

Open for minds: export education and recovery

Dr Eric Crampton

1 May 2020

Export Education: Advantage New Zealand

New Zealand's universities have, at least since the mid-2000s, relied on foreign students for substantial parts of their income. Though the extent of foreign students' contributions is obvious to anyone working in academia, they are not well appreciated outside the tertiary sector.

Worse, even though reliance on income from foreign students has been designed into the tertiary sector's funding model since the Clark administration, the Government of today seems to have forgotten, or at best underappreciated its importance.

And that means New Zealand risks a substantial worsening in the quality of tertiary education for domestic students while missing an opportunity to expand its export education services. While it may seem odd to consider universities here as being involved in international exports, that's how foreign students are accounted; tourism also is an export industry.

We here propose not just reopening the country to foreign students, subject to mandatory and well-monitored quarantine provisions, but taking the opportunity to capitalise on New Zealand's relative safety. New Zealand's tertiary sector should *expand* in response to the current crisis, rather than contract.

Re-opening the country to foreign students in time for the second semester would not *just* reduce the need for stronger central government support of the universities, or potential bailouts. It would also help with the recovery of the hospitality industry and the tourism sector. And, the capabilities now possible to build in the tertiary sector would help in growing the country out of the current crisis.

Tertiary education: basic economics

The Government has sought to increase access to tertiary education for domestic students by keeping fees low, while simultaneously wishing to contain the costs that consequently flow through to the government.

These costs are not just the amounts provided to tertiary institutes by the government in place of student fees under the government's fees-free policy, and the amounts provided by the government to subsidise course delivery to domestic students. The costs also include a substantial proportion of the fees charged by those institutes. The abolition of interest charges on student borrowing through the student loan scheme meant that the Government bore a substantial fraction of the cost of every increase in tuition fees.

And so the government regulates domestic tuition fees through the Annual Maximum Fee Movement mechanism: every dollar's increase in student fees costs the government roughly 42c through the student loan scheme.¹ It also limits the extent to which tertiary

¹ See New Zealand Productivity Commission, 2017. "New Models of Tertiary Education". Discussion at page 144 is relevant. See also Crampton, Eric and Khyati Acharya, 2016. "Decade of Debt: The cost of interest-free student loans."

providers can increase revenues by lifting domestic student numbers: if a provider's enrolment exceeds its projected enrolment by too great a margin, additional students do not draw more funding.

Tertiary providers have only two real ways of increasing revenue from students: encouraging more graduate study and professional degrees, where graduate degree completion draws additional research-based funding and where fees for professional degrees like the MBA are high; and, foreign full-fee student enrolment.

It is then little surprise that full-fee paying international students make up a larger proportion of the overall student population.

Domestic and International students enrolled in New Zealand tertiary education providers, both public and private.²

Year	Domestic	International
1999	294,425	11,740
2000	314,615	16,575
2001	342,440	26,225
2002	379,825	38,355
2003	407,425	47,090
2004	432,750	50,355
2005	452,415	47,280
2006	445,490	42,735
2007	441,720	40,010
2008	418,665	39,790
2009	423,000	43,390
2010	418,140	45,615
2011	381,415	48,050
2012	372,705	47,460
2013	368,650	47,955
2014	363,050	53,845
2015	357,875	61,400
2016	353,320	62,590
2017	343,430	61,320
2018	335,410	60,810

But just counting students understates the importance of international students for tertiary providers' bottom-lines. While domestic students attract capped tuition fees and government funding, international students pay uncapped fees.

By way of example, Canterbury University's 2019 Annual Report³ showed it attracted 13,022 Domestic Equivalent Full-Time Students (EFTS) and 1869 International EFTS, or about seven domestic students for every international student.

The university's financial statement from that same year showed almost \$78 million in domestic fees, \$48 million in international fees, \$18 million in government subsidy to cover fees-free domestic students and \$131 million in Student Achievement Component (SAC) funding.

So, while the University had seven domestic students for every international student, it received about two domestic tuition dollars for every international tuition dollar – plus government SAC funding.

Tertiary providers will often also earn revenue from international students renting

² <https://www.educationcounts.govt.nz/statistics/tertiary-education/participation>

³ <https://www.canterbury.ac.nz/about/governance/annual-reports/>

accommodation from the institute. Looking only at fees understates international students' contribution to university finances.

And looking only at their contribution to university finances would understate their contribution to the broader community. In 2016, Infometrics estimated that the onshore component of export education generated \$3.8 billion in foreign exchange earnings, directly contributed \$1.9 billion to GDP and made an overall contribution of \$4 billion to GDP after accounting for indirect effects.⁴ While indirect effects of flow-on spending in economic impact reports generally wildly exaggerate actual economic effects by failing to account for displacement, those estimates become more plausible in recessions when international students are less likely to be displacing foreign tourists or other economic activity.

More recently, Statistics New Zealand estimated that international students studying for less than 12 months spent \$3.9 billion in the year to March 2019; overall international tourist expenditure in the same period was \$17.1 billion. The figure includes student course fees, living costs, and airfares on resident airlines but would not include other spending by international students while visiting New Zealand, or expenditure by students staying for more than a year. International student expenditure here is substantial.⁵

Many tertiary providers came to rely on international fees to cover the costs of providing services more generally, including those to domestic students. But, at least as of late 2018, Canterbury University Vice-Chancellor Professor Rod Carr considered international fees had reached the market's limit.⁶ New Zealand universities have faced a reasonably crowded international marketplace in which students have many options. Increasing numbers of credible universities in China also limited potential expansion in that market.

In summary: tertiary providers rely heavily on international students. Losing that source of revenue has substantial and detrimental effects on those providers and their students: the sector will be unable to afford to continue delivering the scale and quality of offerings without the contribution of its international students, barring substantial increases in funding from the government. And domestic students will miss out on the opportunity to build lasting international connections with classmates.

Open to minds: the export education opportunity

New Zealand's universities are excellent and provide a world-class undergraduate education. Having six universities among the world's top 300 is an achievement for a very small country. The QS international rankings place Auckland University 83rd in the world. Otago follows at 176th; Victoria, Canterbury, Waikato and Massey follow in the rankings from 215th to 287th.

International students aiming for the *most* prestigious degrees possible will be less likely to consider New Zealand unless they are particularly interested in the country as a destination, or failed to secure admission to higher-ranked institutions. New Zealand universities will be seen instead as providing strong value-for-money.

The Covid-19 pandemic brings both danger and opportunity. Universities risk the loss of all international revenue if the border is not reopened to international students. But New Zealand's enviable position creates an opportunity, under more flexible risk-based border controls, to substantially increase its international student numbers.

The United States and the United Kingdom seem likely to suffer from enduring and

⁴ Infometrics, 2016. "The Economic Impact of International Education in New Zealand." Note that the report was produced for Education New Zealand. <https://enz.govt.nz/assets/Uploads/The-Economic-Impact-of-International-Education-in-New-Zealand-2015-2016.pdf>

⁵ See Tourism Satellite Account 2019, Table 4: International Student Expenditure – studying less than 12 months. Data released 10 December 2019, available at <https://www.stats.govt.nz/information-releases/tourism-satellite-account-2019>

⁶ <https://www.universitiesnz.ac.nz/latest-news-and-publications/government-must-play-part-keeping-university-sector-viable>

substantial pandemic disruption not only to university classes, but also to student life. Both countries will be substantially less attractive destinations for international students. Harvard is less attractive when Boston is shut down and classes are delivered online because the lecture theatres are closed.

New Zealand's response to the pandemic is an opportunity to make New Zealand a kind of lifeboat, largely free of Covid-19 and able to contain any outbreaks through rigorous track, trace and quarantine policies. While life will not return fully to normal for some time, New Zealand will be the least disrupted place in a rather disrupted world. Students who might otherwise have looked to the UK or US will be more likely to consider New Zealand because of that far better student experience.

Taking up the opportunity requires keeping the lifeboat safe, which is fairly easy.

The New Zealand Initiative suggests the Government quickly permit entry of international students enrolled with a tertiary provider which can provide satisfactory quarantine facilities.

The Medical Officer of Health would need to approve, and oversee as appropriate, those facilities and procedures before students could enter. Tertiary institutes could either provide their own residence quarantine facilities, or contract out to external parties.

All incoming students would face a mandatory quarantine period, strictly supervised, and with strict deportation conditions applying for breach of quarantine. Tertiary institutes should also provide digital offerings in case of future restrictions on lecture delivery. The quarantine period could be used to give online orientation sessions for incoming students.

While quarantine restrictions are likely to deter all but the most ardent of tourists, a two-week quarantine period is far less daunting for students who could be in the country for months, or years. Because of the pandemic, students would be less likely to return home during semester breaks. Lengthy winter and summer breaks provide opportunities for students to tour the country.

If New Zealand proved attractive to foreign students, tertiary providers might need to hire more academics to help teach classes. Doing so now, in the middle of hiring freezes and layoffs at foreign institutes, would let New Zealand universities hire better quality academics than they would otherwise be able to attract if too few local academics are available.

Foreign-national academics currently teaching in the UK and the US, or entering the academic job market, would find New Zealand particularly attractive. Brexit made the UK far less attractive to those without a UK passport, and the United States Government has become actively hostile to those without an American passport.

The Covid-19 crisis gives New Zealand's tertiary sector a real opportunity to become more desirable as a destination for foreign students, to use the funding those students would bring to expand capabilities through hiring top-tier academics and help the country's economic recovery more broadly.

But it cannot happen unless the Government prioritises re-opening the border to foreign students, with appropriate quarantine provisions, while encouraging Immigration New Zealand to speedily process visas.

New Zealand needs to allow its tertiary institutions to take up this opportunity. The benefits will flow well beyond those institutions' doors.