

Palmerston North Middle Districts Lions Club

Pirates on the High Seas of Education:
GATS and the Globalisation of
New Zealand Education

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On 1 April 2003, Trade Negotiations Minister Jim Sutton made public the government's initial offer for the latest round of negotiations in the General Agreement on Trade in Services (GATS). The period leading up to the tabling of New Zealand's offer was dominated by considerable hyperventilating over the agreement's impact on areas of so-called public services such as health and education. Groups such as the Post-Primary Teachers' Association (PPTA) and the Action, Research and Education Network of Aotearoa (ARENA) have been the most vocal in opposing the GATS deal.

But what is it and why the fuss? GATS is the first set of multilateral rules covering international trade in services. Its purpose is to establish a multilateral framework of principles and rules, designed to open up trade in services to competition from foreign suppliers.

GATS came into effect in 1995, is being negotiated under the auspices of the World Trade Organisation (WTO), and covers a range of service sectors, including telecommunications, construction and engineering, tourism and travel, transport, health and education – the topic on which I will be focusing this evening.

In GATS, countries complete a schedule that outlines the services for which they will guarantee access to foreign suppliers. Commitments made in these schedules apply to all other WTO members. Governments have the freedom to limit the degree to which foreign providers can operate in the domestic market.

And GATS is important for New Zealand.

We're a small trading nation whose economic wellbeing has always, and will in the future, depend on overseas trade; and good rules of the game are absolutely essential if firms are to invest, international trade is to flourish and economies are to grow – the surest way to achieve and maintain prosperity for rich and poor countries alike.

The proposition that free trade promotes general economic welfare is one of the most robust findings in economics over the past 200 years. There is overwhelming support for this proposition among professional economists. In a survey of economists reported in the *American Economic Review*, only 10 percent of respondents disagreed that "tariffs and import quotas reduce general economic welfare". In a New Zealand survey only 6.5 percent of respondents disagreed with that statement.

International rules and agreements such as GATS help give governance to international trade and are an essential part of membership in a modern and civilised world.

The first point I want to make is that GATS does not represent the beginning of trade in education services. Quite the contrary, trade in education services is significant and has been growing for many years – both in New Zealand and elsewhere.

Let's look at a few facts:

- according to the OECD, there were around 1.5 million foreign students enrolled in tertiary education in OECD countries in 1999 (equal to about 4% of all tertiary students) – double the number 20 years before;
- by the late 1990s, enrolments of foreign students in OECD countries were growing at twice the rate of domestic enrolments; and
- Australia has been one of the leaders in the foreign student market. Last year, during a visit to New Zealand, the former Vice-Chancellor of Central Queensland University noted that foreign student enrolments in Australia had increased every year since 1960.

The value of trade in education services is also high – estimated at \$US30 billion or 3% of the total value of worldwide service exports in 1998.

Export earnings from foreign students have increased sharply in many countries in recent years.

For example, between 1989 and 2000, export earnings from foreign students rose from \$US584 million to \$US2.2 billion in Australia, from \$US2.2 billion to \$US3.8 billion in the United Kingdom and from \$US4.6 billion to \$US10.3 billion in the United States.

Figures for New Zealand tell a similar story.

In 2002, the Ministry of Foreign Affairs and Trade (MFAT) estimated that New Zealand earnings from education exports totalled around \$900 million – up from \$600 million in 2001 and \$400 million in 1997.

By 1999, the education sector was New Zealand's 4th largest service export earner and the 15th largest foreign exchange earner overall.

This growth in the value of education exports has been driven by a significant increase in foreign student numbers in New Zealand. Between 1990 and 1999, New Zealand was the third fastest growing destination for foreign students – behind only the United Kingdom and Australia.

In 2002, some 80,000 foreign students studied in New Zealand. This was up from just over 52,000 the previous year and fewer than 1,000 in 1990.

Your local university, Massey, has been very successful in attracting students. According to figures supplied by the university, there were 3373 foreign fee-paying students at Massey's three campuses (Palmerston North, Wellington and Albany) at the end of 2002 (up from 1222 at the same time in 2000), with 1253 of them being here in Palmerston North.

International Pacific College, a private provider established by overseas investors more than a decade ago, also brings in hundreds of students to your region each year.

So, clearly, export education is a very important industry for Manawatu, as it is for New Zealand; and if we have clearly laid-out ground rules for our participation in this rapidly growing international market so much the better.

Why then is there so much vocal criticism of GATS? I do not want not to attempt to rebut all the criticisms. I do, however, want to discuss two of the most common concerns raised by opponents of GATS.

The first is that the agreement will limit the government's ability to regulate and determine funding policies that apply to the education sector. For example, Phil Smith of the PPTA argued in a recent *New Zealand Education Review* article that:

If the rules were applied fully to education, this would mean, for example, that whatever financial provision is made for New Zealand schools must be accorded equally to all private schools owned or run by overseas companies for profit.¹

Underlying this is the premise of much opposition to GATS – concerns about the role of foreign providers in the education sector. This is a curious view. If a foreign provider can come in and deliver world-class education to New Zealand students, why should we oppose that? New Zealanders now rightly expect world class goods and services across a whole range of areas.

Think of the top-class services provided by Vodafone, TV3, Stagecoach and Waste Management. Hundreds of thousands of New Zealanders use their services every day, large numbers work for them. And the companies pay tax into the government's coffers.

¹ Smith, Phil (2003), 'Keep the GATS away', *New Zealand Education Review*, 5-11 February 2003, p 6.

Why should education be any different?

Indeed, Phil Smith has also stated that overseas education providers might pay teachers 20% more and bring with them “state of the art technology” and other “excellent resources”.²

And, there is, in fact, much less to this ‘foreigners taking control’ argument than meets the eye. There is ample scope within the GATS (through a variety of mechanisms) for the government to limit the application of the agreement if it so chooses. Governments remain responsible for determining the way the education sector will be regulated.

The same is true of funding. Opponents of GATS argue that governments will be forced to fund private for-profit foreign institutions on the same terms as domestic ones. But the government has clearly stated that New Zealand’s GATS commitments apply only to private primary, secondary and tertiary education.

Public education services – or more precisely “services supplied in the exercise of governmental authority” – are not covered. Some say that the existing definition is sufficiently vague to open up the possibility that public education might become covered by the agreement at some later date. That may be true, but lots of things might happen in the future.

The best assessment of the scope of the GATS is that public education is excluded. The inclusion of public education is certainly not the New Zealand government’s intention as reflected in its offer, which included some wording to emphasise that point.

A second concern is that GATS ‘subverts’ democracy because it transfers regulatory authority from national governments to a supranational body such as the WTO. Similarly, the agreement is seen as a threat to democracy because it ties the hands of future governments, which will be bound by the agreement.

There is no question that GATS will limit the policies that the New Zealand government can pursue, just as it will limit the policies that other governments can pursue. That is hardly a revolutionary feature of GATS. That is the essence, and indeed, the whole point, of any such agreement – whether the Closer Economic Relations agreement with Australia or the Geneva Convention.

It is not rocket science – all countries that are party to any international agreement limit their ability to ‘determine their own future’ in exchange for the benefits that

² *Ibid.*

come from acting collectively. In this case, the belief (and it is well-founded) is that liberalised trade in services will help to lift global wealth.

The decisions to join GATS (and subsequently to continue to participate in it) are an appropriate exercise of the authority vested in a government that remains accountable to the electorate.

One has to wonder what the alternative is for those who oppose agreements such as the GATS – determination of investment rules by lottery? Unilateralism rather than multilateralism?

Interestingly, I don't recall organisations such as ARENA raising concerns about the 'subversion of democracy' by multilateral agreements such as the Kyoto Protocol. Similarly, can we expect the PPTA to begin protests over New Zealand libraries' use of the Dewey Decimal System to classify books – clearly a limit on our sovereign right to classify books as we please?

It also needs to be kept in mind that the implications of GATS for education are going to be limited anyhow. This is in part due to the exclusion of public education as noted earlier. It is also due to the fact that the education sector is one of the least 'committed' sectors under GATS, with only 44 of the 144 WTO members having made commitments in the education sector. That is to say, the education sector is and will remain one of the least liberalised of the service sectors.

It is important to highlight the degree to which education is singled out for continued protection from liberalisation. For example, New Zealand's initial offer under the current GATS round details new specific liberalisation commitments in 10 service sectors, including integrated engineering, management consulting, post and couriers and convention services. Improved commitments are put forward in a further nine service sectors, including engineering, computer, veterinary and financial services.

In contrast, no new specific commitments are put forward in education as part of the current GATS round. In other words, no further liberalisation of trade rules is proposed in this context.

Given all the noise that groups such as ARENA and others have been making regarding GATS and education, you could be forgiven for thinking that the government was proposing to blow the doors off protection the way it did for agriculture back in the late 1980s. That is clearly not the case.

That there should be interest in GATS is understandable. First, GATS is new, and it represents the first multilateral effort to liberalise services. Second, the nature of GATS

is such that it covers sectors such as education, which are seen more as social than economic in nature.

Finally, the liberalisation of trade in services may be more apparent than the liberalisation of trade in goods because of the nature of service exports. The 'export' of services is not like the export of goods.

Traded goods physically cross borders and are consumed in another country. Service exports are different in that the services being delivered do not necessarily cross country borders.

Indeed, most of our education exports are delivered right here in New Zealand – for example foreign students at our secondary schools or English language schools. They are not delivered in the Philippines, China or Vietnam. Because of this, liberalisation may make regulatory issues more transparent than they would be otherwise.

And there should also be debate over GATS. That is healthy. However, it should also be a well-informed debate over the real issues, not the sort of scaremongering that has been characteristic of the debate to date – both in New Zealand and elsewhere.

There are real issues raised by the increased trade in education services – and globalisation more generally. They include, for example, the implications of both for:

- transferability and recognition of qualifications;
- quality assurance and accreditation processes in education; and
- mobility of teachers and researchers.

The presence of foreign students in New Zealand – the most common form of education export – can also raise wider issues relating to infrastructure and public services.

For the most part, these are not the issues being debated. Rather, the focus has been on hyped-up concerns about New Zealand being held hostage by American Express, Oracle and Microsoft.

The woeful nature of much of the anti-GATS argumentation is nowhere more evident than in the debate over the agreement's genesis, which is often portrayed in downright conspiratorial tones. Some of the explanations put forth for the rise of GATS are more sinister than an average X Files story line.

For example, ARENA variously describes the genesis of GATS as follows:

The World Trade Organisation (WTO) is currently orchestrating a grab by the biggest transnational companies (TNCs) from the world's most powerful countries... *[T]he TNCs' goal is to control the most important services in every country of the world* (emphasis added).

and

The groundwork had been laid at the rich countries' club known as the OECD... *[T]his was a naked push to extend the reach of the biggest transnational companies* (emphasis added).

I subscribe to other, albeit much less conspiratorial and certainly less headline-grabbing explanations for the rise of GATS.

One of these is that the world economy, and the nature of trade between countries, has changed. A key factor in this has been the long-term rise in the share of the service sector in the economy.

Whereas the bulk of the economy and employment used to be found in 'goods' industries, that is no longer true and the service sector has become increasingly important over the past half-century. For example, the service sector accounted for an average of two-thirds of both employment and economic gross value added in OECD countries in 2000.

Another key driver is the fact that, in many countries, state education systems have simply been unable to meet the significantly increased demand for education generally, and higher education in particular.

As noted in a recent *World Education News and Reviews* article:

- the tertiary student population in Asia is expected to grow from 17 million today to 87 million in 2025;
- in Malaysia, the government is equipped to educate a mere 6% of its population through public universities;
- China currently educates only around 4% of its population and has recently decided to allow foreign providers to offer joint degrees with local universities; and
- Thailand would have to open a university of 20,000 every year in order to keep up with its growing demand for higher education.³

³ Sedgwick, Robert (2002), 'The Trade Debate in International Higher Education', *World Education News & Reviews*, Sept/Oct, www.wes.org/ewenr/02sept/Feature.htm.

Given this, and the growth in cross-border trade in services generally, it makes sense to promote the increasing liberalisation of markets for services and to ensure that a robust set of rules is in place to protect both investors and consumers of services.

This is as true for trade in services now as it was for trade in goods in 1947 when the General Agreement on Tariffs and Trade (GATT) came into effect. It also makes sense to do it where New Zealand has shown its ability to compete and that is certainly the case in education.

New Zealand brings much to the marketplace – the English language, a beautiful country, safety and security and a competitively priced service. A recent report prepared for Australian Education International and IDP Education Australia showed that New Zealand had the lowest cost of living and tuition fees among the five countries surveyed, which included Australia.⁴ New Zealand is also competitive in other respects.

For example, Polytechnics International New Zealand Ltd (PINZ), a consortium of New Zealand polytechnics, universities and colleges of education, is a successful education and training consultancy services operating in the global marketplace. PINZ has completed contracts in over 30 countries and was a recipient of a Trade New Zealand Export Award in 2002.

New Zealand is a small trading nation and has always depended upon access to bigger markets for its prosperity and well-being. GATS will provide the certainty that our export education organisations need to protect their investments and will help formalise arrangements for access to good education opportunities.

The government is to be congratulated for having kept its resolve in the GATS dispute by not backing down on the proposed commitments it set out in its consultation paper earlier in the year. As noted, the 1 April 2003 offer was largely unchanged from what it had released for consultation.

Progress on trade liberalisation is inherently difficult because of the fact that the benefits (ie lower prices, more consumer choices, more jobs in 'sunrise' industries) tend to be diffused across the whole economy. As a result, individual consumers or firms may see only a small benefit, even if the economy-wide gains from trade reform are significant. On the other hand, the costs (job losses in previously protected industries) tend to be concentrated and hence are more visible.

⁴ Australian Education International and IDP Education Australia (2002), *Comparative Costs of Higher Education Courses for International Students in Australia, New Zealand, the United Kingdom, Canada and the United States*, Commonwealth of Australia.

The battle over GATS will doubtless continue. In releasing its offer, the government noted that the consultation process was continuing. Progress on the trade front is rarely 'linear'. Two steps forward can be followed by one step back.

One need only look at GATT to see this. Despite the many gains made under GATT since its inception in 1947, much more remains to be done – witness the recent US imposition of steel tariffs and the continuing significant protection and subsidies afforded to the agricultural sector in Europe, Canada and the United States.

In closing, I believe there is more to GATS and trade liberalisation more generally than just a trade deal. It is also about a confident nation's willingness to back itself. One of the most disappointing aspects of the recent debate was the New Zealand Vice-Chancellors' Committee's (NZVCC) decision to oppose GATS.

If any group of institutions should be for openness and outward-looking policies, it is the universities, which must compete for staff and students on the world market. And more importantly, they must compete in the global marketplace for ideas.

It is certainly not clear to me how the NZVCC position fits with the University of Auckland Vice-Chancellor's call that New Zealand needed "to be challenged by new approaches ... to our external relations and trade opportunities ...".⁵ So much for the Knowledge Wave.

The education sector is changing as a result of a whole confluence of forces – the increasing recognition of the value of skills, changing demographics and labour market changes.

At the same time, technological change is providing new and innovative ways of delivering higher education – from fully virtual institutions to 'clicks and mortar' institutions that bring together the traditional and the new.

The face of the tertiary education sector looks quite different now, with the advent of new types of providers – for-profit universities such as the University of Phoenix, international chains such as NIIT and corporate universities.

These forces will pose challenges for all countries, but we cannot deal with them by simply closing the door. We should have an open approach to services so that we can draw on good ideas and gain access to other markets. We had better make sure that we are well placed to meet them. GATS won't be a panacea, but it will help.

⁵ Hood, John (2003), *Presentation to Knowledge Wave 2003 – The Leadership Forum*, February, www.knowledgewave.org.nz.

Annex

GATS: A Brief Introduction

GATS has two parts:

- the framework agreement containing the general rules and disciplines; and
- national 'schedules' which list individual countries' specific commitments on access to their domestic markets by foreign suppliers.

The national schedules that each country completes outline the services for which it will guarantee access to foreign suppliers. Commitments made in these schedules apply to all other WTO members. Governments have the freedom to limit the degree to which foreign providers can operate in the domestic market.

The agreement covers a range of service sectors, including telecommunications, construction and engineering, tourism and travel, transport, education and health.

GATS covers all internationally traded services within those sectors, with two exceptions:

- services provided in the exercise of governmental authority (ie services that are provided neither on a commercial basis nor in competition with one or more service suppliers); and
- in the air transport sector, traffic rights and all services directly related to the exercise of traffic rights.

GATS defines four different forms of trade in services (called modes of supply):

- *cross-border trade*. These are services supplied by one country to another, without any actual physical movement of either the supplier or consumer (eg e-learning, international telephone calls or international call centres);
- *consumption abroad*. This is where consumers from one country make use of a service in another country (eg tourism, English language schools in New Zealand);
- *commercial presence*. This is where a company from one country sets up a subsidiary or branch in another country to deliver services (eg a foreign university setting up in New Zealand or a New Zealand university setting up in a foreign country); and
- *movement of natural persons*. Individuals travelling from one country to another to deliver services (eg a New Zealand consultant delivering architectural or educational consulting services in another country).

GATS members choose whether to make a commitment in each sector and do so under each mode of supply as outlined immediately above.

Commitments can be full (no limitations) or partial (some limitations).

Commitments are made in relation to limitations on market access and limitations on national treatment. This means that governments could choose to 'commit' all education no matter how it is delivered, or only certain types of education (eg public or private) or only certain types of delivery of education (eg our government could allow foreign students to come to New Zealand, but not allow cross-border forms of delivery such as e-learning).

Governments may also make horizontal commitments that span all sectors (eg rules relating to immigration).

Governments have the absolute right to make or not make commitments in particular areas. They may also withdraw or change commitments, although they may need to compensate countries for the loss of trade access where such commitments are reversed.