Globalisation and Internationalisation of Education: Is on Right Direction?

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Abstract

One aspect of the process of globalisation in recent years has been the increase in the number of students travelling abroad to complete their education. Although a number of university campuses around the world have seen significant numbers of overseas students since the 1950s, in recent years the numbers have climbed to far higher levels. In 2006 it was estimated by the OECD that there were nearly three million tertiary education students studying aboard and that this number could reach five million by the year 2020. This globalisation of education has meant that increasingly those countries whose higher education institutions are most dependent on overseas students are becoming exposed to risks historically associated with engagement in international trade. Indeed in a number of countries there are universities that have become very dependent upon attracting overseas students to maintain their funding levels. The purpose of this study is to review this process of the globalisation of higher education and the associated risks faced by higher education institutions when they attempt to attract students from other countries. Finally a direction of movement of these two industries has been examined. The study found that although the rate of globalisation of education is much faster than it was expected, the risks faced by institutions are also increasing. Findings of the study may be of interest of policy makers, educationists and researchers.

1. Introduction

International tourism and education have existed from ancient times but only become significant sectors of economies since the end of the second world war. The post war period has been one of substantial change in terms of transportation and communications. The development of wide bodied jet aircraft has enabled to the development of mass international tourism. Mass transport has also been instrumental in promoting international education as well. In addition in the post war period disposable incomes of people around the world have increased substantially giving people greater means to enjoy tourism and education services.

This growth in international education and tourism has not grown uniformly across the world but is of different importance to different countries. In terms of tourism some economies such as the countries of Fiji and New Zealand are very reliant on the sale of tourism services. Likewise international education is important to both countries. Even in larger economies than these, however, such as Italy and the United Kingdom the tourism industry is important to the developments of these countries.

In each case much of the growth of the education and tourism both are to some degree explained by traditional notions of comparative advantage. In looking at the development of the two industries and the linkages between them it is worth thinking about them in terms of the growing globalisation of economies and increased trade based on comparative advantages of nations.

2. Globalisation

During the past twenty years there has been a steady trend towards an increased integration of countries into an interdependent global trading system. This "globalisation" has meant that there has been a merging of distinct and separate national markets into a single, larger market. This process has been encouraged by a progressive reduction of barriers to trade between nations by governments.

What is true of most countries is also true in the case of tourism and education. Although most countries have always been dependent, to some degree, on overseas markets to sell goods this process has become intensified since the 1980s. The primary evidence of the growth in importance of economic interdependence of nations is the rapid growth in the volume of cross-border trade and investment that has occurred over the last three decades. This evidence suggests that the world is moving toward a more integrated and interdependent economy. The resulting interdependence is very important (and directly related) to the economic well being of the people in most nations of the world. Of course, the degree of interdependence of different countries' economies is strongly influenced by the extent to which governments choose to restrict such relations by imposing barriers to trade, or alternatively eliminating trade barriers between them and embracing the freedom to trade. This degree of willingness is as important in the case of education and tourism as it is in any other field.

All countries have specialised resources, whether in the form of capital equipment, natural resources and even the skills of their respective populations. This means that the companies and individuals in them produce a limited range of goods and services, part of which they then sell to people in other countries (exports) in exchange for the many items people wish to buy from overseas (imports) and ultimately consume. The prosperity of the people of each country is therefore dependent to a varied degree on international trade. International trade is vitally important to underpinning the standards of living of any country's citizens.

Generally integration with world markets can be shown by the existence of large flows of goods and services, capital and labour between a national economy and the rest of the world. One way, therefore, of illustrating the degree of this interdependence between a particular country and the rest of the world is simply to take that country's imports and exports of goods and services and compare them to the level of Gross Domestic Product.[1] This very simple method helps to show just how much a country is exposed to – and benefits from - international trade.

Table 1 provides the ratio of a combination of exports and imports to the Gross Domestic Product of a range of countries. Not all the countries shown in the table can be seen to have the same degree of economic interdependence with the rest of the world. Another aspect of economic interdependence is the degree to which there are flows of capital into and out of a country. In the second column of Table 1 the Gross Private Flow of Capital, as a percentage of Gross Domestic Product, is given for the same range of countries. This figure is the sum of direct, portfolio and other investment inflows and outflows to and from each country. As can be seen these vary quite considerably. Another indication of interdependence relates to the population of a country. As can be seen from the third column of the Table 1.

From Table 1 it can be seen that different countries have different levels of exposure to international markets (goods, capital and labour). It is also true, however, that there appears a range of different exposures amongst the sample countries given in Table 1. There are a variety of factors that contribute to raising or lowering a country's degree of interdependence with the rest of the world.

Broadly speaking small economies generally have a greater level of interdependence than larger ones. Small countries like New Zealand typically have relatively narrow economies so need to export large amounts of goods and services in order to pay for the imports that they need. For very large economies such as the United States the figure for exports and imports as a percentage of Gross Domestic Product is only 24 per cent. A very large economy like the United States is one with a great deal of natural and human resources. One would therefore expect that the United States would be able to produce with relative efficiency most of the products that it needs and would not be so dependent on international trade to maintain the standards of living of its citizens. In contrast to this is the position of relatively small economies

[1] Gross Domestic Product can be defined as being the market value of all final goods and services produced in an economy in a given period.

like that of New Zealand, which can only specialise in the production of and export of a small range of commodities due to their limited resources.

In general then, the larger a national economy, the smaller is its economic interdependence with the rest of the international economy. What is true of imports and exports of goods and services is perhaps also true of capital and labour flows. Smaller countries have more limited sources of both and therefore perhaps need to seek outside sources for them. As well people living in a small country might find their own opportunities more limited than those in larger countries and might, therefore, seek to live and work abroad or even seek investment opportunities abroad. The relative sizes of the two countries, New Zealand and Australia, probably explain why although they are similar societies one is far more exposed to international trade than the other. New Zealand's exposure to international trade, however, is not as intense as the case with countries of a similar size such as Ireland and Finland. To explain why this is the case we need to look to other factors.

A country's location is an important factor that influences its level of economic interdependence with the rest of the world. Isolation from the major markets of the world has limited the degree to which some countries interrelate with the rest of the world. Gradually over the past fifty years, however, the world has undergone a transportation and communications revolution, which has helped to further increase many country's interdependence with the world economy. For instance since the mid 1950s average world ocean-freight and port charges per ton of cargo have fallen by about 50 percent (Yarbrough and Yarborough 2003). Falling relative costs of shipping, air transport and communications have all helped to expose greater sections of the world to international competition and to open up new opportunities. The use of containerised shipping, super freighters and commercial jet travel have all helped to lower the cost of shipping goods and travel.

Finally the interdependence of a country with the world economy is also influenced by the level of restrictions, placed by the government of a country on imports, exports, plus labour and capital flows. Table 2 gives the tariff levels on the imports of goods into a range of countries in the years 1990 and 2000. A tariff is a tax placed on the import of a good into a country, imposed either to raise tax revenue by the government imposing it or alternatively to protect a country's domestic manufacturing from import competition by raising the price of the imported good. The affect of a tariff is to reduce the level of imports into a country (and perhaps make it more expensive to export as well) and so therefore reduce the degree of interdependence of a country. Table 2 shows that there has been a reduction in most countries' levels of tariff protection over the past ten years, which would have encouraged the growth and development of international trade. The fall in trade barriers; both government imposed and the improvements in transportation, has meant that not only is the level of trade penetration tended to grow over the past twenty years.

Table 1: Indicators of economic interdependence

	(Exports& Imports)/ GDP	Foreign direct Investment flows/GDP	Real growth of exports	Foreign born population	Real GDP growth
	2007	2007	2000-2007	2005	2000-07
	%	%	% per annum	% of pop’	% per annum
Australia	47.1	7.8	2.0	20.1	3.2
Canada	71.6	12.5	0.9	18.9	2.7
China	77.7	4.8	24.4	0	10.3
Korea	90.2	1.8	12.3	1.1	4.7
Japan	36.8	2.3	7.7	1.6	1.7
India	46.0	3.1	15.7	0.5	7.8
New Zealand	56.2	4.1	3.2	15.5	3.4
Singapore	436.8	22.6	Na	43.2	5.8
Sweden	95.1	9.0	5.9	12.4	3.0
United Kingdom	55.6	17.0	4.1	9.0	2.6
United States	29.4	4.1	3.1	13.0	2.6
World	63.0	8.3	7.1	3.0	3.2

Source: World Bank. Gross private capital flows includes investment inflows and outflows. Exports include exports of goods and services.

Table 2: Tariff levels: weighted mean tariff

		All products %	Primary products %	Manufactured products %
Australia	1991	9.1	1.6	10.3
	2007	1.8	0.3	2.3
Canada	1991			
	2007	1.6	3.2	1.2
China	1992	32.2	13.9	36.5
	2007	5.1	3.0	6.3
Japan	1989	3.0	3.3	2.7
	2007	3.1	3.8	2.2
India	1990	49.6	25.4	69.9
	2005	13.4	14.3	12.3
New Zealand	1992	8.5	3.7	9.6
	2007	2.7	0.4	3.6
European Union	1989	3.8	2.7	4.4
	2007	1.8	1.8	1.8
Singapore	1990			
	2007	0	0	0
United States	1989	3.8	2.0	4.1
	2007	1.6	1.3	1.7

Source: World Bank.

3. The benefits of trade

Given that changes in the international trading climate can be sources of great instability to different countries it is worthwhile reminding ourselves about the reasons why people largely benefit from engaging in international trade.

International trade is important to all nations. There are many goods and services that even the people and companies of the largest and most productive economy simply do not produce at all. More importantly there are many goods and services that could be produced domestically, but only at a higher cost than abroad. By purchasing these goods and services internationally it is possible to gain a benefit from trading with the rest of the world. This gain from trade is enhanced when the people and firms of a country specialise in the production of goods and services for which their country has some special advantage. Any restriction that prevents this trade occurring - or makes it more difficult to carry out - can adversely affect a large proportion of a country's economy. Not only are exporters affected but there is also a flow-on effect that can spread through the whole economy.

Not all the countries that engage in international trade have available to them identical resources. This means that it is in the interests of companies in each country to specialise in the production of a narrow range of goods that make use of the country's abundant resources and then purchase others in international markets. This specialisation and division of labour mirrors that of the specialisation that takes place with individual people and firms within a country. We all specialise to some degree in the production of a good or service and then trade this for the other goods and services that we wish to buy. Specialising and then engaging in trade is a way through which we can increase our ability to consume a greater volume and scope of goods and services.

In order to get an idea of the types of goods and service that various countries specialise in a breakdown of export mixes of a selection of countries is presented in Table 1.3. From this sample there appears to be a wide range of various export mixes in the various countries. Some countries like New Zealand have a particularly important export component of food products (34.8 percent). Others like Australia have a large component of fuels, ores and metals (30.5 percent). These export sectors are a product of the natural resource bases of these two countries. New Zealand for instance has a large agricultural sector based on fertile land and a good climate and Australia has extensive mineral reserves.

Internationally manufactured goods provide the bulk of international trade, almost two thirds. It is no surprise then that some countries such as China, Japan and Korea export predominately manufactured goods. In recent years there has been a particularly strong growth in the trade of services. Some countries already have a particularly strong export orientated services sector. The United Kingdom for instance generates around 30 per cent of its trade from services. These services include such things as travel and tourism, education and financial, shipping and insurance services.

The production mix of a country's exports to some degree influences which countries it trades with. Location and membership of reciprocal trading arrangements are also important at influencing the direction of trade. In recent years trading blocs in various forms have become important around the world. These take a variety of forms and include amongst a wide range the European Union (EU), the North American Free Trade Association (NAFTA) and the Association of South East Asian Nations (ASEAN). Governments have attempted in the past to promote integration of neighbouring countries through the creation of these trading blocs and associations. As well economic integration has been promoted by multilateral (between many countries) negotiation of non-discriminatory trade between the member nations of the World Trade Organisation (WTO) and its predecessor the General Agreement on Tariffs and Trade (GATT). Finally in recent years a number of nations have begun to negotiate free trade agreements with each other on a bilateral basis (between two countries) in order to enhance their economic relations.

This notion that the people of countries can maximise their national wealth if they specialise in the production of goods and services that they are best at, is known as an "absolute advantage". The notion of absolute advantage has an obvious limitation as a basis for explaining why trade occurs. What happens, for instance, if a country has no, or very few, absolute advantages? Does that then mean that there is no – or very little – scope for it to trade with the rest of the world? In this situation, the notion of absolute advantage cannot provide a full explanation of why countries trade with each other.

In 1817, David Ricardo provided an answer to this question with his theory of "comparative advantage". According to Ricardo even if one nation is less efficient than another nation in the production of commodities, there is still scope for mutually beneficial trade. This scope is created by the presence of "comparative advantages". Even if a country produced all commodities more expensively than any other country, trade to the benefit of all could take place provided only that the relative costs of production of the different commodities were favourable.

Table 3: Export mix of: percentage of total exports of goods and services (2007)

	Food %	Agricultural & raw materials %	Fuels %	Ores & Metals &	Manufactures %	Transport %	Travel %	Other services %
Australia	10.1	2.3	10.0	22.6	14.8	4.0	12.4	5.6
Canada	7.0	3.5	19.2	7.8	46.2	2.4	3.2	7.2
China	2.7	0	1.8	1.8	84.6	2.4	2.8	4.0
Japan	0.8	0.8	0.8	1.7	76.4	5.0	1.1	9.0
Korea	0.9	0.9	6.0	1.7	76.4	7.8	1.3	5.1
Indonesia	5.6	1.2	9.9	4.9	39.6	3.9	4.5	29.7
New Zealand	38.8	7.5	3.0	3.7	18.7	5.5	15.0	4.9
Singapore	1.6	0	11.4	1.6	61.6	6.3	2.4	10.2
United Kingdom	3.1	0.6	6.1	2.4	45.3	4.6	5.3	29.0
United States	5.7	1.4	2.8	2.8	54.7	4.7	7.3	16.9
World	5.6	1.6	8.1	3.2	62.1	4.6	5.2	9.6

Source: World Bank

Comparative advantage is based on the notion that different countries have different capabilities or different endowments of the factors of production (land, capital, and labour). Countries with no absolute advantages can still gain from trade by producing those goods and services that are relatively cheap to produce in their country and selling it to countries where it is relatively more expensive. There will be scope for trade between them as long as the relative costs of different goods are different in the various countries.

One way of understanding this concept is to think of a country that has many advantages. In this case it will not seek to produce everything but instead concentrate on the production of goods and services that it can do best, and then buy from abroad other goods and services which it could potentially do well, but perhaps not as well as the goods that it actually specialises in. This creates opportunities for other countries to trade with it.

Bearing these notions of comparative and absolute advantage in mind it is possible to consider how they apply in the New Zealand case. New Zealand is a country richly

endowed by nature; lightly populated, and possessing a lot of productive pastoral and agricultural land. The climate is favourable to the maintenance of livestock such as sheep and cattle. In most areas of New Zealand there is a reliable rainfall and moderate temperatures, which together help to create nearly all year round pasture growth. Livestock, therefore, does not have to be fed grain or provided with shelter in winter months, as is the case in many competing countries. Much of the land in New Zealand is naturally fertile which assists horticulture and forestry growth. As the country is lightly populated there is less competition from other users of land as is the case in more densely populated countries such as the United States or Western Europe. New Zealand, therefore possesses, a comparative advantage in the production of goods that require heavy inputs of fertile land. It is natural then that New Zealand should be a net exporter of food, natural fibres and processed primary products and a net importer of manufactures and services, especially those that require large amounts of labour (are labour intensive). In addition the natural beauty of the country makes it attractive to tourists.

This type of trade where a country exports goods for which it has a comparative advantage and imports goods for which it has a comparative disadvantage is often referred to as “inter-industry trade”. In involves the import and export of commodities that are from different industries and mainly takes place between countries with different relative factor endowments, different skill levels, different technologies, different levels of growth and perhaps different cultures. This type of trade can be explained on the basis of comparative advantage, which stems from the presence of resource differences between nations (this is known as the Heckscher-Ohlin model of trade).[2]

This theory predicts that countries will export those goods that make intensive use of those factors that are domestically abundant, while they will import goods that make intensive use of factors that are scarce. The Heckscher-Ohlin theory does have a common sense appeal and is clearly applicable in a number of cases. For example, countries such as New Zealand have long been substantial exporters of agricultural goods, which is consistent with its abundance of land. On the other hand countries such as Indonesia and China have recently excelled in the export of goods produced in labour-intensive manufacturing industries, such as textiles and footwear. This is consistent with China and Indonesia’s abundance of low-cost labour.

It is, however, also important to note that in recent times new evidence suggests that around a half of all international trade, and the major part of the trade in manufactured goods among industrialised developed countries, involves trade in differentiated products belonging to the same basic industry group. For example countries such as the United States, Singapore and Japan all export and import office and telecommunications equipment. This type of trade is called “intra-industry trade” as the exports and imports out of and into a country all come from the same industry.

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[2] This theory was developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics. It builds on David Ricardo's theory of comparative advantage by predicting patterns of trade and production based on the factor endowments of a country.

Although the notion of comparative advantage can readily explain much of the world's trade there are some components of it that are a little more difficult to do so. In some areas countries are both exporter and importer of goods. Thi8s is certainly the case in many instances of tourism. The United Kingdom, for instance, is not only an important destination for tourists but it is also a source of tourism expenditure as well as British people travel abroad. If it has a comparative disadvantage then it should import, not export them. Only if we understand the concept of intra-industry trade can we understand why this trade occurs.

Generally intra-industry trade occurs when it is possible to practice product differentiation. Product differentiation is simply the case where consumers view the products of an industry as close but not perfect substitutes for each other. Product differentiation generally occurs where producers make similar products with minor variations so that they become imperfect substitutes for consumers. This may involve real differences in material, design, workmanship, or other aspects of quality, or differences in advertising and the reputation of producers for quality and reliability. Often products differ in both respects. Product differentiation is often associated with the use of trademarks and brand names. Many manufactured goods, in particular, are differentiated products.

4. Conclusion

The growth in the trade in education and tourism services has taken place in the broader context of general globalisation. To understand export and import trade mixes in services a good understanding of traditional and new trade theories is required. Much trade depends upon natural endowments as well as skills, experience and reputations built up over long periods.

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