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Assessing Barriers to Trade in Education Services in Developing Asia - Pacific Countries: An Empirical Exercise

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List of Abbreviations

ASEAN: Association of Southeast Asian Nations

BOP: Balance of Payments

ESCAP: Economic and Social Commission for Asia and the Pacific

FDI: Foreign Direct Investment

FEM: Fixed Effect Model

FTA: Free Trade Agreement

GATS: General Agreement on Trade in Services

IMF: International Monetary Fund

LDC: Least Developed Countries

MDG: Millennium Development Goal

MRA: Mutual Recognition Agreement

NTB: Non Tariff Barriers

OECD: Organization for Economic Cooperation and Development

RCA: Revealed Comparative Advantage

REM: Random Effect Model

RTA: Regional Trade Agreements

SAARC: South Asian Association of Regional Cooperation

UNCTAD: United Nations Conference on Trade and Development

UNESCO: United Nations Educational, Scientific and Cultural Organisation

WTO: World Trade Organisation

Executive Summary

During the last decade, the services sector has seen modest liberalization on account of removal of trade and investment barriers. Most of the WTO members are committed to multilateral liberalization in services trade. However, within trade in services sector, the liberalization of education services has seen little progress. Education services sector liberalization exerts an economy-wide influence as they constitute strong inputs to all other economic activities, including trade. Some earlier studies identified several challenges related to the implementation of GATS commitments. But, very few attempted to quantify barriers to trade in education services and its characters. There is a dearth of analytical research in estimating barriers to trade in education services, particularly in the context of developing countries and LDCs.

Under the aforesaid backdrop, the present study highlights the issues surrounding the trade in education services. The first part of the study concentrates on the examples from India about ease and difficulty of trade in education services through different modes. It clearly shows that the process of trade in education services through Modes 3 and 4 have just begun in India. Mode 2 is still the most prevalent mode of trade in education services for the developing ESCAP countries. The second part of the study is based on a small primary survey among some leading Indian higher education services providers in Mode 2. The survey reveals the cost advantage of Indian institutions, compared to developed countries. However, at the same time, it highlights some barriers to movement of foreign students in India in terms of seat limitation, problem of course equivalence, supporting infrastructural problems like lack of international hostels, poor quality of transportation, etc. along with lack of English or local language training facilities. Along with this, this study deals with a Panel regression analysis on movement of Asian students under Mode 2 to some of the most favoured destinations in Europe and United States. The study finds quite expectedly that more wealthy nations attract more students, whereas higher college enrolment gives a positive signal to a prospective overseas student. However, higher cost of living acts as a negative element in this movement of students for studying abroad. Nevertheless, this study shows that country specific barriers do exist and they are equally important in influencing movement of students across border, which are not necessarily quantifiable.

The study, thus, touches only tip of an iceberg in terms of its analytical power to explain movement of students across nations. It points out to the definite existence of country specific barriers and from a pilot case study in India, highlights some of these possible barriers. However, future studies should be attempted to understand the extent of barriers to trade in education services through more intensive primary survey and bilateral country studies.

I. Introduction

During the last decade, the services sector has seen modest liberalization on account of removal of trade and investment barriers. Most of the WTO members are committed to multilateral liberalization in services trade. They have committed themselves to the rules and principles of the GATS where Article V of GATS permits the liberalizing of trade in services between or among the parties to an economic integration agreement. Realizing this, trade in education services¹, which include primary, secondary, higher secondary and adult education services, as well as specialized training such as for sports, are included in the new services negotiations, resumed in January 2000 under Article XIX of GATS.² However, within trade in services sector, the liberalization of education services has seen little progress. Education services seem to be the least committed sector in WTO. As of August 2006, 48 countries³ had made a commitment to the education sector in WTO. Within the education services, the rapid changes are most spectacular in the area of higher education, which normally refers to post-secondary education at sub-degree and university degree levels. As a consequence, 39 countries till August 2006 had made a commitment under the WTO to liberalize access to the higher education services.

Countries across the world witness a spectacular growth in higher education over the past few decades. Today, about 132 million students have enrolled in higher education, which was a mere 13 million in 1960.⁴ Along with the enrolment, at the same time, there is a sharp rise in movement of international students across countries. The demand for international education is likely to increase from 1.8 million international students in 2000 to 7.2 million international students in 2025.⁵ According to Knight (2006), a fascinating but very complex world of cross-border education is emerging and the last five years have been a hotbed of innovation and new developments. Some of these interesting developments in trade in education services in recent years are captured in Box 1. These new developments, in one hand, provide enormous opportunities in services trade, and, also generate several challenges, on the other.

Given that the education services are traded predominantly through student mobility across borders (consumption abroad), nonetheless, a host of problems persist particularly in developing countries and LDCs in opening up their education services, in raising their standards of education services, in recognizing each others' standards (MRAs), and in removing the barriers to trade in education services (OECD, 2004; Knight, 2006; UNESCO-OECD, 2005). It is important to bear in mind that cross-country

¹ In recent literature (e.g. UNESCO-OECD, 2005; Knight, 2006), trade in education services is also termed as cross-border education, which refers to the movement of people, programs, providers, knowledge, ideas, projects and services across national boundaries. The term is often used interchangeably with “transnational education,” “offshore education” and “borderless education”.

² See, Services Gateway, WTO (www.wto.org).

³ The European Union (EU) is counted as one country.

⁴ Data source is UNESCO (www.unesco.org).

⁵ According to Bohm *et. al* (2004).

disparities in education services may not only reflect different policy priorities, but also a variety of economic, social and demographic factors.

Box 1: Recent Developments in Trade in Education Services

- In terms of student numbers, Phoenix University has become the largest private university in the U.S. (owned and operated by the Apollo Group company) and is now present or delivering courses in Puerto Rico, Netherlands, Mexico and Canada. Other Apollo companies are offering courses in Brazil, India and China.
- The Netherlands Business School (Universiteit Nijenrode) has recently opened a branch campus in Nigeria.
- Harvard is developing two branch campus initiatives in Cyprus and the United Arab Emirates.
- Jinan University will be the first Chinese university to open a branch campus outside China when it does so in Thailand.
- Laureate Education (formerly Sylvan Learning Systems) has purchased whole or part of private higher education institutions in Chile, Mexico, Panama and Costa Rica and owns universities in Spain, Switzerland and France.
- Dubai has developed a “Knowledge Village” in the Dubai Technology and Media Free Zone.
- The London School of Economics, India’s Manipal University (previously known as Manipal Academy of Higher Education) and the University of Wollongong from Australia are offering courses through franchising agreements and branch campuses.
- The University of Westminster (UK) is the key foreign academic partner in the new private Kingdom University of Bahrain and plays a similar advisory/provision role with new institutions in Nigeria, Uzbekistan and Kazakhstan.
- As of June 2003, Hong Kong, China, had 858 degree level programs from 11 different countries operating, and Singapore had 522 degree level programs from 12 foreign countries.
- In 2002, Australia, one of the lead exporters of education, had 97,000 students enrolled in 1,569 cross-border programs.

Source: Knight (2006)

Education services sector liberalization exerts an economy-wide influence as they constitute strong inputs to all other economic activities, including trade. Some studies identified several challenges related to the implementation of GATS commitments in education sectors.⁶ But, very few attempted to quantify barriers to trade in education services and its characters. There is a dearth of analytical research in estimating barriers to trade in education services, particularly in context of developing countries and LDCs.

Shape of the Study

This study discusses examples across developing ESCAP countries and on trade in education services sector in general, and barriers to trade in education services in particular. It includes exports via all four Modes of supply for trade in education services outlined in the GATS:

⁶ This has been extensively discussed in Section 2 of this study.

- Cross-border trade (Mode 1), where the service itself crosses the border but consumer and provider do not move (e.g., an Indian University opens virtual education institution).
- Consumption abroad (Mode 2), where the consumer travels to the country where the service is supplied (e.g., an Indian student is going to United States to study).
- Commercial presence (Mode 3), where the service provider establishes a commercial presence abroad (e.g., an American University opens a branch in India).
- Movement of natural persons (Mode 4), where the provider of the service moves temporarily to the territory of another country to supply a service (e.g., an American professor goes to India for few months to take classes at an Indian university).

In present context, Mode 2 is viewed as the prime mode of exports of education services whereas Mode 4 exports also share a high proportion of trade in education services (WTO, 2001). It should be recalled, however, that modes of supply were developed for making GATS commitments and they are not concepts generally used by the education services providers. Service providers do not separately identify their activities by GATS Modes of supply, and many countries export services via several Modes simultaneously. With the exception of some sectors where the distinctions are relatively clear (e.g., health services), this study does not attempt to attribute Modes of supply to specific examples of education services exports. In general, we here attempt to identify some important barriers to trade in education services in selected developing ESCAP countries.

Purpose of the Study

A study exclusively focusing on education services trade barriers will not only strengthen overall services trade capacity of developing and LDCs but will also promote global as well as regional trade in services. Ideally, effective education service liberalisation requires improved quality of services and reduced costs among and within countries. Therefore, studies must consider barriers relating to both internal and external environment while framing any international policy. There is also an in-built need to look into the subject in a wider context of regional trade initiatives when most of the prominent RTAs in ESCAP region are planning to include services trade in FTA process.

Apparently, ESCAP economies have limited intra-regional trade in education services. According to OECD (2004), Europe is the largest recipient of international students whereas Asia is the largest emitting region. The trade in education services is directly associated with language, culture and also to some extent ethnicity and religion. These types of asymmetries across the countries pose a continuous threat to trade in education services. In view of technological change, there is an important need to measure the market size and also the barriers to education services trade in developing countries and LDCs members of ESCAP.

Research Question(s), Scope of Study, Study Outline

The main purpose of the study is aimed at assessing barriers to trade in education services (and assess their costs as far as possible) for selected ESCAP countries. This study highlights both the explicit and implicit barriers and also provides the ways forward to eliminate such barriers. Broadly, this study attempts to discuss following issues, which existing literature on the quantification of the potential benefits to developing countries of education services trade liberalization has raised.

- The first is the representation of and measurement of barriers to education services trade in selected ESCAP countries (including LDCs), with particular emphasis on India, and the associated issue of measuring the size of education services trade itself.
- The second is the interpretation of results from existing model based literature seeking to quantify the impacts of trade liberalization in education services. Most of what is available involves numerical simulation exercises using (typically global) general equilibrium models based on conventional models of trade liberalization in goods. The size of barriers to education services trade, how they change under liberalization, elasticities, and the size of education service trade flows, along with relative country size (in the context of ESCAP) and any differences in market structure then singly or jointly determines results.
- Given that the bulk of trade in the sector takes place through consumption abroad (Mode 2), an attempt is made to assess the impact of measures restricting the mobility of students.
- This study also undertakes a primary survey to measure the presence of foreign students in Indian institutions and possible barriers they might face.

Methodology and Data

Methodological discourse towards assessing barriers to trade in education services follows a wide spectrum of studies on the services trade sector. To capture the intensity of the barriers, econometric model was followed. In order to judge the relative strengths of the education service providers, a primary survey on selected service providers in study region was also carried out.

The study is based on mostly secondary data analysis. In order to assess the

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