GLOBAL: International students: a $100 billion business?

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"It is good for the economy" has been one of the public policy mantras for supporting the inflow of international students since the 1980s. Sure, there were lots of other reasons. At the national level, international students were important strategically and diplomatically - fostering global engagement and cross cultural understanding, promoting freedom and democracy and easing tensions between neighbouring countries.

Institutionally, students from other cultures and economies diversified the student body and symbolised the international mission of colleges and universities. They also brought fee revenue.

But for national policy-makers looking for economic growth in a knowledge economy, selling services to international students was an opportunity to diversify the industrial base of a nation. Education could become an 'export' industry bringing foreign capital to domestic institutions.

Direct benefit would come as jobs were created, taxes paid and goods consumed and indirect benefits would flow multiplying the value of each student's expenditure on themselves and their dependants.

In some countries such as the UK and Australia these benefits justified state expenditures on marketing and promotion to increase demand and hence revenue. Growth was rapid from 800,000 in 1999 to around three million in 2009.

This is separate from the numbers of students involved in the other three "modes" of international education where academics move, where the service crosses national boundaries and when programmes cross borders.

Political and institutional leaders and industry boosters started to promote and defend the international student market with claims about the value of the industry. The value was commonly referred to in terms of 'export' income and the education and training industry was bench marked against other big export earners.

Popular comparisons in Australia were to claim that education was second to iron ore and coal as an export earner and was worth more than tourism. In British Columbia, foreign students are compared with fishing and trapping and the Vancouver film industry as contributors to the provincial economy.

Positioning education as an export industry was rational and clever. It was rational in that trade in services is a legitimate export business and the flow of foreign capital into an economy for a service delivered there could be captured in the national accounts as "export income". It was just like tourism.

The cleverness was that it pre-empted a nasty parochial debate about 'outsiders' taking up places in colleges and universities that could be used by domestic students.

This sort of claim is particularly problematic in economies with a limited supply of places or in fields where supply was constrained by regulation, costs or the profession - such as dentistry or teaching. It is also problematic when the main suppliers of education services are publically funded or subsidised - as Australian universities are.

Charging a higher price for international students - similar to out-of-state tuition rates in the US - can dampen these concerns. But the latent parochialism or racism embedded in the argument is more effectively suppressed by the generally positive public perception of 'export' income.

As the numbers of international students grew so did the estimates of the value of the market for particular nations. Recent public estimates (in US dollars at current exchange rates) range from $15.5 billion for the US, $15 billion for Australia, $14.1 billion for the UK, $6 billion for Canada to $1.5 billion or more for New Zealand.

The estimates appear in the popular media periodically and were largely unchallenged until recently.

Early last month, Dr Bob Birrell, an Australian demographer with a long-time interest in immigration and international students, claimed in *University World News* that the estimates for Australia numbers were wrong.

The possible error was an inflation of as much as 50%, Birrell said.

The sources of error were allegedly buried in the statistical methods used, out-dated expenditure data and incorrect assumptions about the spending power of the international student population.

Specifically, he challenged the emphasis on export earnings, arguing the total revenue needed to be discounted for local wages earned by international students. The industry leaders were quick to respond, pointing out mistakes in the analysis and flawed logic including omitting some the non educational expenditures of students and overlooking the downstream economic benefits of students' work earnings.

Five years ago this little storm in the Antipodean tea cup would probably have passed unnoticed or been dismissed as a nerdish spat. But today, the stakes are higher.

That is because the numbers for the national markets have continued to grow and because for some institutions that actively recruit students to be financially stable, the revenue from international students is critical.

Universities in the UK, Australia and New Zealand draw more than 10% of their revenue from international students. In some markets and some sectors within individual national markets - such as English language training and vocational skills courses - private for- profit providers have opened colleges and programmes specifically for the burgeoning international market and they are dependent on reliable market intelligence for business planning and attracting capital.

At a more macro level economic planners and strategists are trying to monitor and predict capital flows between economies and, while the numbers are below an airline or bank bail out bench mark, they are beginning to be significant especially in the smaller economies.

So why not simply add the national figures? Well, the popular estimates fail the 'eyeball' test. If the US has 650,000 international students worth $15.5 billion how can Australia with around half that many students be valued at $15 billion? It is after all a lower cost destination selling at lower price. It just does not compute.

The estimates are derived using different methods and by different types of actors - ranging from national statistical agencies to an individual international admissions officer on behalf of an industry association.

All are honourable and reasonable and open about the approaches they take. But there is no agreed global standard for estimating the economic worth of an individual international student.

Most concentrate on a simple addition of tuition and direct living costs overlooking the indirect and induced impact through job creation in other sectors and tax revenue. Even if there was agreement about the unit value, there is a lot of variance in the way the multiplier - the number of 'international students' - is calculated in different nations. So there are plenty of sources of error.

For domestic audiences, estimates of national market size and value do not need to be internationally comparable and sources of error at least remain constant and do not confound cross year monitoring and trend analysis.

But even these shortcomings can be problematic as the UK recently found when it became apparent that it had underestimated its international student population by 20% because of how it treated resident foreign nationals. (I cannot bring myself to use the Department of Homeland Security's "resident alien" tag - it always has me looking for ET.)

Concentrating on the domestic market numbers overlooks the fact that the international student industry operates in a global market with institutions in different nations competing for volume, market share and revenue against each other.

The popularity and attractiveness of the national 'brand' is important to the work of agencies such as the British Council and US education centres that are responsible for promoting the country's educational services.

The nations providing students and seeing an outflow of domestic capital are also interested in the current and future size of at least their portion of the industry - both in terms of currency flows and controls and in terms of skill formation and human capital creation.

The sending and the receiving nations need global market intelligence to value demand and supply of educational services to guide policy-makers and providers.

The individual purchasers also need better information about costs and supply. This will help them make choices about country of destination, of institution and of programme of study. It will also help them make assessments of country and institutional supply and selectivity, relative costs and potential return on investment.

Returns are not solely a function of price of tuition but are also influenced by living costs and by income on graduation for holders of particular qualifications. Some markets have seen a decline in the last 12 months in demand and compensation for students with international qualifications.

Transparency and reliability of information are very important when the provider and the purchaser are geographically separated at the time of choice of product and payment. For the five big Anglophone providing nations and in Japan, around 90% of international students are 'self financing' and are risking their own resources by making choices with little information.

They often are forced to rely on 'commission agents' whose incentives are to maximise enrolments in institutions that pay the agent the most or on anecdote, rumour or commercial publications such as *US News and World Report* rankings. None of these are interested in cross national comparisons or global comparisons and none are interested in protecting the consumer.

In summary, national policy-makers, institutional providers and investors, and potential students would all benefit from more reliable and more readily available data about the size and value of the international student market. It all sounds nice and logical. But is it really worth the effort?

If the numbers involved were still less than one million it might be debatable. If we take the 'best' estimate of three million students as the current year multiplier and assume unfairly and simplistically that the total unit value is $35,000 (the sum of average US tuition for an international student of $16,000 plus US average living expenses of $18,000 and $1,000 in other costs such as immigration and processing fees), the global market has a potential value of $105 billion.

Arbitrarily discounting the unit value by 15,000 for lower cost destinations and less costly programmes produces an estimated global market value of US$60 billion. This is still a number that commands attention.

Of course the global demand for post-secondary school education is expected to continue to grow and the number of international students could increase to five million - a conservative prediction - by 2025. Using the lower unit value of $20,000 the potential global value is US$100 billion in today's monetary values.

Both the current value and possible future value justify a little serious work on monitoring the global market and getting a better grip on both the numbers and the economic benefits involved.

In the US, the responsibility for this industry is split between the departments of Commerce, State, Homeland Security and Education. The National Science Foundation and GAO have an interest as do others concerned about global and domestic human capital and skill formation.

The education interest groups and trade associations also have a stake in this and have done some good basic work but a lot more is needed nationally and internationally to get a handle on the whole market in a globalised economy.

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