

12th New Zealand International Education Conference

***Serving Everybody's Interests:
GATS and New Zealand Education***

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Serving Everybody's Interests: GATS and New Zealand Education

Thank you for the opportunity to address your conference and to take part in this discussion panel on the General Agreement on Trade in Services (GATS).

Given time limitations, it will not be possible to go into too much detail. However, I do want to outline for you some of the benefits of GATS and address some of the criticisms levelled at the agreement. I also want to put the GATS in a broader context and discuss the issue of trade liberalisation more generally.

Before doing that, it may be useful to provide a brief overview of GATS.

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. It came into effect in 1995 and is being negotiated under the auspices of the World Trade Organisation (WTO).

The agreement covers a range of service sectors, including telecommunications, construction and engineering, tourism and travel, transport, education and health. It covers all internationally traded services within those sectors, except for 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 services in the air transport sector.

GATS has two parts – a framework agreement containing the general rules and disciplines and the national 'schedules' that list individual countries' specific commitments on access to their domestic markets by foreign suppliers. These schedules outline the services for which each country will guarantee access to foreign suppliers. Governments have the freedom to limit the degree to which foreign providers can operate in the domestic market.

GATS recognises different forms of trade in services. Members choose whether to make a commitment in each sector and under the different forms of trade in services. Commitments can be limited or unlimited. They can differ across sectors and across different forms of service.

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 the New Zealand government could allow foreign students to study here, but not allow cross-border forms of delivery such as e-learning). Governments may also make commitments that span all sectors (eg immigration rules).

The key point is that governments have the absolute right to make or not make commitments. 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.

Now I would like to briefly address a number of the most common criticisms of GATS as it relates to education services.

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 Post Primary Teachers' Association (PPTA) argued recently 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

There is less to this argument than meets the eye. Why? To begin with, there is ample scope within the GATS for the government to limit the application of the agreement if it so chooses. As noted, the government can limit the scope of GATS through the commitments process by excluding certain sectors and/or forms of delivery. And governments the world over, including New Zealand, have done exactly that, with education being one of the least 'committed' sectors under GATS.

It is important to point out that much of the concern expressed about GATS by opponents in New Zealand is not that it *will* have an adverse impact on governments' ability to regulate or fund education, but that it *could* have such an effect. Indeed, one recent report noted that:

It is true that the GATS is not currently constraining Government's education policy ... and that most NZ education policies are currently consistent with its GATS obligations. But this does not mean that such challenges could not happen ...²

That report provides few, if any, *actual* examples of the New Zealand government being constrained by GATS. Instead, it discusses several examples of policies that *could* be threatened by GATS – all couched in loose phrases such as “*may also come into question*”, “*could generate complaints*”, “*there are dangers that*” and “*there might well be pressure to recognise*”.

The conjectural nature of such concerns is evident from the following passage of a recent ARENA report, which states that, in the report:

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

² ARENA (2003) *Serving Whose Interests?: A Guide to NZ's Commitments Under the WTO General Agreement on Trade in Services*, pp 45-46

[W]ords such as ‘prohibited’ are used to describe situations where, in ARENA’s view, the government would most likely lose a case if a complaint were to be lodged at the WTO...³

One of the oft-quoted potential threats is that governments will be forced to fund private for-profit foreign institutions on the same terms as domestic ones. This, despite the fact that the New Zealand commitments under GATS apply only to private primary, secondary and tertiary education. Education services “supplied in the exercise of governmental authority” are not covered.

I am not a lawyer, but my understanding is that the best assessment of the scope of the GATS is that public education is excluded. 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. Many things may happen in the future. Others may not.

A second concern among opponents is that GATS will somehow lead to a flood of foreign-owned education providers in New Zealand. In their view, this is of concern given that it will limit the ‘pool’ of money available to local (public) providers.

That this could be seen as a criticism of GATS is, in my view, curious. If a foreign provider helps to meet the skills and training outcomes of the country and the individual aspirations of New Zealand students by providing high quality education, why be concerned about it?

There are no more grounds to argue against a foreign education provider than against foreign-owned telecommunications provider TelstraClear. Foreign providers operating in New Zealand do raise policy issues, but the funding dilution argument used against foreign providers is hardly that sophisticated. If the issue is one of finding ways of protecting quality, then let’s debate that issue.

New Zealanders expect world-class goods and services across a whole range of areas. Foreign companies such as Singapore Airlines and Vodafone provide world-class service to thousands of New Zealanders every day. And the government is currently supporting a bid by Toll Holdings, an Australian company, to take over Tranz Rail. If world-class is good enough for trains, planes and mobile phones, it should be good enough for education.

As Phil Smith, head of the PPTA has noted, overseas education providers might pay teachers 20% more and bring with them “state of the art technology” and other “excellent resources”.⁴ I look forward to him arguing for lower pay, “outdated technology” and “not so excellent resources” in the next teacher pay round!

³ *Ibid*, p 13

⁴ Smith, Phil (2003) ‘Keep the GATS away’, *New Zealand Education Review*, 5-11 February, p 6

Who are we to discourage firms willing to operate in New Zealand and pay the taxes that will help finance our hospitals, schools and tertiary institutions (and the salaries of many members of the Association of University Staff)?

A third 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. GATS will limit the policies that the New Zealand government can pursue – no question. But it does the same for other governments.

That is hardly a revolutionary feature of GATS and is the whole point of any such agreement. All countries that are party to any agreement limit to some degree their ability to 'determine their own future' in exchange for the benefits that come from acting collectively. In this case, the well-founded belief is that liberalised trade in services will help to lift global wealth.

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. International rules and agreements such as GATS are an essential part of membership in a modern and civilised world.

The final issue I wish to briefly address is that of trade and globalisation. While this concern is not specifically related to education, it is worth addressing given its broader implications. At the root of much opposition to GATS is a more fundamental concern about the impact of trade liberalisation and globalisation on the poor. There are many variants to this argument, but a basic one is that globalisation has widened the gap between rich and poor countries and that the WTO serves the interests of rich nations, but not poor ones.

I disagree with the view that the trade liberalisation, globalisation and the GATS serve the interests of rich countries but not poor ones, as contended by critics. Apparently, so do people in poor countries.

According to a recent survey of 38,000 people in 44 countries as part of the Pew Global Attitudes Project, a majority of respondents in almost every nation surveyed said that growing business and trade ties are at least somewhat good for their country and themselves.⁵

⁵ Pew Research Center for the People and the Press (2003) *Views of a Changing World: June 2003*, The Pew Global Attitudes Project, Washington DC, p 71-72

There is no divide between rich and poor countries on whether globalisation is a good thing. Indeed, support was highest in some of the poorest countries (see attached Annex).

Contrary to the negative view of critics, the Pew Centre report concluded that:

To varying degrees, people almost everywhere like globalisation ... Economic globalisation is particularly popular. In 41 of 44 nations surveyed by Pew, majorities think growing trade and business ties are both good for their country *and* good for their families.⁶

It would seem the divide is not between rich and poor, but between critics of trade liberalisation and the rest of the world.

The 'divided interests' theory promoted by neo-leftist groups is also inconsistent with the fact that something like three-quarters of all members of the WTO are from developing countries, with a number of low-income countries queuing to join up. Why would they do this if it were not seen to be in their interest?

One reason is that these countries see that the reform model advocated by the WTO works, as I discuss briefly a bit later. Another is that these countries see that the WTO provides a useful framework for small countries to achieve better trade policy. As Alan Oxley argues:

The greatest falsehood about the WTO is that it is a system which harms small and developing countries. The WTO is the only set of international rules which gives small and developing countries the power to challenge any misuse by the giants of the world economy in trade. This is a right cemented in international law and buttressed by the enforcement provisions of the WTO which require miscreants to stick to the rules. Nothing else in the world gives small and developing countries such power.⁷

That there would be such a convergence of views on globalisation and trade is not surprising. Globally, there have been tremendous strides in improving the well-being of humanity over the past half century. As noted by Goklany (2002):

The well-being of the vast majority of the world's population has improved and continues to improve. Because of a combination of economic growth and technological change, compared to half a century ago, the average person

⁶ *Ibid*

⁷ Oxley, Alan (2001) 'A fresh attack on the WTO - this time GATS', *Australian Financial Review*, 29 June

lives longer and is less hungry, healthier, more educated and more likely to have children in a schoolroom than in the workplace.⁸

Yes, huge challenges remain. Far too many people continue to live in poverty, but the answer is not to circle the wagons, as some suggest. We need to extend the reforms and take steps to address the downsides if we are to overcome poverty. Liberalising trade in developed countries can play a significant role in this. To quote Secretary-General of the United Nations, Kofi Annan:

No single change could make a greater contribution to eliminating poverty than fully opening the markets of prosperous countries to the goods produced by poor ones.⁹

Liberalised trade – in education or more generally – will not be a panacea. And it can have costs for some, as some local producers lose out to foreign and domestic competitors. That means other initiatives, whether aid or adjustment programmes, must accompany such reforms in developing countries.

But in aggregate, the effects of trade and globalisation are positive. Several studies have shown that globalisation promotes economic growth and, more importantly for this debate, that economic growth benefits the poor as much as it does the rich. There is no divide between the rich and poor as portrayed by some. A rising tide lifts all boats. For example:

- Dreher (2002) finds that globalisation promotes growth and that, on average, countries that globalised experienced higher growth rates than countries that did not;¹⁰
- Winters (2000) argues that trade liberalisation is generally a strong positive contributor to poverty alleviation – it allows people to exploit their productive potential, assists economic growth, curtails arbitrary policy interventions and helps to insulate against economic shocks;¹¹
- Dollar and Kray (2001) find that trade has a strong positive effect on growth and that globalisation leads to faster growth and poverty reduction in poor countries;¹² and
- a World Bank study found that 24 developing countries that increased their economic

⁸ Goklany, Indur M (2002) *The Globalization of Human Well-Being*, Cato Policy Analysis No 447, Cato Institute, Washington DC, p 14

⁹ Cited on *New Zealand Agency for International Development* (NZAID) website, www.nzaid.govt.nz

¹⁰ Dreher, Axel (2002) *Does Globalization Affect Growth?*, University of Mannheim Discussion Paper, University of Mannheim, p 14

¹¹ Winters, L Allan (2000) 'Trade and Poverty: Is There a Connection?' in Dan Ben-David, Hakan Nordstrom and L. Alan Winters *Trade, Income Disparity and Poverty*, World Trade Organisation Special Study No 5, Geneva, pp 43-69

¹² Dollar, David and Aart Kray (2001) *Trade, Growth and Poverty*, World Bank Research Report, The World Bank, Washington DC, p 27

integration in the twenty years ending in the late 1990s achieved higher growth in incomes, longer life expectancy and better schooling.¹³

As Dreher argues “globalisation is good for growth ... [T]he accusation that poverty prevails because of globalisation is therefore not valid.”¹⁴

Increased trade is clearly not all that is required. But, even serious critics of some of the research on the link between trade policy and economic growth make it clear that they do not believe that trade protection is good for economic growth.¹⁵

That there should be interest in GATS is understandable. It is new, it represents the first multilateral effort to liberalise services and it covers ‘social’ sectors such as education. Debate over GATS is healthy. However, much of the debate over GATS has involved scaremongering. The discussion rarely, if ever gets beyond the supposed evils of market reform and the ‘flawed’ WTO process.

There are very real issues to be addressed in relation to the impact of technology and globalisation on education. I am not trying to dismiss these concerns. However, we need to move beyond the simplistic arguments that, in my view, have been at the root of much of the opposition to GATS in New Zealand. We should instead be discussing serious issues such as the implications of internationalisation and cross-border education for quality assurance, accreditation and transferability and recognition of qualifications.

A good reason to start focusing on these real issues is that, like it or not, globalisation – either generally or in education – is not going away. Export education is being driven largely by the increasing demand for education, especially in rapidly emerging Asian countries. Education systems in many countries have not been able to meet this demand.

According to one estimate, less than five percent of the population of most developing countries currently has access to post-secondary education.

This should be a good news story for New Zealand. We bring much to the marketplace – the English language, a beautiful country, safety and security and a competitively priced service. In 2002, some 80,000 foreign students studied in New Zealand – up from 52,000 the previous year and fewer than 1,000 in 1990. Between 1990 and 1999, New Zealand was the third fastest growing destination for foreign students – behind only the United Kingdom and Australia.

¹³ World Bank (2002) *Globalization, Growth and Poverty: Building an Inclusive World Economy*, The World Bank, Washington DC

¹⁴ Dreher, Axel (2002) *Does Globalization Affect Growth*, University of Mannheim Discussion Paper, University of Mannheim, p 14

¹⁵ Rodriguez, Francisco and Dani Rodrik (2000) *Trade Policy and Economic Growth: A Skeptic’s Guide to the Cross-National Evidence*, CEPR Discussion Paper No 2143

In 2002, 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.

Why then all the moaning and belly-aching from the usual suspects? Don't worry. Be happy.

The export education industry is undergoing some tough times right now, with foreign student numbers expected to decline by as much as 40 percent over 2003 and 2004, as a result of a complex range of factors, including the stronger dollar, overseas competition, quality problems, and Chinese government views on New Zealand education, among others.

Nonetheless, these things have to be kept in context. The industry suffered a big setback in the late 1990s and bounced back to grow at a rate of 25-50 percent per year for three years running.

Let me conclude by saying that I believe that GATS is good and will play a useful role. But it won't be life-changing for our education exporters, mainly because most countries don't have high barriers to foreign education providers.

What it does provide is a stable legal framework so that education providers can make investments and implement strategies with a degree of security. In most cases, it formalises longstanding policies that helped boost the industry to over \$US30 billion per year by 1999 (OECD estimate). Almost all of our current income is derived from students studying in New Zealand, and the GATS will reduce the likelihood of countries restricting their citizens from studying overseas.

The GATS will also be important as our providers start to set up more offshore campuses, an area where local laws matter much more intensely. The certainty of exporters receiving a 'fair go' should not be underestimated.

As Robert Stevens said earlier today, New Zealand providers will have to look more towards offshore opportunities for growth and diversification and effective trade rules will support that.

In the media, GATS' success is often measured by the degree of progress achieved at meetings in Seattle, Singapore, Doha or wherever. But the real measure of GATS' success should be whether it helps to materially lift living standards around the world. I am confident it will, for the reasons outlined earlier.

To date, the foot soldiers in the battle for trade liberalisation have been a battery of ministers, government officials, trade representatives, lawyers and policy wonks. We owe them much and I for one wish the forces of light every success in the continuing battle for the hearts and minds of decision-makers and the general public over GATS. They are fighting from a position of strength – the moral high ground of freedom, opportunity and the creation of a better tomorrow.

Successive New Zealand governments in particular should be congratulated for recognising the importance of this issue and for their continued advocacy of trade liberalisation across a range of fronts. Let's hope the current tariff review brings more good news.

But the ultimate success of GATS does not lie with officials, trade representatives, lawyers or policy wonks. It lies with you – the universities, English-language schools, polytechnics, schools and private training establishments that provide high quality education and training to thousands of international students every day. It is a big responsibility and a significant challenge, but one which I know that you and partners such as Education New Zealand are up to.

I wish you all the best in your conference.

Annex

Support for Growing Trade and Business Ties, By Country

<i>Country</i>	<i>Growing business and trade ties are good for the country...</i>		
	<i>Somewhat (%)</i>	<i>Very (%)</i>	<i>Net (%)</i>
United States	21	57	78
Canada	36	50	86
Italy	19	60	79
France	32	56	88
Great Britain	32	55	87
Germany	37	54	91
Ukraine	31	62	93
Poland	17	61	78
Uzbekistan	60	37	97
Bulgaria	41	48	89
Czech Republic	28	56	84
Jordan	15	37	52
Egypt	25	42	67
Lebanon	29	54	83
Honduras	41	52	93
Argentina	18	42	60
Vietnam	56	42	98
India	35	34	69
China	32	58	90
South Korea	37	53	90
Japan	12	60	72
Senegal	63	35	98
Tanzania	35	47	82
Ivory Coast	55	41	96
Ghana	40	48	88

Source: Pew Research Center for the People and the Press (2003) *Views of a Changing World: June 2003*, The Pew Global Attitudes Project, p 71-72