Is higher education *really* 'internationalising'?

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Introduction

It is a widely accepted maxim that, like business generally, higher education is internationalising. For many countries, higher education is now an important export sector, with university campuses attracting international students from around the world. Licensing production, in the form of franchising degree provision to international partners, is beginning to mutate into foreign direct investment as universities set up campuses in other countries. Driven by advances in information and communication technologies and the growing hegemony of English as the world's common language, higher education is generally thought to be following the classic pattern of internationalisation familiar in business (eg, Scott, 1998; Altbach, 2002; Hira, 2003). While trends in higher education around the world appear to support this orthodox view, the paper offers an alternative interpretation of developments, which leads to a different vision for the global higher education 'industry' of 2020.

In what sense *is* higher education internationalising?

Internationalisation or 'globalisation' is often presented in popular discourse as a late 20th/early 21st century phenomenon, driven by innovations in information and communication technologies and mass air travel and underpinned by the growing dominance of English as the common language of business, politics and science (Crystal, 1997). In the context of universities, however, many of Europe's most distinguished seats of learning were 'born global', set up in the 15th and 16th centuries as religious seminaries, teaching in Latin and attracting scholars and students from across the medieval western world. Since these early days, shared second languages − first Latin, later German and today English − have facilitated scientific enquiry and promoted the international mobility of faculty.

The role of universities is to create and disseminate knowledge; that is, to research and teach. Insofar as the creation of knowledge bases in major discipline areas is a collective enterprise of humankind, universities must necessarily be international in their orientation − the nature of scientific advancement is that today's research builds upon the discoveries of others, wherever in the world they have been made. In this sense too, universities have always be 'internationalised', exchanging ideas through international academic conferences, books and journals, sharing faculty and ensuring that both research and teaching conforms to the present knowledge base as it is internationally understood.

It has been the internationalisation of the *student* body, rather than the internationalisation of either the faculty or research/teaching, that gives rise to the perception that universities are beginning to mimic corporations in their orientation. During the Cold War, governments in the United States, USSR and the United Kingdom in particular, used scholarships and funding regimes to encourage foreign students onto their universities' campuses to further geo-political ends. Graduating the children of the political elites in developing countries from Harvard, Moscow State and Oxford appeared an inexpensive way of securing the future loyalty of client states. In the immediate postwar period, internationalisation also had a non-

commercial economic development dimension, with initiatives like the Colombo Plan for Cooperative Economic Development in South and Southeast Asia, established in 1951, using scholarships to educate future leaders from developing countries in western universities.

The end of the Cold War and the rise of market liberalism in many countries, in which universities have experienced declining public subsidies and increasing pressure to become more commercial in orientation, have been associated with a sharp increase in the numbers of foreign students, mostly from developing countries, studying in western universities. The rise in the number of foreign students studying on campus since the late 1980s has been followed, over the last decade, by strong growth in the number of foreign students studying for western degrees on off-shore campuses, usually in their own or a neighbouring country. Many of the off-shore campuses are set up by private enterprises on a franchise basis.

In the context of universities, internationalisation is most closely associated with the teaching function of universities and the move from local production to satisfy local consumers to distributed multinational production to satisfy a global consumer base. This aspect of internationalisation is sometimes termed 'transnational education', which includes '*all types of higher education programmes and educational services (including distance-learning) in which learners are located in a country different from the one where the awarding body is based*' (Council of Europe/UNESCO, 2000). For the purpose of this paper, the internationalisation of universities[1] will be defined to relate to their operations in terms of:

1. foreign students studying on the home campus; *and*
2. foreign students studying for the university's awards on a campus in a third country.

As the following sections will show, the trend towards internationalisation is most pronounced in the five so-called 'Main English-Speaking Destination Countries' (MESDCs) − Australia, Canada, New Zealand, the United Kingdom and the United States. As these countries are in the vanguard, much of the analysis will be focused on the factors driving internationalisation in the MESDCs. It will be shown, however, that in many other countries, traditional models of higher education are coming under pressure, with universities beginning to follow the internationalisation pattern of the MESDCs.

The Uppsala Internationalisation Model

The literature on the internationalisation of businesses suggests that the process tends to be incremental, with companies moving from one step to the next. This sequencing is sometimes known as the 'Uppsala internationalisation model', because it was partly developed as the result of research carried out on Scandinavian countries in the 1970s (eg, Johanson and Wiedersheim-Paul, 1975, Johanson and Vahlne, 1977). The four steps are:

1. exporting;
2. licensing production;
3. joint ventures; and
4. sole ventures.

[1] See Knight (2005) for a useful review of terms in international higher education and well as definitional difficulties with the concept of 'international' students

Exporting

In the context of higher education, universities 'export' educational services to foreign students who enrol on their home campuses.

Table 1 shows the latest data for international students studying in higher education institutions outside their own country. The table is striking in two ways: first, it shows the growth of over 30% in international student numbers in the first four years of this decade; and secondly, it highlights the dominance of the OECD countries as the destination for international students.

Table 1: International Students in On-shore Higher Education (millions)

	2000	2001	2002	2003	% Change 2000-03
Enrolled in All Countries	1.62m	1.65m	1.90m	2.12m	30.6%
Enrolled in OECD	1.52m	1.54m	1.78m	1.98m	29.8%
Enrolled in OECD as % Total	93.9%	93.5%	93.8%	93.3%	

Source: OECD Education at a Glance 2005

Table 2 shows the numbers of international students studying on-shore in four of the MESDCs, which together account for 55% of all international enrolments in the OECD. While the United States remains the top destination county with well over 0.5m international students, in percentage terms, international students comprise only 4.0% of enrolments, compared with almost one in five in Australia.

Table 2: International Students in On-shore Higher Education (2005)

	Australia	New Zealand	United Kingdom	United States
International Enrolments	163,930	30,674	318,395	565,039
International as % Total	17.7%	14.0%	13.0%	4.0%

Sources: IDP Australia; Education New Zealand; Institute for International Education (US); UK Council for International Education

Table 3 shows the regions of the world from which these destination countries draw international students. With over 60% of the world's population, Asia is the most important source of students for Australia, New Zealand and the United States. Although the picture looks more balanced for the United Kingdom, 35.3% of 'international' students are from the rest of the EU, so for funding purposes are treated as domestic enrolments. Of the non-EU international students, 63% come from Asia, almost exactly the same proportion as in the United States.

Table 3: Source Regions of On-shore International Students in Higher Education (2003)

	Australia	New Zealand	United Kingdom	United States
Total from Africa	3.7%	0.7%	8.3%	6.9%
Total from Asia	71.4%	84.2%	40.8%	62.8%
Total from Europe	9.5%	6.0%	40.3%	13.1%
of which, from EU	*2.9%*	*4.5%*	*35.3%*	*7.7%*
Total from North America	4.2%	4.8%	8.5%	10.4%
Total from Oceania	3.9%	3.9%	0.8%	0.8%
Total from Latin America	1.0%	0.5%	1.0%	6.0%
Not specified	6.3%	-	0.3%	-
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: OECD Education at a Glance 2005

The figures confirm that the export of higher education services through the conventional route of enrolling international students on home campuses is a major sector. It is supplemented by 'virtual higher education exports', in the form of distance and on-line learning. The boundary between traditional on-campus study and distance-learning is constantly changing, with on-campus lectures and seminars are increasingly being supplemented or even replaced by on-line teaching materials using proprietary platforms like 'Blackboard' and podcasting.

There is, however, an unambiguously virtual export in the form of an off-shore student who takes a qualification at a foreign university exclusively, or primarily, by distance-learning. The numbers of students in this category are apparently large. The University of Phoenix claims to have graduated 170,000 since its establishment in 1976, primarily through distance and on-line learning[2]. The Open University graduated its 200,000th student in 1998 and presently reports 180,000 active enrolments, with its business school being 'the largest provider of management education in Europe [with] one in five MBA students in the UK… studying with the OU.[3]'

There are significant difficulties in making estimates of the scale of the virtual export market in higher education, mainly because the data are not routinely collected by national ministries of education or their agencies and, to a lesser extent, because many of the on-line providers are private, for-profit institutions like the University of Phoenix On-line, the Apollo Group and Kaplan Higher Education. The Observatory on Borderless Higher Education, a research unit jointly set up by the Association of Commonwealth Universities and Universities UK, annually tracks a sample of the 50 largest companies providing distance-learning higher education, noting that this is the 'only international and longitudinal tool currently in existence specifically designed to assess the nature, viability and significance of such interest' (Garrett, 2005), but there are no data sets measuring annual enrolments in this sector.

[2] http://www.uopxonline.com/aboutus.asp
[3] http://www.open.ac.uk/about/ou/p3.shtml

Licensing Production

The higher education equivalent of licensing production is more usually known as 'franchising', in which a university (normally based in a MESDC) sub-contracts a local provider in another country to offer part or all of its degree programme. Many arrangements of this type between private colleges and UK and Australian universities started life as so-called '1+2' deals, in which the college delivered the first year of a three year bachelor's degree on its own premises, with the students going on to complete their degrees as regular students on the university's home campus. '1+2' gradually gave way to '2+1' and then the '3+0' model, in which the while degree was franchised. Concerns about the poor quality of many of the private colleges, mainly established by local companies on a for-profit basis, have led to franchising sometimes being disparaged as 'McDonaldization' (Hayes and Wynyard, 2002).

As with distance-learning, national ministries of education have been slow to respond to the spread of licensing and data are poor. In 2004, the British Council estimated that there were 180,000 international students studying for UK university degrees in franchised programmes outside the United Kingdom, based in part on the fact that the previous year, the Council's overseas offices had been asked to invigilate examinations for 3m students (Kemp, 2004). This figure of 180,000 compared with 270,000 international students studying on higher education programmes on-shore − ie, for every three international students studying on a UK campus, there are two more studying off-shore on a franchised degree.

Governments of the MESDCs have recognised, in some cases after embarrassing episodes, that the off-shore activities of their national universities can potentially undermine the reputation of the county's higher education brand. The United Kingdom responded by asking its Quality Assurance Agency (QAA), which undertakes audits of the academic quality of university programmes, to bring off-shore franchises into its purview. Between 1996 and 2005, the QAA carried out some 125 overseas institutional audits of franchised degrees, in Europe, the Middle-East, Asia and South Africa, giving some indication of the range of activities being undertaken (see Table 4). Invariably, the UK university was franchising to a local partner which did not have degree-awarding powers in its own right.

Table 4: UK Quality Assurance Agency Reviews of Franchised Degrees

Country	Number of Franchises Reviewed	Year(s)s
Bahrain	3	1998, 2005
Bulgaria	1	1998
China	2	2001
Cyprus	2	2001
Denmark	2	2002-03
Dubai	2	1998
Egypt	1	2001
Germany	6	1997, 2002, 2003
Greece	14	1996-98, 2002
Hong Kong	4	2001
Hungary	1	1998
India	4	1998-99
Ireland	6	1999-2000
Israel	8	1998-2000
Italy	5	2003-04
Malaysia	18	1996, 1999, 2003
Netherlands	3	1997
Oman	5	1998, 2005
Poland	2	1998
Singapore	7	1996, 2002
South Africa	6	1999-2000
Spain	10	1996, 20000
Sri Lanka	6	2004
Switzerland	2	2002
United Arab Emirates	1	1998

Source: Quality Assurance Agency[4]

Australia is the only MESDC systematically recording and quality assuring the off-shore activities of its universities. Table 5 shows that, for the most recent data available, approximately 30% of the international students studying for Australian university degrees were off-shore, almost all studying on franchised degree programmes, a proportion broadly in line with the British Council's informed guesstimate. The Australian Universities Quality Agency (AUQA), established in 2000 with a broadly similar remit to the QAA's, includes off-shore franchises as part of its audits of domestic universities. In 2005, for example, audits of universities included reviews of their off-shore operations in 'Dubai, Fiji, Hong Kong, Indonesia, the People's Republic of China, and Singapore' (AUQA, 2005).

Table 5: Australian On-Shore and Off-Shore International Students

	2001	2002	2003
Total On-Shore	83,992	131,639	151,884
Total Off-Shore	28,266	53,419	58,513
Total	**112,258**	**185,058**	**210,397**

Source: Australian Vice-Chancellors Committee[5]

[4] http://www.qaa.ac.uk/reviews/reports/byoseascountry.asp#Israel

Table 6 shows the steady build-up in the number of franchised programmes by Australian universities, to over 1500 by 2003 (the most recent statistics available). By this year, all but one of Australia's 39 universities was engaged in franchising off-shore, with over 70% of the activity based in China/Hong Kong, Malaysia and Singapore.

In the host countries, quality assurance agencies have also been established to monitor the activities of foreign universities engaging in franchising, including:

1) the National Assessment and Accreditation Council, established by the India's University Grants Commission in 1994;

2) Singapore Quality Class for Private Education Organisations, established in 2003 as a joint initiative of Singapore's Economic Development Board and SPRING Singapore (Standards, Productivity and Innovation Board); and

3) South African Higher Education Quality Committee, a sub-committee of the Council on Higher Education in South Africa, formed after the Higher Education Act 1997.

Table 6: Number of Australian Off-Shore Programmes

	Pre-2000	**2000**	**2001**	**2002**	**2003**	**Cumulative Total**
China	98	30	22	24	24	200
Hong Kong	154	21	26	23	16	227
Indonesia	15	3	2	1	3	25
Malaysia	174	59	28	24	29	321
Singapore	194	43	30	58	53	375
Other	260	62	39	43	18	421
Total	**895**	**218**	**147**	**173**	**143**	**1569**

Source: Australian Vice-Chancellors Committee[4]

Joint Ventures

What Mazzarol *et al* (2003) term the 'third wave' of the Uppsala internationalisation process entails the establishment of offshore production facilities. In the higher education sector, national regulations regarding the licensing of educational providers typically require the involvement of a local partner, so that joint ventures are the standard organisational form of the third wave.

Singapore and Malaysia have been in the vanguard, with both countries recognising that, by encouraging western universities to invest in the development of local branch campuses, they could more quickly grow their higher education sectors to meet domestic demand and attract international fee-paying students from elsewhere in the region. In 1997, Singapore's Economic Development Board announced a policy of actively encouraging 'top' international universities to set up branch campuses with the intention of making the city state a regional

[5] http://www.avcc.edu.au/documents/publications/stats/International.xls

education hub within a decade. In Malaysia, the 1998 Education Act permitted foreign universities to establish campuses with the same policy goal.

Table 7 gives an indicative 'snapshot' of the universities currently operating 'branch campuses' in the two south-east Asia countries in 2006. Few of these examples constitute genuine off-shore campuses, in the sense of comprising stand-alone, purpose-built facilities comparable with the home campus. The MIT, Stanford and Technical University of Munich initiatives in Singapore, for example, involve these prestigious research-led universities collaborating with one or more Singaporean universities to deliver joint, specialist postgraduate programmes; the creation of dedicated teaching rooms and laboratories is all that distinguishes these branch campuses from a more conventional franchising or 'twinning' arrangement. The University of Chicago operation is an executive training centre, which runs a part-time MBA.

In Malaysia, Monash initially shared facilities with Sunway College, but has since built its own campus, jointly with the Sunway Group. The University of Nottingham in Malaysia is a joint venture with the Boustead Group, which is the majority shareholder. Its 100-acre campus in Semenyih represents the first purpose-built UK university campus in a foreign country. Both Swinburne and Curtin's campuses in Sarawak are joint ventures with the Sarawak Government.

Table 7: Branch Campuses in Malaysia and Singapore

Malaysia		**Singapore**	
Foreign Partner	**Established**	**Foreign Partner**	**Established**
Monash University, Australia	1998	Massachusetts Institute of Technology, USA	1998
University of Nottingham, UK	2000	INSEAD, France	2000
Swinburne University of Technology, Australia	2000	University of Chicago, USA	2000
Curtin University of Technology, Australia	1999	University of Stanford, USA	2003
		Technical University of Munich, Germany	2003

China has recently followed the Singaporean and Malaysian lead, with the 2003 'Regulations of the People's Republic of China on Chinese-Foreign cooperation in running schools[6]' passed by the Ministry of Education. The University of Nottingham's campus in Ningbo is the first joint-venture until the new law, undertaken in collaboration with the Wanli Education Group and Zhejiang Wanli University. The Ningbo campus enrolled students for the first time in 2004, with the campus being completed in 2005. The University of Liverpool is also planning to set up a new university in China at Suzhou industrial park, as a joint venture with Xi'an Jiaotong University and Laureate Educational Limited, a private company which partners Liverpool in the delivery of on-line programmes.

[6] http://www.moe.edu.cn/english/laws_r.htm

Sole Ventures

In the OECD, there are examples of wholly-owned branch campuses around the world, particularly in centres like London and Paris, but many are little more than international study centres for use by visiting students from the foreign (often US) university's home campus. There is also a large number of foreign for-profit private colleges and universities operating across the OECD which admit students to degree programmes. For example, the 'British Accreditation Council', a non-governmental for-profit agency set up to provide accreditation to private institutions, lists a total of 78 accredited private universities and colleges offering higher education in the United Kingdom[7]. In the main, however, these organisations are generally ineligible for publicly-funded study support (eg, government student loans) and tend to cater for small numbers of international students. More importantly, they are not part of any third wave of internationalisation by established western universities.

As noted above, the regulatory framework in many developing countries precludes sole ventures by foreign universities. A notable exception is the University of New South Wales' campus in Singapore, which has been widely hailed as the most striking example of the third wave. 'UNSW Asia is Singapore's first comprehensive private University, due to open in 2007. It offers a range of undergraduate, postgraduate and research degrees, in areas such as commerce, engineering, science, design, media and international studies. UNSW Asia is owned and operated by the University of New South Wales …[and] is the first wholly owned research and teaching institution to be established overseas by an Australian university[8]'.

The Drivers of Internationalisation in Business

For a profit-maximising business, the ultimate explanation for the internationalisation of a company is that it increases long-term profits, either by reducing production costs and/or increasing market sales. Cost-oriented companies internationalise their operations by integrating backwards in search of cheaper or more secure inputs into the productive process. The oil companies were early pioneers of this approach. The migration of US and western European companies to developing countries in search of lower labour costs provide contemporary examples. The host countries are sometimes termed off-shore 'production platforms', to underscore their role as providers of low-cost inputs into a global, vertically integrated production process.

Alternatively, companies may be market-oriented, in the sense that internationalisation is motivated by the promise of new markets and greater sales; ie, the internationalisation process takes the form of horizontal — rather than vertical — integration into new geographic markets, with companies gradually switching from exporting (or licensing) to establishing first a sales outlet and finally full production facilities overseas. In both cases, moreover, the pace of internationalisation is influenced by the 'catalysts' of enabling technologies, like information and communications technology and cultural homogenisation through the spread of English as a common second language and the dominance of US television, film and music, as well as a liberal international regulatory environment for trade and cross-border investment.

[7] http://www.the-bac.org/ukdirect.pl
[8] http://www.unswasia.edu.sg/about/about.html

The above explanations of internationalisation are, however, only partial. They fail to explain why cost-oriented companies do not simply import the inputs they need from independent producers in low-cost countries rather than integrating backwards; similarly, they do not explain why market-oriented companies should operate their own production facilities in foreign markets rather than licensing local manufacturers to produce their products. A full explanation needs to account for both 'location' (ie, why a good is produced in *two or more* countries rather than simply one) and 'internalisation' (ie, why production in different locations is done by the *same* firm rather than different firms). Dunning (1988, 1993) attempted to synthesise different theoretical perspectives on multinationals with the evidence provided by case studies. He concluded that companies will only become involved in overseas investment and production when the following conditions are all satisfied:

1. companies possess an 'ownership-specific' advantage over firms in host country (eg, assets which are internal to firm, including organisation structure, human capital, financial resources, size and market power);

2. these advantages are best exploited by the firm itself, rather than selling them to foreign firms. In other words, due to market imperfections (eg, uncertainty), multinationals choose to bypass the market and 'internalise' the use of ownership-specific advantages via vertical and horizontal integration (such internalisation reduces transactions costs in the presence of market imperfections); and

3. it must be more profitable for the multinational to exploit its ownership-specific advantages in an overseas market than in its domestic market — ie, there must additionally exist 'location specific' factors which favour overseas production (eg, special economic or political factors, attractive markets in terms of size, growth or structure, low 'psychic' or 'cultural' distance, etc).

The Drivers of Internationalisation in Higher Education

What does the literature on the internationalisation of business suggest about the drivers of internationalisation in higher education? First, although the move from export education to franchising (and latterly joint and sole ventures off-shore) undoubtedly lowers production costs, in so far as both the capital investments and direct labour costs in off-shore facilities are typically much lower than in the home country[9], the primary motivation is to reach new markets abroad, or at least to defending existing shares of foreign markets. Quite clearly, western universities have not established off-shore facilities in developing countries in order to service existing markets in their home countries, which would be the higher education equivalent of a cost-oriented multinational. Rather the move from exporting to offshore production has been to allow universities to either reach foreign students who were previously unable to afford the cost of studying on the home campus or to enrol students offshore who could no longer afford, or were no longer inclined, to travel to the home campus due to an adverse external development.

[9] The business model for franchises often fails to fully cost the time of managers on the home campus who are charged with quality assurance or include a realistic premium for the risk faced by the home university; on this basis, the total costs of a franchise with the attendant principal agent problems can sometimes be much higher than the direct costs appear.

In seeking to develop new markets, western universities clearly have 'ownership-specific' advantages over rivals in the main host countries, in terms of their research bases, curriculum, faculty and technology. These advantages, in turn, can best be best exploited by the university itself through a franchise or joint/sole venture, for two reasons:

1. The 'product' that students consume is, in most universities, designed and delivered by the home university's faculty members. For example, a final year undergraduate course in organisational behaviour has been designed by a highly trained faculty member, who delivers and assesses the course, annually reviewing the learning and other support materials.

2. There is a clear principal-agent problem with franchised programmes. The value of the qualification to the student lies with the reputation of the awarding university, which has strong incentives to maintain both entry and exit (ie, pass marks) standards in order to protect its long-term reputation. The agent, on the other hand, has an incentive to increase revenue by either lowering entry standards or pass marks, the latter with the goal of improving retention and completion rates. By maintaining control over matters like entry standards, academic quality assurance and assessment regimes, the home university can avoid the potential conflict between its objectives and those of its off-shore partner.

Finally, in the case of many MESDC universities, it is more 'profitable' for them to exploit their ownership-specific advantages in an overseas market than in its domestic market, because off-shore capability increases the size of their markets, by making their products accessible to a wider population who cannot afford (or are not inclined) to study on the home campus.

Seen against this backdrop, there appear to be clear parallels between the factors driving the internationalisation of business and higher education. Another way of analysing this process, however, is to focus on the factors determining the supply of, and demand for, higher education — that is, the reasons why MESDC universities choose to supply higher education to foreign students and why foreign students choose to study at MESDC universities. This alternative approach suggests that a very different set of processes is at work and that the current trend towards internationalisation of higher education may not be sustainable.

The Supply Side

While universities in the MESDCs are both public (state-owned) and private, they share several key characteristics which set them apart from private businesses: typically a significant proportion of their income comes from the state, in the form of tuition subsidies for domestic students and funding for research; the sector is subject to both state regulation and policy intervention, by governments which legitimately have public policy goals for higher education; and, where universities are private, they are typically not-for-profit charitable trusts rather than for-profit businesses. This background begs the key question: why do universities operating within this context seek to enrol foreign students?

One answer to this question lies not in the objective functions of the universities themselves, but in shifting political attitudes to the support of higher education. Traditionally, higher education has been seen as a 'public good', the consumption of which confers significant 'external' or 'spillover benefits' to society as a whole, over and above the private benefits

(higher earning capacity) enjoyed by the graduate. The spillover benefits to society include 'increased tax revenues, greater workplace productivity, increased consumption, increased workforce flexibility, and decreased reliance on government financial support' (Institute for Higher Education Policy, 1998). Because students make the decision about going to university on the basis of the private costs and benefits they expect to face, they ignore the wider benefits of higher education to society and the collective uptake will be sub-optimally low. For this reason, governments since 1945 have publicly subsidised higher education — either by directly providing tuition at below cost through state-owned institutions or by paying subsidies to private providers — to expand university participation to what is regarded as a socially optimal level.

Against this background, why might universities be allowed, or actively encouraged, to recruit foreign students? For much of the post-war period, many governments viewed the recruitment of foreign students to their domestic campuses as, at best, a form of international development policy and, at worst, a tool of strategic foreign policy.

This paternalistic view of higher education has, in the MESDCs, been increasingly challenged in public policy discourse since the 1980s, paradoxically as a direct result of its success in widening university participation. Higher education is a 'superior good', in the sense that the income elasticity of demand for university education is above unity. This means that, as *per capita* gross domestic product (GDP) rises, the demand for higher education rises proportionately faster. The latest OECD data shows that the average participation rate is approaching 50% (see Table 8), using the 'net entry rate' definition of participation (ie, the proportion of 17 year olds who will enter higher education before the age of 30), up from average levels of below 5% in 1960. In the United Kingdom, for example, just 3% of school-leavers went to university in 1950 and the Robbins Committee (1963), which paved the way for a major expansion of the university system in the 1960s concluded the 'even at the most optimistic estimate' no more than 8% of 18 year olds were likely to qualify for a university education.

Table 8: Higher Education Participation Rates 2001 (Selected Countries)

Ranking	Country	Participation Rate
1st	New Zealand	76%
2nd	Finland	72%
3rd	Sweden	69%
4th	Poland	67%
5th	Australia	65%
6th	Norway	62%
11th	United Kingdom	45%
14th	United States	42%
15th	Japan	41%
19th	France	37%
23rd	Germany	32%

Source: OECD Education at a Glance 2003

The secular increase in higher education participation rates across the OECD challenges the conventional wisdom of the 1950s and '60s in three main ways:

1. First, it casts doubt on the need in practice, as opposed to in theory, for public subsidies to encourage the take-up of higher education. Studies repeatedly show that the private benefits from higher education far outweigh the private costs (even when students are paying the full cost of their studies), so that the private rate of return on investment in higher education is strongly positive. After adjusting for social background, intelligence and other factors, university graduates earn higher salaries than those who enter the labour market direct from high school. Graduates disproportionately populate the labour forces of sectors with higher rates of employment and income growth, suffering lower rates of unemployment. Moreover, because the private rate of return is so high, there is evidence that when public subsidies have been reduced in countries like Australia, New Zealand and the United Kingdom, there has been no measurable medium-term impact on overall participation rates (although some negative impact on participation amongst lower socio-economic groups) − see Marcucci and Johnstone (1993) for a review of tuition fee policies and their impacts.

2. Secondly, critics of publicly-subsidised higher education point out that this arrangement risks leading to a regressive redistribution of income, as university graduates are disproportionately drawn from the higher socio-economic groups of society; as market liberalism has become the dominant political orthodoxy, so national tax systems have become steadily less progressive over the last 20 years, resulting in the poor in society effectively cross-subsidising the university education of the rich. As Bloom and Sevilla (2003) conclude, 'helping the well-off obtain a higher education when many of them already manage to do so without government help does not make sense economically'.

3. Thirdly, the increasing numbers of students in higher education has put huge strain on government budgets, with the result that, as a matter of necessity rather than principle, the real value of public subsidies has declined in all the MESDCs. For example, Scott and Scott (2005) report that for New Zealand, 'Ministry of Education funding per domestic EFTS (equivalent full-time student) in 2002 prices fell from $11,293 in 1980 to $7,367 in 2002…in 1991 government grants made up 73% of total operating revenue of universities but by 2002 had fallen to 42%'. Similar or greater declines in public subsidies per student have taken place in Australia, Canada and the United Kingdom.

Changing perceptions of the role of the state in the higher education and the apparent impracticality of providing heavily-subsidised higher education for 50% of the population have resulted in a steady trend across the OECD towards allowing universities to charge tuition fees. In the United Kingdom, for example, higher education was not only free until 1997, but for most of the post-war period students also enjoyed parentally means-tested 'maintenance grants' to cover their living costs while at university. In 1997/98, universities were required to charge a flat rate tuition fee of £1,000 for the first time and grants disappeared, to be replaced with student loans. From 2006/07, UK universities were permitted to charge variable tuition fees up to a ceiling of £3,000, paralleling the fee maxima model developed in Australia and New Zealand.

Significantly, however, in the MESDC countries, as the real value of public tuition subsidies was eroded, placing universities under financial strain, universities were allowed to charge *full cost* tuition fees to foreign students long before governments faced the political watershed of allowing universities to charge partial fees for domestic students. The reasons were simple: the public good argument is much weaker for subsidising foreign students, since it is

their home country that will enjoy the spillover benefits of their education; and future foreign students had no voice in the political debate about the future of national higher education funding.

It was the combination of declining public subsidies for domestic students and the deregulation of tuition fees for foreign students which made foreign students such an attractive market for MESDC universities. Recruitment of large numbers of foreign students to their home campuses, particularly in low cost subjects like business and management where large contribution margins could be earned, became a way to maintain revenues and cross-subsidise both research and domestic students. Elementary microeconomics suggests that when a producer is faced with two markets, in one of which regulations hold price below the market-clearing level while the other is unregulated, the producer will restrict supply to the regulated market and expand sales in the unregulated market. Whether intended or not by governments, higher education policy has resulted in a distorted market.

The key point is that the internationalisation of MESDC universities was not a rational growth strategy in the way implied by the Uppsala model, but rather a response to (arguably dysfunctional) government policy, which saw foreign tuition income as a way to shore up university finances without having to face the political challenge of deregulating domestic tuition fees; that is, it is a product of a distortionary government regulatory and funding model, not the outcome of optimisation by rational, profit-maximising businesses.

It is also possible to interpret the move from exporting to licensing as an opportunistic supply-side response to changed market circumstances, rather than a logical next step in an Uppsala sequence. Malaysia provides the most salutary case study of the external shock that might give rise to this development. By the mid-1990s, there were large numbers of Malaysian students studying abroad, supported by 'MARA' (Indigenous People's Trust Council) grants. Within Malaysia, a domestic industry had developed, with private, for-profit colleges initially offering foundation courses to prepare students for study abroad and later the first year of MESDC university degrees, after which students would transfer to the overseas university to complete the remainder of the programme.

The combination of changes in the government funding for overseas study and the 1997 Asian financial crisis saw a major slump in the numbers of Malaysian students able to study abroad. More importantly, it changed the relative bargaining positions of the private colleges and their partner MESDC universities, which had become heavily reliant on the income streams from Malaysian students. Malaysian private colleges were able to use their increased power to renegotiate their '1+2' franchise arrangements into '2+1' or '3+0' agreements. Such a sacrifice of control, with all the attendant principal-agent problems involved, would have been regarded as unthinkable by the universities involved at the start of that decade, but by the late 1990s, full franchising at least allowed them to retain some of the fee income that would otherwise have been lost. Again, the most striking feature of this interpretation of events is that the MESDC universities did not enter full franchising as a logical next step in the process of internationalisation, but were rather coerced into this by developments beyond their control.

With regard to the so-called third wave, there is presently scant evidence that off-shore campuses have been seen by the universities involved as the final stage in a linear, incremental internationalisation process. The small number of well-known examples are, for the most part, the outcome of pro-active policy initiatives by the host governments, seeking to

invite in prestigious foreign institutions to accelerate the development of their own domestic higher education sectors. In Singapore, Malaysia and China, the establishment of off-shore campuses has everything to do with government interventionism and little to do with the exploitation of commercial opportunities by mobile, borderless foreign universities seeking to maximise global revenue.

A further feature of the supply-side, which stands in sharp contra-distinction to the motivation of a profit-maximising corporation, is the traditional nature of western universities and the role of both academic staff in the governance process, as well as the importance of alumni as key stakeholders. University academics typically give greatest weight to their research. Teaching international students on campus is often more demanding, requiring cross-cultural awareness and sensitivity, while teaching foreign students at off-shore campuses involves travel and extended periods away from home, disrupting research agendas which are central to career progression. University academics and alumni are acutely aware of the principal-agent problems with franchising and joint ventures and the attendant reputational risk and often inherently hostile to such activities. They often perceive that university managers and administrators are driving internationalisation for financial, rather than pedagogical ends, and there are numerous examples of planned offshore investments being voted down by unsympathetic senates and academic boards (eg, the University of Warwick's decision in 2005 to abandon its US$525m investment in a Singaporean campus after a vote in senate[10]).

These supply-side drivers of internationalisation are most evident in the MESDCs. In other developed countries, notably in continental Europe, traditional attitudes to higher education remain entrenched. Internationalisation in a European context has often been more closely associated with the student experience and not-for-fees student exchange through initiatives like Socrates and Erasmus. In some northern European countries, tuition remains free for both domestic and international students. However, the same forces which have driven the internationalisation of higher education in the United Kingdom are spreading east across the continent. Rising domestic participation and declining public subsidies have taken a toll on many of Europe's most prestigious universities. The Economist (2005) surveyed global higher education, noting the 'drab' and 'overcrowded' state of many European universities, concluding that 'governments have forced universities to educate huge armies of undergraduates on the cheap'.

The eastward enlargement of the European Union, which has drawn students from the new (poorer) accession states into the universities of western Europe on the same terms as domestic students, has exacerbated these pressures. At the same time, the Bologna Declaration, signed in 1999, which aimed to create a single European educational space, has had the effect of making higher education in continental Europe more accessible to international (ie, non-European) students, since the trend has been to greater transferability of qualifications and increased use of English as a medium of instruction.

Taken together, European governments have been forced countenance the introduction of domestic tuition fees, inevitably capped or political controlled, and allow universities to charge market fees for international students. The Department for Education and Skills (*op cit*) reported that, of thirteen OECD countries surveyed, eight had introduced regulated 'top-up' fees (ie, fees charged over and above continuing public subsidies). Following the 2005

[10] http://www.yawningbread.org/apdx_2005/imp-226.htm

ruling by the Federal Constitution Court that is unconstitutional to prevent German universities from charging tuition fees, the pressure on Germany's tradition of free university education is mounting; its close neighbour, Denmark, allowed universities to charge international tuition fees in 2004. Changing attitudes and liberalisation of fee regimes for international students is beginning to encourage continental universities to proactively recruit international students at offshore fairs, a prospect unthinkable only a few years ago. Reflecting the changing context of European higher education, the European Association of International Education, for most of its lifetime an organisation primarily dedicated to promoting student exchange and non-commercial internationalisation, voted at its 2006 annual conference to amend its constitution to make explicit a greater focus on export education.

In Asia, similar trends are underway. As The Economist (*op cit*) notes, 'massification is spreading to the developing world. China doubled its student population in the late 1990s and India is trying to follow suit.' Across the region, governments are recognising the multiple benefits of allowing universities to recruit international students, in terms of the direct and indirect economic benefits, as well as the gains in terms of 'exporting' culture and raising international awareness of the host country. While explicit discussion of the economic benefits to the receiving institutions is absent in much of the official discourse, universities themselves have been quick to recognise the financial advantages of internationalising their student bases. In China, for example, there have been aggressive moves to attract full-fee paying foreign students since the Chinese Ministry of Education introduced the 'Regulations for recruitment of self-paid international students' in 1999. Chich-Jen and I-Ming (2006) reported that by 2004, the number of international students in China had swelled to over 80,000, with enrolments growing at 20% *per annum*.

The Demand Side

The factors driving the demand for students to study outside their home country are complex. For political and economic elites, global educational mobility has been a fact of life for decades. Wealthy families across both the developed and developing worlds have aspired to send their children to venerable institutions like Harvard, Oxford and the Sorbonne, in an attempt to maximise their life chances. Spilimbergo (2006) reports, for example, that of the leaders of 113 countries studied in 1990, 57% had been educated abroad with 22% educated in the United States, United Kingdom and France. However, the absolute numbers of such students, while presumably growing over time as *per capita* gross domestic incomes rise around the world, does not plausibly account for the extraordinary increase in international higher education students since the end of the 1980s, many of whom come from modest family backgrounds with tuition fees and living expenses being funded by extended family savings and bank debt.

The demand for international higher education is also, at least in some sending and receiving countries, closely bound up with issues of economic migration. India, for example, is widely regarded as a 'migration' market by the international offices of receiving universities − that is, the primary motive often ascribed to potential Indian students is the desire to gain 'skilled migrant' status through offshore study and thereby gain residence visas in countries like the United Kingdom and United States. At the same time, countries like Australia, with low population densities and a strong demand for skilled migrants, are particularly keen to encourage international students to study in their universities; not only does Australia benefit

from the tuition fee income and associated expenditure on living costs while foreign students are taking their degrees, but the subsequent graduates − who have studied in English and been socialised in an Australian context − have scarce skills and are more readily employable in Australia than similarly qualified new immigrants with foreign (and especially non-English medium) degrees. Indeed, the Australian immigration regulations were redesigned in the early part of the decade to increase the relative weighting given to qualifications from Australian *vis-à-vis* foreign educational institutions in assessing a potential immigrant's suitability for admission.

While it is tempting to see the demand for international higher education as part of a wider trend, in which an increasing proportion of the world's population make choices about where to study, reside and work without reference to national borders, it is important to understand that this phenomenon is not new nor does it provide a compelling explanation for the post-1990 growth in international student numbers. The so-called 'brain drain' from the developing to the developed world has been widely researched. Teffera (1997) noted that 'during the period from 1961 to 1980, more than 500,000 scholars from the developing countries moved to United States, Great Britain, and Canada', a trend which continues to preoccupy policymakers in Africa and the lowest-income countries of Asia a quarter of a century later. However, the recent rapid increase in students studying outside their home countries has come from, disproportionately, the middle-classes of fast-growing developing countries where there are considerable opportunities for economic advancement at home and major obstacles to settling permanently in the foreign country of study in terms of immigration regulations, discrimination and cultural dislocation.

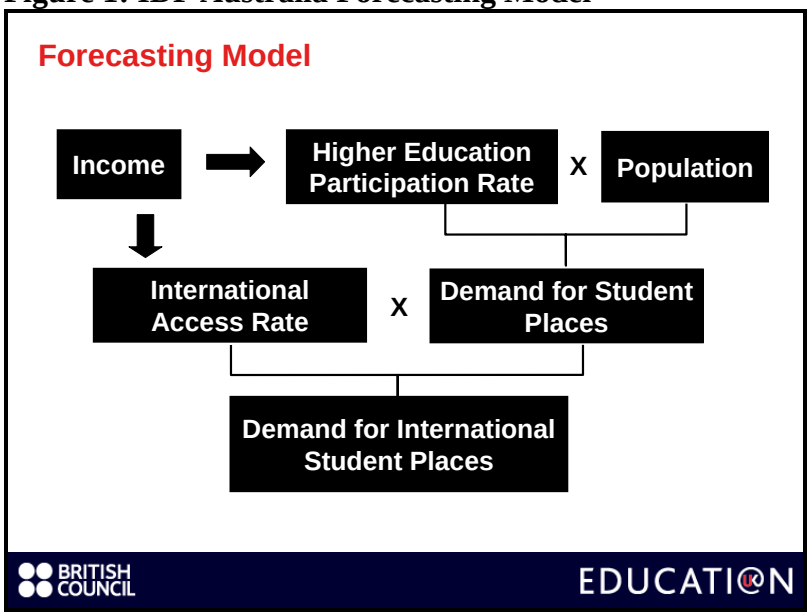
The most convincing explanation of the rapid growth in the demand for international higher education is rooted in simple economics. In developing countries that are experiencing rapid economic development, the (income-elastic) demand for higher education (whether at home or abroad) typically grows faster than the capacity of the domestic higher education sector. There are considerable fixed costs and lead times in expanding domestic higher education in developing countries. Population demographics often exacerbate the mismatch between the demand for, and supply of, higher education within a developing country, as rapid population growth means a rising proportion of school- and university-aged citizens within the population. In 2006, for example, Vietnam had a population of 82m, of which 22m were of school-age.

The scale of the excess demand is often highlighted by the low acceptance rates at a country's premier universities. In India, for example, 150,000 students competed for the 1,200 'general seats' available in 2005 at the country's six Indian Institutes of Management (IIMs). Candidates have to sit the 'Common Admission Test', which is the most highly selective in the world, typically reporting success rates in the region of 0.15-0.4%. Only those in the top 1% of the test results are invited to the next stage of the selection process, which involves individual and group interviews. That part of the excess demand that has the means to pay spills over into the MESDC universities − in other words, demand is driven by 'push factors' (Mazzarol and Soutar, 2002). In turn, continued high *per capita* income growth rates do two things: 1) it keeps up the excess demand for places domestically and 2) steadily increases the proportion of the unsatisfied demand that can afford to study in the MESDCs.

In 2003, IDP Australia carried out a major study, attempting to forecast the demand for international student places from 144 source countries based on economic/income trends, demographic trends and trends in higher education participation rates, both domestically and

abroad IDP (2003). Figure 1 summarises the model used at a country level, from which the total demand for international education globally was estimated by aggregating country results.

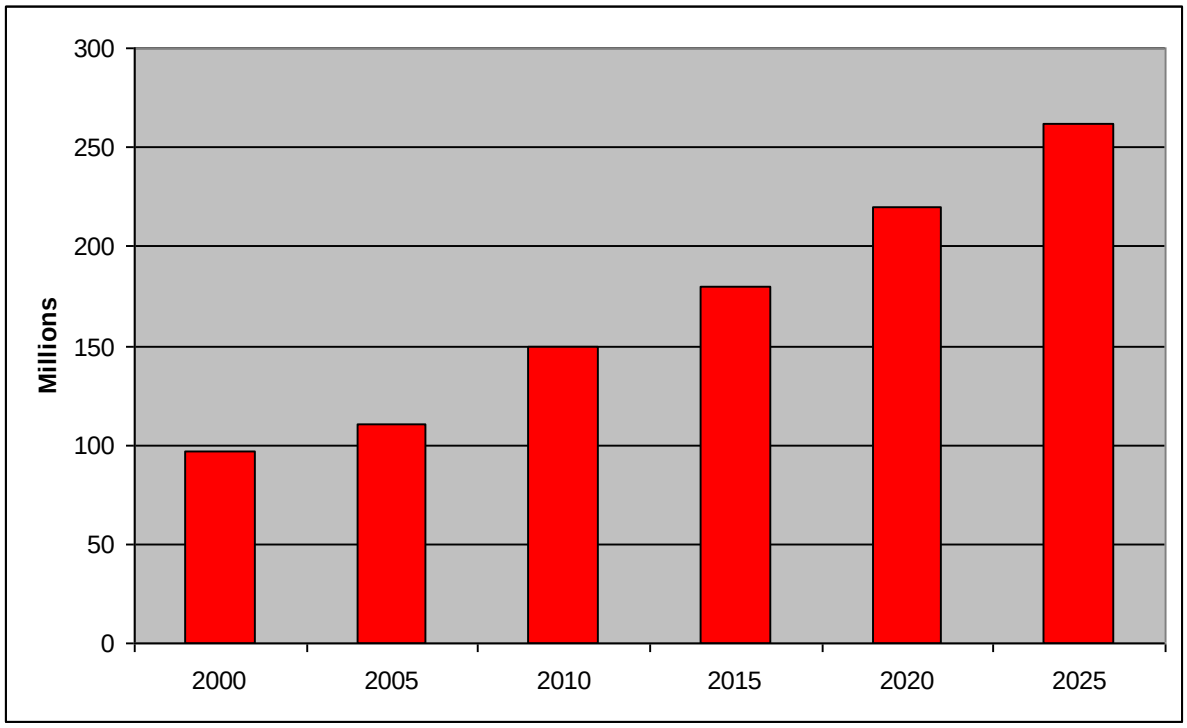
Figure 1: IDP Australia Forecasting Model



Source: Kemp (2004)

Figure 2 illustrates the results of the IDP's analysis, showing a more than 150% forecast increase in the global demand for higher education, from just under 100m places in 2000 to over 250m by 2025. With almost all of this growth taking place in developing countries, this clearly puts a huge strain on the capacity of domestic higher education sectors.

Figure 2: Forecast Global Demand for Higher Education

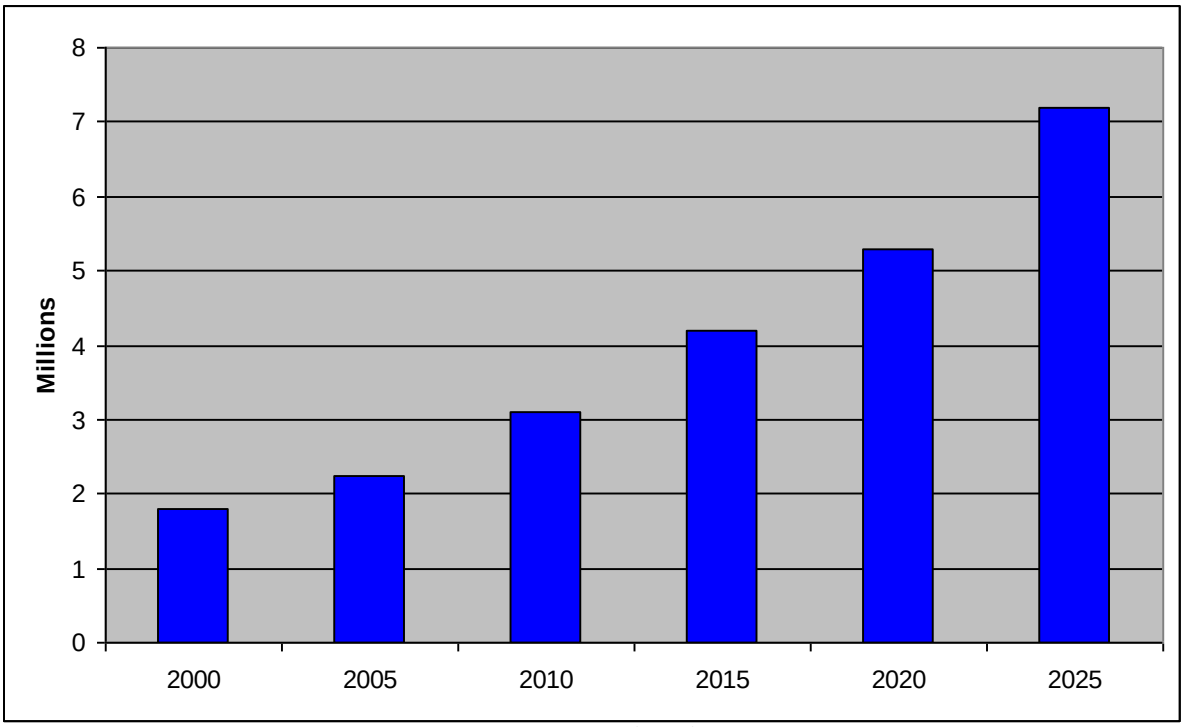


Source: IDP (2003)

From these raw projections, the IDP then forecast the derived demand for international education within the five MESDCs.

Figure 3 shows that the IDP forecast that the global demand for international education will rise from just under 2m places in 2000 to 7.2m by 2025. In joint work with IDP Australia, the British Council (2004) used these baseline forecasts to examine the share of MESDCs. As Tables 1 and 2 above confirm, OECD universities currently educate over 90% of all international students, with four of the five MESDCs (Australia, New Zealand, the United Kingdom and the United States) accounting for over half the total. As Table 9 shows, the British Council/IDP analysis assumes that the MESDCs retain their 50% share of the market for international students in the period to 2020, resulting in a forecast increase in students studying in MESDC universities from 1.1m in 2005 to 2.6m by 2020, at an annualised growth rate of 6.0%.

Figure 3: Forecast Global Demand for International Higher Education



Source: IDP (2003)

Table 9: Global Demand for International Higher Education by Region of Study

	2005	2010	2020	Annual Growth
MESDCs	1.1m	1.5m	2.6m	6.0%
World	2.4m	3.3m	5.8m	6.2%

Source: British Council (2004)

Table 10 shows that, of the 2.6m international students forecast to be studying with MESDC universities by 2020, 71% are expected to come from Asia, the world's most populous and fastest growing region, with the numbers of Asian students growing at an annualised rate of 7.8% over the period 2003-2020.

Table 10: Global Demand for International HE in MESDCs by Source Region ('000s)

	2003	2005	2010	2015	2020	Annual Growth*
Africa	63	67	87	113	146	5.2%
Middle East	37	39	49	60	73	4.2%
Asia	528	612	943	1,347	1,862	7.8%
America	127	134	156	181	209	3.0%
Europe	226	235	262	289	313	2.0%
Total	988	1,096	1,507	2,000	2,614	6.0%

Source: British Council (2004)

The IDP/British Council analysis, which has been highly influential, suggests that for the foreseeable future, high *per capita* GDP growth rates and demographic trends will outstrip

the capacity of domestic higher education sectors to keep up, resulting in chronic excess, unsatisfied demand for higher education which will keep the number flowing into MESDC universities growing strongly. This in turn, it is argued, will drive the internationalisation of higher education, as MESDC universities will increasingly turn to franchises and joint/sole ventures in the developing countries to meet this burgeoning demand.

The limitation with this analysis, however, is that while it is relatively straightforward to model the demand for higher education, the derived demand for international education depends upon the supply-side response within the main Asian economies and this is an essentially political and cultural, rather than an economic, phenomenon. China, for example, has demonstrated its ability to sustain rates of domestic capital formation unthinkable in the west, using political control to invest high proportions of GDP in priority areas. 'Project 211', set up in 1995, is a good example. Its stated goal is to create 100 world-class universities within China, by concentrating major investments in its top institutions. Over the last decade, China's top universities have built new state-of-the-art campuses and increased enrolments rapidly.

The IDP/British Council analysis also underplays the high status of many universities in the developing world and the importance of the social networks developed by studying at a top university. As a recent BBC documentary on Chinese students studying in the United Kingdom concluded:

> 'If you can get into one of the top 10 Chinese universities, such as Beijing Normal University, Beda, Xinhuan, Fudan, Wuhan etc, then you are set up for life. You will acquire permanent guanxi (a relationship of influence) with the elite of China. You would be very unlikely to give up a place at one of these for a stint at the University of …' (BBC, 2006).

An Alternative Interpretation of the Internationalisation of Higher Education

To summarise, while the Uppsala model suggests continuing internationalisation of higher education, driven by growing demand for higher education in the developing world, there is an alternative interpretation of events. Within the MESDCs, whose public universities have been in the vanguard of the internationalisation trend, it can be argued that universities have been driven into internationalisation by domestic government policy, which has reduced public tuition subsidies for domestic students, continued to regulate domestic tuition fees, but (critically) deregulated international tuition fees. Elementary microeconomics suggests that the internationalisation of MESDC universities may be primarily the product of government intervention and policy, rather than a profit-maximising response to overseas opportunities.

Evidence for the government interference thesis includes the fact that the United States has the highest proportion of private universities (whose fees for domestic students are not regulated) and the lowest percentage (4%) of international students. In contrast, the percentages of international students in the United Kingdom and New Zealand where all universities are effectively public are 13% and 14% respectively. Australia has the highest percentage of all (18%), and although it has some private universities, successive governments have made export education a priority to avoid deregulating domestic fees. Moreover, it is notable that it has been lower status universities which have less research and other income (eg, endowments) which have been have been most aggressive in international

recruitment and franchising. Finally, the highest percentages of international enrolments are in high-margin, low-cost classroom-based subjects like business and management and the lowest in expensive subjects like medicine.

On the other side of the equation, the demand for international education in the MESDC universities is driven by the excess demand for higher education within fast-growing developing countries. But the supply-side response in countries like China and India has been rapid and sustained high levels of domestic investment in public capacity are being supplemented by the establishment of private, for-profit providers as part of a deliberate, highly controlled government strategy. Moreover, as potential consumers become more sophisticated, the perceived value of the lower status MESDC universities most dependent on international tuition income is undoubtedly falling. University world rankings are now well-established and it is significant that, despite having been started only in 2003, it is an Asian-based ranking − the Shanghai Jiao Tong University's 'Academic Ranking of World Universities' − which is now regarded internationally as one of the most authoritative.

Seen in this light, the Uppsala model provides little guide to the future internationalisation of higher education. In the OECD generally, and the MESDCs in particular, if pressure to deregulate domestic tuition fees reached the point where this became politically acceptable, this would overnight reduce the attractiveness of international students, in the same way that growing regulatory scrutiny by agencies of both home and host governments of franchises is making them less commercially attractive. The partial deregulation of domestic fees has already taken place in Australia and there is some evidence that move to higher top-up fees in the United Kingdom has led some universities to reoptimise the balance of domestic *versus* international enrolments.

At the same time, in the developing world, increasing domestic supply may cut demand for international education faster than expected, while growing market sophistication may reduce demand for lower status universities. In this context, Altbach (2004) cites the salutary experience of US colleges and universities which established branch campuses in Japan in the 1980s:

> 'Several hundred U.S. institutions explored the Japanese "market," and more than a dozen established campuses there − usually in cooperation with a Japanese institution or company […These] U.S. programs focused on educating Japanese students in Japan. With few exceptions, the institutions engaging in export activities were not the most prestigious schools on either side. By 2000, very few of the branches were still operating'.

There is, of course, a range of complicating factors which make it hard to predict the future shape of internationalisation within higher education. The current Doha round of world trade talks is still underway, under which the General Treaty on Trade in Services could be extended to allow universities to set up in third countries with the same access to government tuition subsidies and research grants (Knight, 2002). The 'Bologna' process in Europe, under which the EU25 plus a growing number of other signatories are reorganising their higher education systems around a common bachelors-masters-doctorate model, is intended to promote cross-border mobility of students and make Europe an educational hub. There appears to be growth in the number of enrolments captured by for-profit higher education providers, although there are no definitive data sources. Conversely, security tensions and terrorist attacks have had an impact on the willingness of students to travel outside their home

countries to study.

Conclusions

It is widely believed that the higher education is internationalising in the same way as multinational corporations, moving along the Uppsala sequence from exporting to franchising, with the third wave being the establishment of off-shore campuses. There is considerable *prima facie* evidence to support this view, with respected authorities like British Council and IDP Australia suggesting that the economic fundamentals will continue to drive, even accelerate, this process of internationalisation.

This review of the internationalisation of higher education offers an alternative interpretation. It argues that, on the supply-side, the internationalisation of MESDC universities is a response to confused government policy, which has temporarily made the unregulated international student market more attractive than a highly regulated domestic market. The pressures that have led the MESDCs down this path are, to a greater or lesser extent, spreading to other parts of the world, notably continental Europe and Asia, as rising participation rates bite against constrained public subsidies for higher education. To the extent that these policy frameworks are unsustainable in the longer term, the deregulation of domestic tuition fees and the freeing of universities from state control could well lead to a scenario in which many universities begin to retreat from internationalisation and a return to their 'core activities' of research and teaching domestic students.

On the demand side, this review argues that for mainstream students in developing countries (as opposed to elite or wealthy students), studying at a MESDC university has come to be regarded over the last fifteen years as the only alternative for those who cannot secure a place at one of the leading universities in their home countries *and* who have the means to pay for a foreign education. As the higher education sectors in developing countries scale up and consumers become more sophisticated, it is likely that demand to study abroad, particularly at the lower status universities now so dependent on international students, will decline rather than continue to grow at recent rates.

As noted at the outset, universities are inherently international, in terms of the interchange of research, pedagogies and faculty; international student exchange has been an integral and important part of campus life for decades. And in a globalising world characterised by increasing personal mobility, growing numbers of wealthier students will be able to make choices about where to live and study without reference to national borders. However, the key question is whether the rapid internationalisation of student bodies on the campuses of MESDC universities since 1990 is part of a long-term process of internationalisation along Uppsala lines, which will continue and spread to universities in other parts of the world. The answer, based on the analysis in this paper, is that the internationalisation observed to date is *primarily* a product of distortionary government policy and, as higher education sectors around the world are inevitably liberalised and deregulated over time, the last fifteen years may prove to have been a transitory but rather dramatic 'blip' around a much more modest underlying trend.

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