

The Australian Funding Model and Its Consequences for Internationalisation

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Abstract

In the late 1980s the Australian Government allowed universities to enrol international students on a full-fee basis. In combination with other pressures on universities to become more entrepreneurial, the result has been a huge change to the face of Australian higher education. Tuition fees from international students, whether taught on-shore or off-shore, have become a significant form of export income, worth \$4.1 billion in 2002. This paper analyses the development of international student education in Australia and some of its effects. The paper argues that the benefits have been considerable, but there are challenges and risks which the Australian higher education sector needs to confront. One major challenge is to broaden the concept of "internationalisation" and to displace, to some extent, the focus upon revenue-raising.

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1. Introduction

I have been asked to speak about the Australian funding system and its consequences for internationalisation. There are many meanings and forms of internationalisation. My main focus today, however, is on what is, functionally, transnational or cross-border teaching and learning; involving either the students going to Australia from another country, or the Australian university teaching the students off-shore.

The English language terminology in the area can be confusing. The expression often used to describe this mobility, for example by the OECD, is “international higher education”. I will use this description, although it is not ideal for the purpose and should be seen as only a subset of internationalisation.

I will begin by looking at the world market in international higher education and Australia's performance, which in relative terms might be described as spectacular. I will briefly suggest how this has come about before looking separately at on-shore and off-shore forms of international higher education by Australian universities. I will then speculate on some of the consequences of the last 15 years' developments, and some of the challenges that these create for us. I will conclude with some observations about what Australia needs to do next, now that the system has matured to some degree.

I do not propose to speak for too long and I welcome discussion, particularly to learn about the internationalisation of German universities.

2. Australia in the International Context

The world market in higher education

International education generally is one of the most dynamic global industries. Taking higher education alone, there were an estimated 1.8m international students around the world in 2000² and the number will certainly be higher in 2003.

One projection by an organisation called IDP-Education Australia is that by 2025 the world market will have grown four-fold to 7.2m, which represents an annual compound growth of 5.8%.³ By 2025, about 70% of the global demand will be from Asia; with China and India responsible for the majority of it.

Demand for international higher education is bound up with the growing demand for higher education generally, whether domestic or international. Global demand for higher education is forecast to increase from 97m places in 2000 to 263m in 2025.⁴ The international component of higher education, however, will be growing faster than the domestic component because developing countries, particularly China and

² A Bohm et al, Global Student Mobility 2025: Forecasts of the Global Demand for Higher Education, IDP Education Australia, 2002 iii

³ Bohm, above, vi

⁴ Bohm, above, v

India, will not be able or willing to expand their own higher education sector at the rate they need for economic development. Directly or indirectly, therefore, they will import it.

Australia's growth

Australia's entry into this market really only began in a significant way in about 1988. In that year there were only about 21,100 international students in Australia. By 2000, when Australian universities had started to provide higher education off-shore as well as on-shore, the total number had grown to over 100,000.

The total Australian international higher education sector seems now to be growing by about 15% per annum, and was doing so even during the Asian financial crisis.⁵ It is predicted that by 2025 there will be about 1 million international students enrolled in Australian universities, although nearly half will be off-shore.

When set alongside the projected domestic growth in demand for higher education, in a population which may only really be growing through immigration, international students studying within Australia will become a much larger percentage, in all universities. On some predictions, by 2025 they will outnumber the domestic students at some universities, assuming no intervening forces.

Australia's comparative performance

I need to put these numbers into some kind of comparative context.

In absolute numbers, the United States of American receives the most international students, taking about 28% of the total world market. The US is followed by the UK (14%) and Germany (12%). Australia takes 7%. In fact, according to OECD figures for 2000, the five OECD countries of Australia, France, Germany, the UK and the US received 70% of all higher education students travelling to OECD countries to study (and the OECD has about 94% of the world market).⁶ Language is clearly a factor, with Asian students being drawn to countries which speak English, French or German.

Proportional to its size, however, Australia's performance is second only to Switzerland (which has a relatively low absolute number), with about 12.5% of its total tertiary students being from overseas in 2000. This compares with Germany, where 9.1% of tertiary students are citizens other countries.

Furthermore, if one looks at net flows, ie international students coming inwards minus Australian students going outwards, the differences are more marked. Relatively few Australian students study overseas, whereas some of the other major receiving countries also send significant numbers of students elsewhere; particularly Germany. Australia's percentage net intake is almost three times that of Germany.⁷

⁵ S Marginson and G McBurnie, *OECD Report on Cross-Border Post-Secondary Education*, (in draft), 38.

⁶ OECD, *Education at a Glance: OECD Indicators 2002* 237.

⁷ OECD, above, 243

To give you some sense of the importance of international higher education to the Australian economy, it is now the third largest export service, after tourism and transportation. Of all kinds of exports, it is now larger than, say, wool, which is something of an icon in Australia's recent economic history, and represents 12% of total service exports.⁸

3. A brief history

How did all this come about?

It has been said that historically there have been 3 main impulses behind Australian international higher education policy: aid, trade and internationalisation in the broader sense of wanting to connect with people from other countries for social, political and cultural reasons.⁹ Historically the aid motive was replaced by the trade motive in the late 1980s, whilst genuine internationalisation has been weaving in and out. People can act from more than one motive, of course, and this is certainly sometimes the case with international higher education policy.

Australia has been taking in international students since 1904 but the real growth began after the Second World War. From 1950 to 1974, most international students went to Australian universities supported by a foreign aid programme of one kind or another, especially the Colombo Plan. Those universities who participated heavily in the Colombo Plan, such as Monash and the University of New South Wales, now have amongst the highest numbers of international students, some 30 years later.

Between 1974 and 1985, international students in Australia were not charged fees for tuition, but a ceiling of 10 000 was placed on the total number admitted into the country.

From 1986, universities were allowed to admit full-fee international students, and an intense period of change began. In that year “trade” students; ie those on full fee, represented only about 9% of the total. By 1988, only two years later, 95% were “trade”. By 1990, in effect all international students were required to pay full fees¹⁰, to cover both their tuition and a capital component. The money was retained by universities and an explosion of growth took place.

The recipe for this growth in such a short period of time was not simply the universities being allowed to take international students and keep the money. A more complex environment was being built up in which Australian universities were encouraged by government to become entrepreneurial and more self-reliant, and discouraged from thinking that revenue from domestic students would rise in line with growing numbers. International education may be the most important strand of this entrepreneurial approach, but there are now significant numbers of full-fee paying

⁸ OECD, above, 241.

⁹ I Dobson and S Holtta, *The Internationalisation of Higher Education: Australia and Finland Compared*, (2001) 7 Tertiary Education and Management, 243 at 244.

¹⁰ Dobson and Holtta, above, 246

domestic students, especially at postgraduate level, which has encouraged a more market-oriented approach.

4. On-shore international students in Australia

To understand the situation more clearly one needs to separate on-shore international students; ie those studying within Australia, from off-shore students. These markets and their sub-markets may be operating semi-independently of each other, although their fates may ultimately be tied related, positively and negatively.

Currently about two-thirds of Australian international higher education enrolments are on-shore in Australia. The main source countries are China, Hong Kong China, Singapore, Malaysia and Indonesia. The main disciplines of study are Business Administration/Economics (49.8%), Science/Computing/ICT (15%), Arts (10.3%).

5. Off-shore international students

Currently about one-third of Australian international higher education enrolments are off-shore, although the proportion is rising and is projected to reach 44% by 2025. The main importing countries are Singapore, Hong Kong, Malaysia and China, in that order.

Description

Off-shore international higher education takes various forms but there are three simple types:

- through overseas campuses of the Australian university;
- through partnerships with local providers;
- and through distance education.

In reality, these forms can be mixed, and sometimes it is hard to tell one from another.

Campuses

A few Australian universities have established campuses overseas; either on their own or in a joint venture. My own university has one of each kind. Monash has a campus in Malaysia, with about 2000 students, which is a joint venture with a local company. We have recently built and opened a campus in South Africa, on our own, which currently only has about 400 students but which is projected to grow rapidly.

This is a controversial subject but there are those who believe that the international education market will develop in such a way that governments of developing countries will begin to favour inviting foreign universities into their country over giving financial support for their young people to go overseas.

Partnerships

Many Australian universities teach students in other countries in a twinning or franchising arrangement with a local provider. This usually involves the student actually being enrolled in the Australian university but being taught at a local educational institution, for some or all of the degree program. The curriculum, assessment and quality assurance may be provided by the Australian university, which awards the degree at the end. Monash, for example, has several thousand students undertaking its programs offshore in this way, mostly in Singapore and Hong Kong.

Distance Education

In addition, an increasing number of Australian universities engage in distance education. The DE may be “pure”, in other words without a local institution providing support, or it may be supported. There might be a local support provider, or the Australian university may travel there periodically and offer intensive face-to-face programs for its DE students.

Motivation

The motivations for teaching off-shore are various.

Financial

In some instances there is an immediate financial motivation. This is more likely to be the case with partnerships and pure distance education, although it has to be said that Australian universities are not very sophisticated in their ways of costing programs, and they may be deluding themselves about the true surpluses generated by their activities.

In the case of campuses, it is doubtful that immediate financial gain is the motivation, even amongst the more self-delusional expansionists, although if the capital cost has been borne by a local joint venture partner it may become more viable earlier in operating terms.

Monash, which is probably the most developed in this regard, does think that it makes a reasonable financial return from its Malaysia campus, and it also benefits from a significant number of transfers; in other words students begin in Malaysia but then transfer to a Melbourne campus of Monash and pay full-fees there.

Feeder

This leads into a second motivation, that of having a feeder stream back to the home base. In effect, the aim is to provide a hybrid program for the student at a reduced overall cost. The student begins in their home country, perhaps at a twinning or partner institution, and then moves to the Australian university in the second or third year. They thus benefit from an international experience, and the value of the degree certificate from a prestigious institution, without the full cost of attending that institution throughout.

Hedging

Another motivation, which starts to have a more strategic flavour, could be called "hedging". Rather than rely wholly on students coming to Australia, the university will go closer to those students. This then reduces some risks, for example of Australia falling out of favour as a destination in key markets, although no doubt it opens new ones.

It is also possible that off-shore activities will be a response to imbalances at home. For example, if current trends continue, my own university could fill a reasonable size campus wholly with students from China taking courses in business. There will come a time when it might be more sensible for us to open a campus in China, at least for those Chinese students who want the course in the medium of English, rather than the international experience and the mixing with other nationalities.

Global strategy

The most complex set of motivations will lie in those universities which have a global strategy. Again, I must talk about my own university because I am most familiar with it, and it is possibly the boldest anyway. The Monash vision is to have a full campus or significant centre on every major continent. The idea is to have a set of global degrees, so that students might enter year 1 in one country and move to a Monash campus in other countries in subsequent years.

At least some of our off-shore activities are justified, at least to ourselves, by the need to put the nodes of that network in place, even if the financial returns are not immediate. Time will tell whether this is the right strategy, or at least whether Monash is the right university to pursue it, but it is an example of off-shore internationalism being part of a broader strategy for the future development of the university.

6. Consequences and Challenges

I am trying not to talk about the benefits and disadvantages from international higher education because there is some debate and controversy about which is which. It is better to talk more neutrally about consequences and challenges.

Revenue boost

There is no doubt that the capacity to take in full-fee paying international students has boosted the revenues of university students. There is a perception that international students bring in more revenue than domestic ones and that they are, in financial terms, more "worth it". I mentioned earlier that Australian universities are unsophisticated in their costings of programs. I think it is safe to say, however, that international students bring in vital marginal discretionary revenue, coming on top of substantial public investment over the years in infrastructure, but when they reach the point that fresh capital investment is required, in buildings and equipment etc, the picture can look different. In my own university, one of our campuses is essentially full up. If we were to build new multi-storey buildings to accommodate international

students and price our courses at a level which would recoup the full cost, I imagine we would need to charge considerably more.

Increased scale, flexibility, facilities

Whether or not international students really yield substantial surpluses, they have expanded the whole system, leading to greater choice of courses for all student and exposure to more delivery modes.

Forcing up quality and innovation

An OECD report suggests that the international student market has the effect of forcing up quality and innovation in universities.¹¹ It compels higher education institutions to offer quality programmes that stand out among competitors. I can't say whether it has really had that effect to date across the whole Australian sector, but I can see the tendency.

It is certainly doing this indirectly. Australian governments, conscious of the sheer size of the sector as a form of invisible export trade, are moving to create mechanisms which will assure the international markets of the quality of the programs. From time to time there is a story or possible scandal about standards at an Australian university, and I sense that governments, and perhaps the remainder of the sector, move to rectify the situation because of the possible spill-over damage. It is noticeable how willing are government ministers to move in quickly to handle the situation.

Benefits to community

At least in the Australian context, international higher education has produced some clear benefits, I think. It has led to immigration of skilled and trained people – a brain gain – from a percentage of international students who wish to stay, which outweighs the brain drain that is so much feared. If one thinks about the declining capacity of developed western countries to reproduce themselves through birth rates, this is an important form of population policy. Of course, it is also a reason why developing countries might move against sending students overseas and start to prefer branch campuses at home of overseas universities.

There is also a clear benefit to the community in financial terms through the multiplier effect of students spending money on living expenses. I know there is considerable work going on in my own state government to measure this more accurately, but it is significant that our Minister for Innovation, Research and Development is taking a great interest in the performance of local universities, and not just the Minister for Education.

Relationship-building

Looking ahead Australia will soon reap the benefit of having so many of its graduates reaching positions of influence in their home country. These are the people who make choices about trading partners, about foreign policy and so on. And they are alumni who may remember their alma mater with fondness. I have recently finished as a dean of a faculty. In an annual giving appeal this year, it was an overseas alumnus who gave the single largest gift, in the form of shares now worth \$250,000.

¹¹ OECD, above, 241

If this kind of experience is replicated across the sector it will be a substantial injection of discretionary funds.

Risks

Whilst some of the benefits are clear, there are also risks; mainly ones stemming from being in competitive markets. A university might become too dependent on one source country only to find that international tension, visa restrictions or some other extraneous force abruptly leads to a collapse in that market. In our region, the pronouncements of Dr Mahathir, for example, which may have become more erratic as he approached retirement, have given cause for concern about the Malaysian market. Instability in Indonesia is also another fear.

Universities do not have a culture or tradition of thinking in terms of risk management. It is true that senior managers and governing bodies might now be sensitive to risk, but this is not the case across large universities where, for example, heads of department hold their position on two year rotations but make quite significant decisions.

The decision to invest heavily in an off-shore venture probably carries higher risks. If it is a joint venture, then one may be at the mercy of the solvency or probity of one's partner. If one invests in a campus on one's own, it will take a long time to recoup the capital outlays, during which period events might well move adversely.

To be clear, I am sure there is plenty of growth left in the international higher education sector, which may be fuelled for 50 years by developing countries around the world, but that does not mean that a particular university at a particular time will judge the situation correctly.

Student experience

We may now be reaching the point where the number of international students in some Australian universities starts to have a negative effect. Those students certainly do want to be with other students from their own country, for mutual support etc, but they do want to get what they see as an Australian education, mixing with Australians and people from different countries. We are starting to see some resistance in one faculty at one campus from the international students.

Other forms of internationalisation

I said earlier that three possible motives behind international education policy are aid, trade and "internationalisation" of experience. The trade motive, so dominant in the last 15 years, may be crowding out the other two. It ought to be easier to provide a greater space for aid, in the form of scholarships and bursaries, funded from trade revenues, but it does not seem to be the case. I think this is short-sighted at a number of levels. If one is really investing in the goodwill of people of influence tomorrow, providing assistance to them seems more effective than charging what the market will bear in the short-term.

It ought also to be easier to internationalise the curriculum, provide a more multi-cultural experience on campus, arrange study abroad tours, facilitate exchange schemes and so on, because of revenues brought in from overseas students. To some

extent this is happening, but I think Australian universities need to do more, and quickly, before a strongly instrumental association is attached to international higher education.

7. Conclusion

In this paper I have tried to chart the spectacular growth of full-fee international higher education in Australia since the late 1980s, and the associated injection of funds into universities and the wider community. It is attributable not just to the decision to allow universities to admit these students and keep the fee income, but also to an entrepreneurial climate which the government has fostered, which one can also see in relation to research policy, performance-based funding schemes and an encouragement of commercialisation.

One speaker yesterday used the old expression that the grass is always greener on the other side. To me, on this issue, the grass would be greener in some third field. This would involve having a better understanding of the full cost of university places, being able to command a fee that would cover it, and generating a surplus which can partly be ploughed back into helping developing countries develop more quickly (for example through scholarship schemes) and partly ploughed back into internationalising the experience of all students, whatever their country of origin. To reach that field, Australian universities and governments need to give these non-trade dimensions more urgent and serious attention than has so far been the case.