

CHAPTER NINE

Private Overseas Student Policy

INTRODUCTION

This chapter considers government policy towards the 'export' of education services—principally by the admission to New Zealand state and private educational and training institutions of full-cost paying, non-quota foreign students. The conclusion is that allowing the 'export' of such services would increase the return from the nation's very considerable investment in post-compulsory education. This could, in turn, enhance the quality and efficiency of New Zealand's education sector. There are, however, some important reservations to be made about the international competitiveness of New Zealand's educational institutions.

A feature of New Zealand's economic performance in recent decades has been the continuing low levels of productivity. Domestic protectionist policies were clearly a significant cause. With recent reductions of protective barriers, New Zealand's manufacturing and land based industries have had to face the challenge of international competitiveness. As in the case of these other industries until the recent changes in protection regimes, the education sector's inability to respond to international market opportunities is due to domestic policy problems. Also, as in the case of other industries, the policy changes required will be of concern to present establishments—in this case teacher and student interest groups who will wish to ensure that the provision of tertiary education on a full-cost recovery basis to overseas students will not disadvantage New Zealand students. Thus, the position of the education industry is, in many ways, typical of other 'protected' sectors.

What is abnormal about the education sector's failure to export its services is that this derives directly from government action to control demand (via the overseas student quota and other measures)¹ whereas, in the case of other industries, export failure has been indirect—due to protectionist policies which have had an adverse effect on their international competitiveness. As in the case of other industries, lack of direct exposure to international competition may tend to reduce the productivity of domestic institutions. This would be to the long-term detriment of New Zealand students and to the overall cultural and economic development of the country.

Current Exports of Educational Services

At present overseas students can only attend New Zealand educational establishments within quota, unless they are children of foreign residents (for example diplomats and business people). The approved quotas for 1987 are:

- 610 for first year undergraduate study
- 170 for first year technical institute entry
- 1,300 for students in secondary schools (that is, the stock figure).

In deciding on individual applications, the following priorities are applied:

- i students funded under approved bilateral assistance programmes and other international approved programmes;
- ii students from the South Pacific and Asian countries, including those sponsored by their home government, and private students assisted by the New Zealand Government to the same extent as New Zealand students (except for the Tertiary Assistance Grant and the fees grant).

As at 30 September 1986 there were 3,698 private overseas students in New Zealand undergoing the following types of education and training:

TABLE 9.1: Private Overseas Students—Type of Education in New Zealand

Schools (including private schools)	1,039
University undergraduate and diploma	1,598
University postgraduate	364
Practical experience following studies	203
Technical Institutes	408
Vocational In-service Training	86
	3,698

Source: Department of Labour

All the above entered under quota restrictions except those undergoing practical experience following studies and those undertaking postgraduate work or vocational in-service training.

The principal countries of origin were:

TABLE 9.2: Private Overseas Students—Countries of Origin

Fiji	868
Indonesia	193
Malaysia	1,196
Singapore	232
Tonga	304
Western Samoa	414
Other	491
	3,698

Source: Department of Labour

In addition there were 122 overseas students admitted outside quota on a full-fee basis to private schools in terms of a policy initiated in 1983 and later withdrawn.

Currently, private overseas students at state institutions only pay the standard annual tuition fee of \$264 (inclusive of GST). This is, of course, only a very small proportion of total tuition costs. The only difference between private overseas students and New Zealand (including Niue, Tokelau and Cook Islands) students is that private overseas students do not receive the fees grant (75 percent of the \$264 fee) or the Tertiary Assistance Grant. Until the current academic year, private overseas students (other than those from the South Pacific) at state institutions paid \$1,000 per year (reduced from \$1,500 in 1985).

The International Demand for Education

The international demand for education is very large. An estimated one million students are studying at higher education levels in countries other than their own.² The major host countries recorded in the Goldring Report were:

TABLE 9.3: Overseas Students Studying Abroad

	<i>Number of Overseas Students</i>	<i>Overseas Students as % of Total Student</i>
USA (1983)	337,000	2.7
France (1981/82) (higher education)	107,100	13.0
Germany (1981) (higher education)	58,000	5.8
UK (1982/83) (higher education)	46,000	5.0
Canada (1983) (university)	36,000	5.3
Australia (1983) (higher education)	13,674	3.9
Figures* for New Zealand are:		
University (1986)	1,962	3.3
Technical Institute (1986)	408	0.9

*Note: these figures are of overseas students as a percentage of full-time, part-time and external university students and of full-time and part-time polytechnic students. The comparability of these figures with those provided by Goldring is not known. Overseas university students represent about 5.9 percent of full-time university students and overseas T.I. students represent about 4.5 percent of full-time T.I. students. Overseas students are about 4.5 percent of the university roll on an equivalent full-time student basis.

Source: Goldring³

In some countries foreign students form a significant proportion of the postgraduate student body. For example, in the UK one-third of postgraduate university students are foreign (see Appendix I).

The major sending countries (with percentage of the global overseas student population) in 1978 were Iran (7.7 percent) Greece (3.6 percent) Nigeria (2.8 percent) and the US (2.7 percent). Significantly for New Zealand, Malaysia and Hong Kong each sent about 2.5 percent of the global overseas student population in 1978, but these proportions have increased since then.⁴ Student mobility is increasing. One survey has estimated that the international movement of students almost doubled between 1970 and 1980.⁵ In the same period, overseas students in higher education in New Zealand remained relatively static in the range of

2,500 and 3,200.⁶ Although current numbers are somewhat larger, it is clear that New Zealand is still not participating in this growth of student mobility to any significant degree.

The growth in the international demand for education results from several factors. Clearly, the 'baby-boom' increase in the number of post-secondary students and the increases in the proportion of students graduating from secondary schools were prime causes. Also, higher real incomes and lower real costs of travel have made overseas education a more practical proposition for many students. There is also a considerable demand for language training as international trade and cultural exchange at many levels expand. The acceleration of technical knowledge and the concentration of 'high tech' in relatively few advanced industrial countries has led to significant movement of students to centres of specialised education and training—especially in the US.

It is not clear what the future demand will be. At present demand appears to be still growing. The pattern of demand may change as some developing countries expand their coverage of first degree institutions. Hughes notes that China seems to be an exception among the larger developing countries in not, as yet, having a substantial coverage of such institutions.⁷ However, many wealthier people in developing countries still appear to see quality advantages in foreign education. Certain ethnic groups in some developing countries face discriminatory restrictions as regards entry to their own country's universities and are forced to look elsewhere. Given the large population, rising economic aspirations and the technological needs of developing countries, and particularly Asian developing countries, the potential market for the more competitive suppliers would seem to be very large.

While some of the major student flows (for example from Nigeria, Francophone African countries, and Europe) are unlikely to be attracted to New Zealand, there are very large flows from countries such as Malaysia and Indonesia which are potential source countries for overseas students studying in New Zealand. It is understood that Australian tertiary institutions are particularly optimistic about the potential for the Korean and Chinese 'markets'. The US (the largest receiver of overseas students) hosted some 18,000 students from Malaysia in 1983–4. A high percentage of these would be private students paying substantial fees and some could well be attracted to New Zealand.

Price Elasticity

As for other 'products', the level of demand for education depends on price and quality. National policies on fees payable by overseas students differ widely

depending on varying traditions and influences, such as the relative emphases on state and private institutions and the political strength of education pressure groups. In the 1970s there was a reaction in some industrialised countries against the previous policies of treating education as a free good—especially as they applied to overseas students whose families had not contributed to education funding via taxes. The UK re-introduced fees for overseas students in 1967 and raised them sharply in 1980. (Special arrangements were made for European Community students.)⁸ Some other European countries, the US and Australia took similar steps. However, although fees and charges for overseas students have been rising in many parts of the Commonwealth, North America and Europe, the levels operating in or proposed for the UK, Australia and some provinces of Canada are the exception rather than typical of the worldwide situation. France, Germany and the USSR, for example, make no significant tuition charges for overseas students. Charges for tuition at state institutions in the US are still well below full-cost levels.

The effect of fee increases on demand is difficult to assess with any accuracy. In the short-term fee increases are unlikely to have much effect as 'grandfather' provisions can be made for existing students and, where such arrangements are not made, students and their families are likely to make substantial sacrifices in order to ensure completion. Also, changes in exchange rates can mitigate or enhance the effects of fee increases—in the UK sterling devaluation mitigated fee increases for some students.⁹

In the longer-term the effect of fee increases are likely to be significant on the level and pattern of demand as foreign students reassess the costs and benefits of study in different overseas countries and as sending governments reassess their own domestic educational policies. Certainly, fee increases have caused serious concern in some countries and they led to the establishment of the Commonwealth Standing Committee on Study Mobility in 1982. The total number of overseas students in Britain fell from about 61,000 in 1979–80 to about 48,000 in 1983–4. While it seems clear that fee increases were a major cause of this decline, it may well be that other factors were also at work.¹⁰

The Demand for New Zealand Tertiary Places and the Supply Response from New Zealand Institutions

A lack of places for overseas students is likely to be a more serious immediate obstacle to the export of education by New Zealand institutions than any shortfall in demand. New Zealand has some comparative advantages being politically 'safe' and environmentally clean and having English as its teaching medium.

Some of our nearest markets, especially those in South East Asia, have, since the 1970s, become the fastest growing in the world. However New Zealand has not yet responded to the opportunities. Apart from some development in the marketing of English language teaching services, the education sector has not, mainly for domestic policy reasons, been in a position to maximise its return on resources by accepting full-cost overseas students and, thereby, to contribute to export earnings and domestic employment. It has also been recognised that the marketing of education overseas would not be readily accepted by student and teacher organisations.

The potential export market for our education sector cannot be assessed with any certainty. Markets for education services are varied and complex. They include consumers of a wide range of educational and training courses at school, vocational, sub-degree and degree levels. Markets may include those seeking courses leading to established awards, and those seeking non-award courses designed for a particular need. It will be necessary for our suppliers to make careful judgements on the strength of competition for buyers of particular courses. Marketing strategies will vary according to circumstances. Suppliers will need to pitch fees at competitive levels without prejudicing the quality, and hence the reputation, of their courses. The total package offered for particular courses, that is, including accommodation and other services, will need to be attractive. These considerations emphasise the need for institutions to have maximum flexibility to assess the potential market for their own services and to determine their own responses.

Australian experience suggests that considerable effort might have to be made, initially at least, to encourage educational institutions to initiate full-fee programmes. AUSTRADE (the commercial area of the Department of Trade) has introduced a number of programmes in Australia to provide this encouragement. While the response in Australia to their full-fee policy has been varied, it would appear that, with the appropriate financial and regulative environment, some sections of the education sector are demonstrating the entrepreneurial ability to develop and market full-fee courses successfully.

It would be important that institutions have appropriate incentives to promote the export of their own services. Some inherent incentives would include more productive use of resources, greater ability to pursue their own academic agendas in demand areas, the presence of academically able foreign students, enhanced cultural diversity and scope for increasing teaching staffs with greater opportunity for promotion and for improving amenities. The major incentive would be that institutions would retain the tuition fees, including the charge made to recover the capital used. In this respect, New Zealand could offer greater incentives to its educational institutions than those offered to Australian institutions as the defined

capital recovery portion of the fee paid by foreign students to Australian public institutions reverts to central government.

The availability of subsidised education in other countries is clearly going to continue and this will have a moderating effect on demand for New Zealand places priced at full-cost. Another factor is the cost of supplying tertiary places in New Zealand compared with costs in other countries. Unfortunately statistics which might help to determine relative cost issues do not appear to be available. However, because New Zealand's education system is well established at all levels, it would seem that it should have a comparative advantage in supplying a highly human resource-intensive 'product' to developing Asian countries and, possibly, to developed countries like Japan and the west coast of the US.

Some New Zealand tertiary institutions would seem well placed to market 'distance' education, that is either to accept overseas students on a correspondence basis or to 'sell' teaching programmes to overseas institutions and governments. Institutions that seem well placed to respond to a relaxation of current restrictions include Massey University, the Correspondence School, the Advanced Studies for Teachers Unit and the Technical Correspondence Institute.

To achieve international competitiveness, it will be essential to tackle institutional factors that have significant cost effects. Opening up educational institutions to full-cost recovery overseas students will bring these factors into sharp focus. The more important ones would seem to be those that reduce the ability of tertiary institutions to redeploy resources or to ease-out non-performing staff. The maximum use of building facilities would be encouraged. Moves in these sorts of directions would have beneficial effects for domestic institutions and hence for New Zealand students as well as overseas students. Other beneficial effects could, as noted already, arise from larger student bodies and faculties and higher quality of staff and amenities. If fees are based on full average costs, institutions would generally be able to secure a surplus for the development and improvement of staffing and amenities for all students—not just overseas students.

Equity Considerations

Under present policy, private overseas students are highly subsidised by the New Zealand taxpayer. The annual tuition fee is only \$264 whereas the average annual recurrent cost of a student at university is about \$8,500.¹¹ The inclusion of capital costs might take this figure up to \$10,000 or more. While socio-economic status figures of private overseas students are not available, it seems likely that the bulk of this assistance is given to the relatively better-off students from the wealthier of the developing countries. Equity considerations suggest that foreign

students should be either admitted on an aid basis, and subsidised to the extent considered appropriate for aid purposes, or as private students on a full-cost basis. The present policy is confused as to its objectives and urgently needs revision on equity grounds as well as the economic grounds discussed above. Recent reductions in fees charged to private overseas students have increased the equity problem.

Conclusions

The broad conclusion from the above is that a change in policy to allow state and private education and training institutions to admit students on a non-quota, full-cost paying basis is highly desirable from a number of perspectives.

The international demand for overseas education is very large and probably still growing. Asian demand seems particularly likely to continue to grow fast and New Zealand is well placed geographically and in other ways to meet some of that demand. The trend in some important 'host' countries is towards higher fees for overseas students. However, the general position is one of high levels of subsidisation and this will limit the demand for full-cost places within New Zealand. There would, nevertheless, seem to be significant demand for higher education even at full-cost which might be attracted to New Zealand institutions. Exposure of domestic institutions to overseas competition could well also enhance their own productivity to the benefit of New Zealand students as well as to overseas students. Equity concerns also point to the need to make a clear distinction between admission on a quota and subsidised basis for aid reasons and admission on a non-quota, full-cost basis for commercial reasons.

It would be important to phase-in policy change in this area in an orderly way. A number of 'implementation' type issues are discussed in the attached Appendix II.

APPENDIX I

TABLE A1.1: Enrolment of Foreign Students in Postgraduate Education

	1976	1980 (percentage)	1983
Australia			
PhD and doctorate	14.7	14.6	15.6
Masters research	7.8	8.1	9.1
Masters coursework	6.8	7.5	8.1
Total	9.5	9.8	10.7
	1977-8	1980-1	1982-3
Great Britain			
Universities	38.6	34.7	35.0
Other	10.9	10.4	10.9
	1975	1979	1983
		(numbers)	
Japan			
Total	2,255	2,397	3,861

Sources: Data supplied by national authorities and quoted in: OECD. *The role and functions of the universities, postgraduate education in the 1980s*, 1986.

APPENDIX II: IMPLEMENTATION ISSUES

Access to Full-fee Courses by New Zealand Students

The question here is whether domestic students should be allowed admission to full-fee paying courses set up by state institutions primarily for overseas students. This question is likely to arise particularly in courses where there are currently limits on enrolments. The most sought-after university courses, (for example, engineering, accountancy and computing) are now almost universally restricted and, in present circumstances, there is little scope for additional students in the university area other than for specialised short-term courses in English as a second language, horticulture and agriculture and in postgraduate areas.

The existence of areas of under-supply is due primarily to the universities' almost total dependence on government funding, which is necessarily limited, and on the virtual free provision of tuition. The former limits supply while the latter increases demand leading inevitably to mismatches in the supply and demand for various courses. This problem is exacerbated by current inflexibilities in the redeployment of resources caused by arrangements such as staffing contracts (especially tenure and salaries structures that do not reflect market conditions). If the demand and supply side problems for domestic students are resolved, then the question whether New Zealand students should have access to full-fee courses may not arise. However if it does arise, it would in practice probably be difficult to deny domestic students admission to courses available to overseas students. Also, allowing domestic students admission may, in fact, encourage the resolution of these underlying problems. For example, the establishment of profit centres may lead to a better appreciation of cost factors and could encourage a better use of resources. It should also be noted that the question of academic requirements for entry to free places could be very sensitive, especially where these have been used as a rationing device in some institutions.

Quality Assurance

New Zealand institutions already offer courses for overseas students over a wide range of education and training levels—from doctorate courses to very basic language and technical courses. Clearly it would be unnecessary and undesirable to limit the level at which courses are provided. The issue that does arise, however, is whether the state should intervene to provide quality assurance and, more particularly, to ensure that the reputation of existing academic courses is not undermined.

Education interests are likely to argue that any policy change should not lead to the undermining of existing courses and qualifications. This might mean, for example, that visas should only be granted to overseas student university applicants if their courses have been approved by the Curriculum Committee of the University Grants Committee (UGC). In support of this view, it would be argued that a private university with low academic requirements for degrees could undermine the marketing effort of all responsible, reputable New Zealand tertiary institutions. Similarly, it might be argued that state intervention is also necessary to ensure the quality of continuing education courses attended by overseas students at privately funded institutions other than universities. It was, in fact, considered necessary some years ago for the Government to salvage courses at a private commercial college and to introduce legislation for the registration of such courses. It is understood that AUSTRADE is recommending a co-ordinated approach to the marketing of Australian educational programmes—presumably to prevent or limit any damage that might be caused to the image of Australian educational programmes in South-east Asia by 'carpetbaggers'.

All private secondary schools have to be registered by the Department of Education in terms of section 186 of the Education Act 1964. To be registered, private schools have to satisfy the Director-General as regards their premises, staffing, equipment and curriculum. They are subject to Departmental inspection. In these circumstances the question of whether additional state intervention is necessary to assure the quality of secondary schooling for overseas students does not arise. Private secondary schools would be advised by the Department of the entry qualifications they should require of overseas student applicants.

The problem with restricting entry to only those students wishing to attend courses approved by the UGC or the Department of Education is that it is likely to favour existing institutions to the disadvantage of new entrants. The process could, in particular, deny non-traditional, innovative, suppliers of education services access to the export market. Also, the regulators (UGC and the Department of Education) are closely associated with potential competitors for overseas students (for example state universities and technical institutes) and this situation could present difficulties. Further, the requirement for course approval could cause uncertainty and a reluctance to invest.

The need may not so much be for visa restrictions on overseas students but for accurate descriptions, readily understood overseas, as to the education services on offer. Further, academic entry requirements should be determined and administered by the institutions themselves. There could be a role for an independent body to *validate* the accuracy of promotional material produced by educational institutions offering their services overseas. Such a body could provide independent validation of the standards of education, certification and training provided by such institutions. Such a body could also advise whether qualifications offered

by New Zealand institutions meet overseas accreditation standards—to reduce the possibility of overseas students gaining useless qualifications and thereby discrediting New Zealand's image as a source of education. Overseas posts would have an important role in explaining the system to applicants for student visas whatever validation system is adopted.

Employment Conditions

The Government already intervenes in a number of ways as regards the terms and conditions of employment of teaching staff at tertiary and secondary institutions. Commercial operations raise the question whether these interventions should be withdrawn or relaxed in respect of staff involved in courses which are self-financing. This has, however, been a concern of the Federation of Australian University Staff Associations (FAUSA) and no doubt similar concerns will be expressed in New Zealand. It seems highly desirable, however, that institutions should be allowed considerable autonomy in negotiating such terms and conditions. In the first place, since no government subsidy is involved, the case for government intervention is very much weakened. Secondly, any interventions that imposed requirements inconsistent with teaching requirements could weaken the ability of institutions to compete with institutions in other countries that sought to attract overseas students.

Admissions at Secondary School Level

If full-fee places become established in the universities as the result of private investment, more liberal provision for entry to private secondary schools and full-fee places in state secondary schools could be made. Provision for entry to state schools would be particularly desirable where there are falling rolls of New Zealand students. The question of timing, however, does arise. There would be difficulties if the Government allowed students to enter at this level and could not accommodate them at tertiary level upon completion of their schooling. While it would be possible, technically, to accept students for only secondary schooling, it is possible that an understanding on this would, in practice, be difficult to maintain, and could be a source of embarrassment to the Government. Also, it would, apparently, not be possible legally to bind a young teenager to an acceptance that later tertiary education could not be guaranteed.

To limit this problem it would be very desirable that the opening-up of secondary education is accompanied by appropriate understandings between the

student and the New Zealand Government and, if necessary, at a bilateral level between governments. Moreover the potential for difficulties and misunderstandings should be reduced once full-fee places in universities become available. Should it be considered that immediate opening-up of secondary schools to fee paying overseas students is undesirable, then a date could be set for this to happen, say two years after the opening of the tertiary system to full-cost paying overseas students. It should be noted that, if places in the tertiary system do not become available to people from overseas who have gone through our secondary system, the removal from New Zealand of students who have completed secondary schooling would depend on the use of immigration legislation.

A delay in opening-up the secondary area to non-quota students would be at some cost since some countries consider that access to secondary education is of equal importance to the availability of tertiary places. Thailand, for example, sends 80 percent of its students to the US, but, it is understood, would like a 'safe, quiet' place for its students in which to improve their English prior to their study in the US: New Zealand might well suit this requirement. On balance we would suggest that costs of delaying the opening up of secondary school admission are higher than the costs of a simultaneous start.

Notes and References

- 1 Another policy measure to control demand is the prevention of Massey University from enrolling overseas students in its extramural courses.
- 2 *Mutual advantage, report of the committee of review of private overseas student policy*, Canberra, Australian Government Publishing Service, 1984. (The Goldring Report), p36.
- 3 Ibid, p 217.
- 4 Ibid, p 36.
- 5 Quoted by Goldring op.cit., (ref.2) pp 37 and 38.
- 6 Goldring op.cit., (ref.2) p 38.
- 7 Hughes, Helen. *Education as an export industry*. An edited version of a paper presented to the 'Withering Heights' conference on the post secondary education system, Monash University, November 1984, p15.
- 8 Hughes op.cit., (ref.7) p17.
- 9 Hughes op.cit., (ref.7) p17.
- 10 Hughes, op.cit (ref.7) p19 suggests that the number of UK graduate students stabilised in the 1970s, not because of rising fees but because British graduate education lagged behind American practice.
- 11 The average operating costs per foreign university student for the 1987 academic year has been calculated by the University Grants Committee at \$8,441.