakeholder consultations found that some Western Australian institutions felt disadvantaged because of this. RTOs also felt that WA could work toward attracting foreign students and professionals by taking advantage of its extensive knowledge and wealth of experience in the mining and energy sector, which could fuel demand for professional training in WA. Participants in the consultation called for greater collaboration among the largest universities in the state to sell the state brand better, but also pushed for an integrated state-wide strategy that would connect tourism and international education agendas.

Box Error! No text of specified style in document..5. The digital transformation of higher education

The emergence of new technologies has been transforming traditional university models. Artificial Intelligence (AI), the Internet of Things (IoT), Augmented or Virtual Realities (AR/VR) are already been contributing to increasing efficiency and enhancing knowledge in various disciplines. Data-driven decision-making is widely used in universities in the form of search tools for scientific research, connecting learners to universities and matching students to career tutors. The surge in connected technology is replacing paper material with its digital version, enhancing information- sharing through cloud services, facilitating scheduling of courses, tracking capability developments, and providing the platform for e-learning. AR/VR are pushing research in science and medical fields and allowing students and vocational training professionals to engage directly with their subject matter via immersive and interactive experiences. Various alternative education models are already operating in the higher education sector: Modular Object Oriented Dynamic Learning Environments (MOODLEs) and Massive Open Online Course (MOOCs) provide open-source platforms for e-learning, while innovative methods are challenging conventional education models.

Navitas Ventures, part of the global education provider Navitas, collected the views of leaders from partner universities in Australia, the United States, Canada and the United Kingdom, students and recent graduates from all continents and founders of education start-ups in key markets, on how the digital transformation is changing higher education and what the challenges and possibilities might be. Most participants expected the traditional university model to be disrupted by the digital transformation within the next ten years. However, while universities focused more on administrative efficiency and lower operating costs through digitised learning content, students were more concerned with their immediate job prospects, calling for innovation to support their internships and pathways to employment.

Universities participating in this study also indicated the crucial role that digitising marketing and admission plays in driving enrolment growth, a view echoed by the Australian education providers interviewed during the stakeholder consultations. Some believed that online promotion via social media would offer a new alternative channel compared to education agents to directly reach out to international students. Others suggested that online models would increase transparency in international partnerships based on licensing agreements and enable the Australian provider to retain greater control on the education process, content and quality.

Thanks to the digital transformation of the education sector, distance learning allows a more inclusive delivery of education services, reaching out to more disadvantaged groups (in remote locations and poor communities). Distance learning might also help foster the skills underpinning knowledge-based economies and potentially bridge the education-employment divide. Nonetheless, distance learning, particularly when transnational, is still governed by a multi-layered framework of laws and regulations. Data localisation requirements, financial regulation restricting e-payments, broadband connection speed, complications with accessing and processing information, ownership of online course material, accreditation of qualifications obtained online, are some of the hurdles education institutions face when providing cross-border education services. Often laws and regulations are not aligned with recent technological developments. The pace of innovation and the establishment of new and alternative education models require a more flexible regulatory environment, with a coordinated answer from different regulatory bodies, which would enable hybrid education systems rather than maintain or create new barriers.

Source: Navitas Ventures (2017).

In summary, there are considerable opportunities for Australia to take advantage of its reputation, geographical location and proximity to Asia, and its extensive experience to establish itself as the world leader in education services exports. Nevertheless, the growth potential of the education sector may be compromised by some characteristics of the domestic regulation and limitations found in foreign markets. In particular, Australia's off-shore provision of education services still faces many obstacles in the form of restrictions to establishing wholly-owned Australian campuses abroad, non-accreditation of qualifications delivered by Australian education providers overseas and limitations to the international mobility of Australian academics. Targeted promotion strategies by Australian State and Territory Governments would ensure greater visibility for Australian education institutions abroad and could boost the number of international students still higher. More concerted efforts are required, within the country and with foreign partners via FTAs, to address barriers at and behind the border that might inhibit education services exports.

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- i. This section focuses on higher education. According to the United Nations Central Product Classification, higher education includes post-secondary general, technical and vocational education services as well as other higher (tertiary) education services leading to a university degree or an advanced research qualification such as a doctoral degree. The main providers of higher education services in Australia are universities, technical and further education (TAFE) institutes (which are owned, operated and financed by the various state and territory governments and provide vocational tertiary education courses) and registered training organisations (RTOs).
 - ii. Revised ABS data indicates that Education-related travel services exports were valued at around AUD 26 billion in 2016, accounting for 33% of total services exports. The revision results from improvements made to the model ABS uses to estimate trade in travel services, and access to updated data sources, which, in August 2017, led to changes to a range of international trade in services data. The international services trade data used throughout this publication are taken from publications prior to August 2017, and thus are not the latest data available. For more information on the revisions to international services trade data please refer to the following ABS publication, Information Paper: Changes to the Australian System of National Accounts, 2016-17 (catalogue no. 5204.0.55.012).
 - iii. These figures refer to 'Education-related travel' exports (from ABS BoP data) covering expenditure on course fees, accommodation, international travel, daily living costs, etc., and to all sub-sectors of educational services: primary and secondary, higher and tertiary, and other education and training programmes, such as English Language Intensive Courses for Overseas Students (ELICOS) and Vocational Education and Training (VET). Source: ABS, *International Trade in Goods and Services*, catalogue no. 5368.0 Table 9.
 - iv. For more information, see the full year data on higher education statistics in 2016, available from the Department of Education and Training (DET).
 - v. For more information, see the end of year summary of international student enrolment data in 2016 available from DET.
 - vi. Most (85%) of international students enrolled with Australian education institutes providing off-shore services were studying at off-shore campuses, while a small minority (15%) were receiving educational services through distance learning from Australian institutes.
 - vii. Source: Department of Education and Training, Total VET Activity (TVA) data 2016.
 - viii. For more details, see 2016 data on the global flow of tertiary-level students data from UNESCO.
 - ix. More information is available from the Department of Education and Training, International Student Survey 2016.

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- x. The TPS assists international students whose education institution is unable to fully deliver their course of study and ensures that students are able to either complete their studies in another course, with another education institution or receive a refund of unspent tuition fees.
- xi. Mode 4 export also occurs in the business model adopted by Australian VET providers with licensing agreements with foreign partners to deliver Australian accredited and recognised courses, which requires Australian VET officials to visit their foreign partners to assess the quality of the courses and ensure that certain Australian Skills Quality Authority (ASQA) requirements are met.
- xii. This framework was a response to the ‘Future directions for streamlined visa processing’ report (DIBP, 2015), containing recommendations to enhance the system’s long-term financial sustainability, Australia’s border integrity and simplify the application process. In response a finding of some cases of misconduct by unregistered education agents, the Australian Government introduced measures in its *Protecting Vulnerable Workers Policy* (2016) and the *Migrant Worker’s Taskforce*. The report also highlighted a large number of ‘non-genuine’ students entering Australia. About 11 000 student visas were cancelled in 2015, after further assessments revealed these visas were being used as a pathway to permanent immigration.
- xiii. The two visas types are: the Student Visa (subclass 500), and the Student Guardian Visa (subclass 590). The latter is foreseen for parents, relatives or other legal guardians of international students younger than 18 years of age studying in Australia on a student visa. A student visa is granted only if the prospective student is enrolled for a course that is registered, or is part of a registered course (a registered course is an education or training course offered by an Australian education provider registered on the CRICOS to offer courses to overseas students), on a full time basis. International student visas allow a maximum of 40 hours per fortnight while the course is in session and unlimited hours during scheduled course breaks. Students completing a Masters’ degree by research or a doctoral degree (PhD) do not have work hours restrictions. The salary and employment conditions will be determined by the applicable Australian workplace law and international students can seek advice from the Fair Work Ombudsman on their salary and entitlements under the *Fair Work Act 2009*.
- xiv. Misperceptions arose by foreign students and education agents that SVP was a ‘stamp of quality’ and therefore disadvantaging non-eligible education providers. Moreover, the practice of “course-hopping” was mostly associated with international students targeting education institutions eligible for SVP and then, once they obtained the student visa, switching to easier or cheaper education providers – e.g. from higher education to VET (PC, 2015b). An attempt to tackle this practice was made through the *National Code*, a legislative instrument of the *ESOS Act 2000*, which imposed a six month transfer restriction period for incoming international students.
- xv. Very few countries offer student loans to non-citizens as well as ‘home’ students. Norway grants loans to EEA and EFTA students. Exceptionally, as part of the recent Australian Higher Education Reform Package, which will commence from January 2018, New Zealand citizens will be eligible for student loans, although at the cost of no longer being entitled to Commonwealth fee subsidies.
- xvi. For example, the *Australia Awards Scholarships*, administered by DFAT, is available to students from Asia, the Pacific, Middle East and Africa wanting to pursue full-time undergraduate or post-graduate studies in Australia. Recipients must return to their home country once graduated. The Australian Government also offers two additional scholarships to international students wanting to undertake a postgraduate qualification at Masters or PhD level (*Endeavour Postgraduate Scholarship*) or a postgraduate research qualification (*Research Training Program*). Some Australian universities offer financial support to selected international students, covering tuition fees and other costs fully or partly. The United Kingdom offers many government funding opportunities to overseas students (e.g. through the *British Chevening Scholarships*, the *Marshall Scholarships*, and the *Overseas Research Students Awards Scheme*). In addition, several UK universities offer scholarships to a wide range of international students. Similar opportunities are available in Canada, where many universities offer scholarships to international students. The

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- Japanese Government also awards scholarships to international students wishing to study at Japanese universities.
- xvii. International students receive 35% off multiple services in New South Wales and a discount in the Northern Territory. International students in Queensland and in Victoria pay a full-priced fare.
 - xviii. Following a consultation early in 2017, the Australian Government revised the *National Code of Practice for Providers of Education and Training 2018* (National Code), to come into effect on 1 January 2018. The National Code is a legislative instrument made under the *ESOS Act 2000*.
 - xix. The Temporary Graduate visa (subclass 485) has two streams: a Graduate Work stream, with a length of stay of maximum 18 months (mostly for studies leading to a diploma level qualification or trade qualification closely related to nominated skilled occupations); and a Post-Study Work stream, which allows foreign students holding higher education degrees from CRICOS-registered education providers to stay 2-4 years.
 - xx. Regulatory requirements are also in place for the accreditation of VET courses provided off-shore. VET providers must adhere to Australian accreditation requirements for the credentials and qualifications issued abroad to be nationally recognised, hence allowing the foreign graduate to use them in Australia. VET providers can offer qualifications in line with the AQF offshore (which needs to be audited at RTOs' cost), but can also have a top-up element to the AQF qualifications that covers aspects specific to the local labour market. Nevertheless, evidence from some Australian VET providers active overseas and consulted for this project reveals the intention of moving away from Australian accreditation so as to have more flexibility on curricula and to target more closely local standards so that the qualifications provided abroad are effectively recognised in the market where they are delivered.
 - xxi. RTOs like VET or ELICOS providers, offering training and courses to international students, must also register on CRICOS. The registration is not unique to the provider but rather a separate CRICOS application is required for each state or territory where the provider offers its services, increasing compliance costs.
 - xxii. For more details see the recently updated version of ELICOS Standards 2018: <https://www.legislation.gov.au/Details/F2017L01349>.
 - xxiii. Australian higher education institutions have already started offering versions of their established programmes online due to the scale of its internal distances, which disadvantages students living in rural or remote areas of the country. A common platform for accessing this option is via Open Universities Australia, the national leader in online higher education, offering students the ability to choose over 150 degrees across a variety of disciplines from ten leading Australian universities.
 - xxiv. Decree 73 on Foreign Investment in Education and Training (Decree 73/2012/ND-CP). See also Australian Government (2013).
 - xxv. Under the Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) the minimum required teaching experience of foreign staff has been reduced to three years. See also Invest ASEAN (2012).
 - xxvi. Foreigners with high skill levels and specialists whose skills are urgently needed in China can apply for an R visa renewable every 180 days. Highly skilled workers can then get a five-year working residence permit. This visa, intended to attract global talent, began in 2013 and makes it easier to work temporarily in China. Once having worked in China for three years, eligible workers can apply for a Chinese green card.