

Policy Note

International students in higher education and their role in the Australian economy

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Key Messages

- Education exports are Australia's fourth largest export, following just iron ore, coal and gold and generating some \$15 billion in revenues each year.
- Over the past five years alone, international students have provided Australian universities with \$18.5 billion. These funds are used to employ teaching and support staff, fund research and invest in new buildings and infrastructure.
- International students have a much larger economic footprint than tuition fees and accommodation. They directly facilitate domestic participation in higher education, generate significant spillover benefits including job creation and increased tourism and are a key source of skilled migration.

Each year, around 300 thousand international students commence study in Australia, the majority of which are enrolled in higher education. Australia is the third most popular destination for international students, attracting nearly seven per cent of the world's international students.¹

This \$15 billion industry is Australia's fourth largest export, following just iron ore, coal and gold.² In the non-resource states, education exports play a particularly important role — they are Victoria's largest export, and second largest export for NSW and the ACT.

This note provides a brief overview of the size and scale of Australia's higher education exports and their importance to the economy.

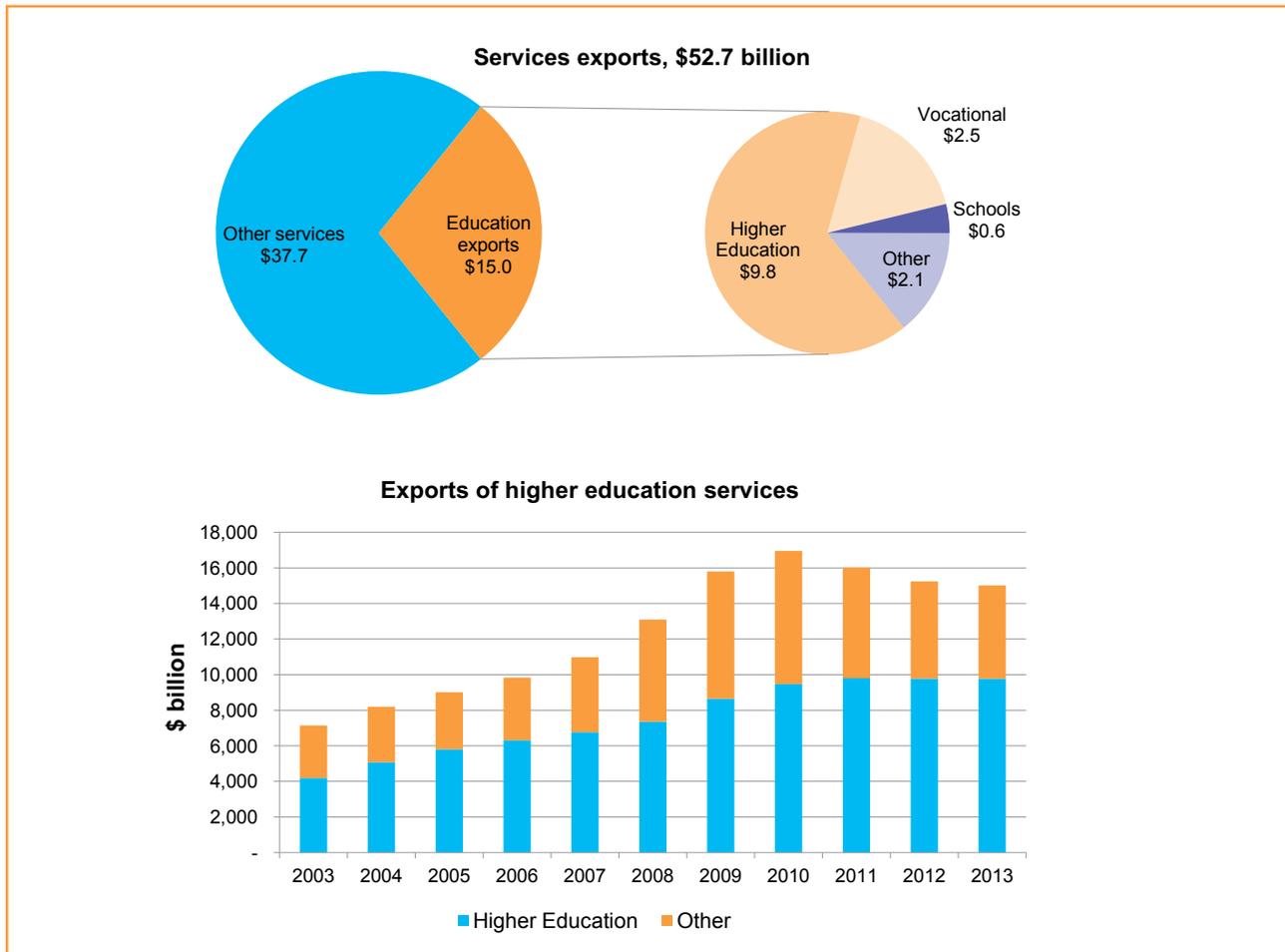
Australia's fourth largest export

In 2012, international higher education commencements reached 96 thousand and generated some \$10 billion of export income. Foreign demand for higher education has been steady over the past decade, with commencements increasing at a rate of 4.3 per cent per annum.

1 Quacquarelli Symonds(2014), Trends in International Student Mobility, available at: http://www.topuniversities.com/sites/qs.topuni/files/QS_World_Grad_School_Int_Student_Mobility_2014.pdf

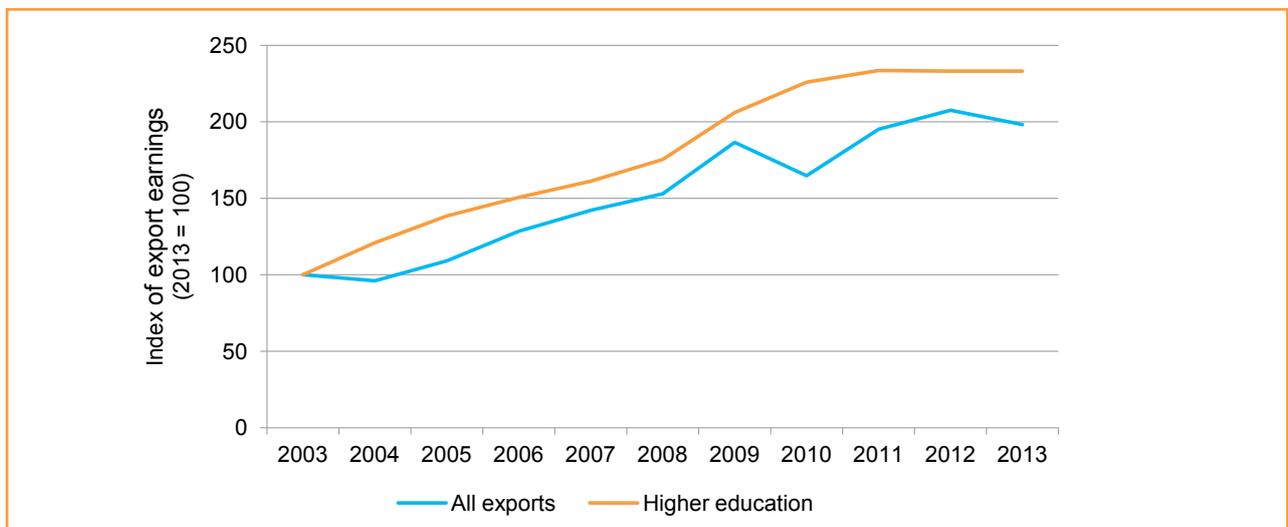
2 ABS (2013), *International Trade in Services by Country, by State and by Detailed Services Category, Financial Year, 2012-13*, Cat. No. 5368.0.55.003 and Department of Foreign Affairs and Trade (2013), *Composition of Trade 2012-13*. The ABS refers to international education exports as "education related travel services" which includes the fees and living expenses of foreign students studying in Australia.

Figure 1: The size and growth of education exports³



Over the past decade, demand for higher education exports has outpaced export demand overall by some margin. Whereas total export demand about doubled in the last decade, higher education exports grew by 133 per cent (see the figure below). Notably, from around 2010 demand began to soften as a result of a range of factors relating to the global economic environment, the rise of the Australian dollar, regulatory constraints and other issues.⁴ The most recent data however, are suggesting that the market is recovering.

Figure 2: Index of export demand, higher education exports and total⁵



3 Ibid.
 4 Deloitte Access Economics (2011), *Broader Implications from a downturn in international students*, report prepared for Universities Australia, ii.
 5 ABS (2013), *International Trade in Goods and Services, Australia, Dec 2013*, Cat. No. 5368.0.

International students account for 27 per cent of commencing students, including approximately half of commencing management and commerce and IT students, and about a third of commencing engineering students. China is by far the major source of students (76,000 enrolments in 2013), followed by Malaysia (13,500) and India (11,500). 2013 saw a notable increase in student demand from the subcontinent, with India, Pakistan, Nepal and Sri Lanka all among the fastest growing markets for new commencing students.⁶

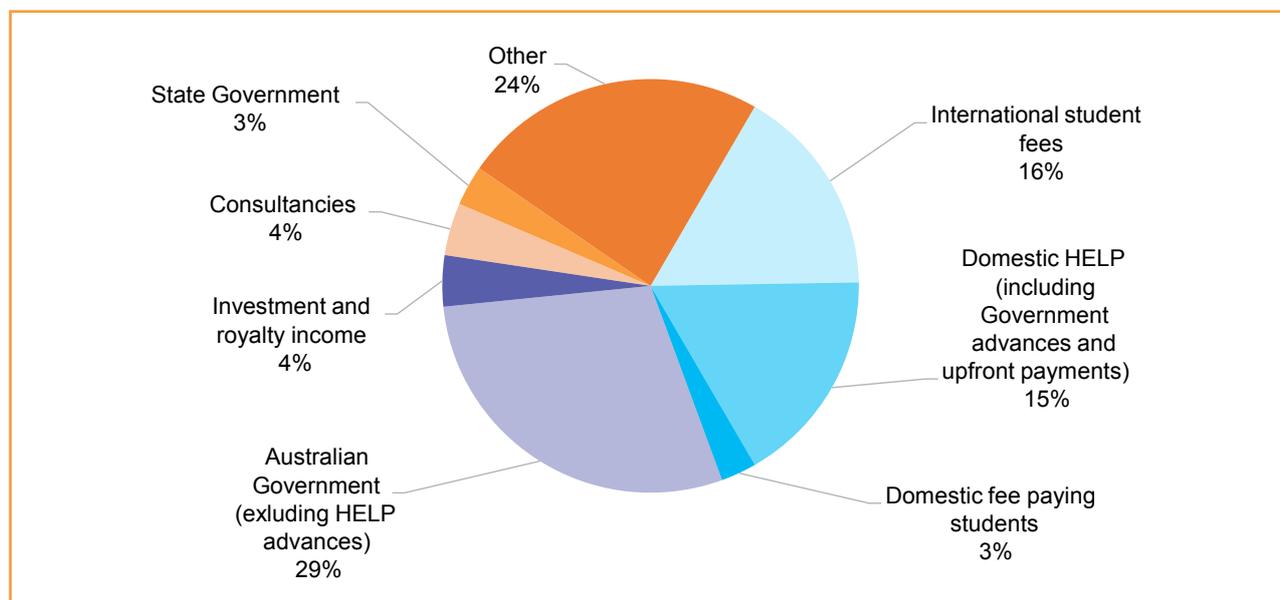
A major revenue source for Australian institutions

Universities are the most obvious beneficiary of the international student market. Over the past five years alone, international students have provided Australian universities with \$18.5 billion. These funds are used to employ teaching and support staff, fund research and invest in new buildings and infrastructure.

International students help diversify the funding base. Student fees paid by international students made up 16 per cent of total university revenues in 2012 (\$4.1 billion) and as can be seen in the figure below, represent the third largest source of revenues for universities after the Australian Government and domestic student contributions.⁷

The importance of international students to particular universities can vary significantly. For example, international student fees made up less than 5 per cent of revenues for the University of New England, but nearly 30 per cent for CQ University.

Figure 3: University revenues by source, 2012⁸



Much more than just student fees

The economic footprint of international students is much larger than just student expenses. Indeed, limiting the analysis to just export earnings understates the broader contribution to the economy. For example, the international student market directly facilitates domestic participation in higher education. It also generates significant spillover benefits including job creation and increased tourism. International students are a key source of migration that can help address skill shortages as well as contribute to Australia's long term economic prosperity.

Greater domestic participation in higher education

Implicitly, international students help fund other university activities including domestic tuition and research. Despite making up only 29 per cent of the total student body, the contribution of international students to university revenues is more than the contribution payments made by domestic students through the Higher Education Loan Program.⁹

⁶ Australian Education International (2013), International Student Data, available at: <https://aei.gov.au/research/international-student-data/pages/default.aspx>.

⁷ Department of Education (2013), *Financial Reports of Higher Education Providers*.

⁸ Ibid.

⁹ Including Government advances.

A 2011 study found that international students' fees subsidised each domestic student by around \$1600.^{10,11} This equates to 10 per cent of a domestic student's total funding (Commonwealth plus student contributions per place). In the absence of international students, this cost would need to be either recovered by the government or students or otherwise offset (by say a reduction in course offerings or delivery costs).

Job creation

Deloitte Access Economics estimated that for every 10 international higher education students enrolled, 2.9 jobs would be created. Moreover, only a quarter of these were in the education sector, with the remainder dispersed throughout other industries.¹² Based on current university enrolments, this extrapolates to the creation of some 95 thousand jobs across the economy.

A magnet for further tourism

A survey by Tourism Research Australia found that international students were frequently visited by friends and family from abroad. The study found that for every 10 international students, 3 family members and 2 friends would visit from abroad each year.¹³ Based on current enrolments, this implies that international students in higher education are responsible for attracting an additional 160 thousand overseas tourists. It is further estimated that when visiting friends and family, tourists of this type will typically spend around \$2,000 during their stay.¹⁴ International students are also highly likely to return to Australia after they graduate.¹⁵

Australia's long run economic growth

Many international students seek permanent residency in Australia upon completion. According to a study by the Department of Immigration and Border Protection, one in five international students will gain permanent residency upon graduation.^{16,17}

As a source of skilled migration, international students make a strong contribution to Australia's long term economic growth.

Long term economic growth is a product of "population, participation and productivity".¹⁸ In the absence of either an increase in Australia's domestic birth rate or a resurgence of productivity growth, migration will be the key instrument through which long run economic growth is maintained.

International students provide an ideal avenue for attracting highly skilled migrants of prime working age. During their study, students develop local networks, become accustomed to local conditions and gain an understanding of important institutions. These are all valuable assets in support of a migrant's integration.

Addressing skill shortages

Skill shortages impose high opportunity costs upon the businesses and the broader economy. Measures to address skill shortages can involve significant lags and can often be ineffective.

International students offer a pool of resources that business can draw upon and avoid the delays of international recruitment — particularly at the higher qualification level.¹⁹ The contribution international students can make to addressing skill shortages was recognised in the Knight review of the student visa program. The review recommended that the work rights of international students be extended to two years upon graduation, including unlimited work rights to higher degree by research students.²⁰

The Department of Immigration and Border Protection estimate that three quarters of international graduates that successfully gain permanent residency are employed full time; including 56 per cent who are employed in a "skilled" position.²¹

10 Figures have been adjusted for inflation.

11 Beaton-Wells, M., and Thompson, E. (2011), *The economic role of international students fees in Australian Universities*, University of Melbourne.

12 Access Economics (2009), *The Australian education sector and the economic contribution of international students*, report prepared for the Australian Council for Private Education and Training.

13 Tourism Research Australia (2007), *Profile of International Visitors Who Studied in Australia*, Canberra.

14 Above n12, 10.

15 Above n12.

16 It is worth noting that three in five international students seek permanent residency status.

17 IDP (2011), *Employment Outcomes of International Students in Australia*, presentation to the Asia Pacific Association for International Education Conference, Taiwan, March 2011.

18 Productivity Commission (2013), *An Ageing Australia: Preparing for the Future*, Commission Research Paper.

19 LH Martin Institute, (2011), *State of Current Research in International Education*, background paper, 12.

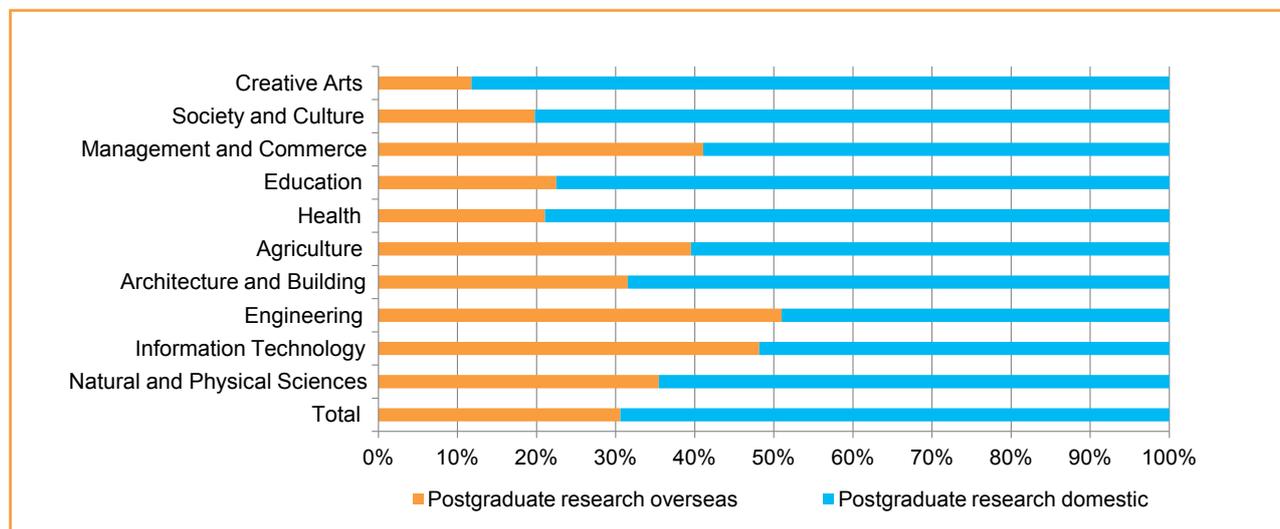
20 Knight, M. (2011), *Strategic Review of the Student Visa Program*, prepared for the Australian Government.

21 Department of Immigration and Citizenship (2010), *Continuous Survey of Australia's Migrants (Skilled Graduates)*.

Australia's research capabilities

Figure 4: International student enrolments by field of study, 2012 illustrates the importance of international students to university research programs. Of the 62,000 students enrolled in Australian postgraduate research degrees, 31 per cent are international students — half of these are enrolled in the critical Science, Technology and Mathematics fields. The figures below report the proportion of international students enrolled in higher education by field of study for undergraduate degrees and postgraduate research degrees. As can be seen in the charts, the contribution of international students in higher degrees is particularly pronounced.

Figure 4: Domestic and international enrolments in postgraduate research degrees by field of study, 2012²²



International students undertaking higher research degrees play an important role in promoting and developing a university's research outputs.²³ A study by the World Bank for example, was able to show that a 10 per cent increase in the number of foreign graduate students increased patent applications by 3.3 per cent.

Building Australia's networks and reputation

The relationships formed through international education underpin Australia's engagement with the world, and help sustain goodwill, trade and investment. A 2008 study found that 45 per cent of graduates surveyed said they formed networks with Australians during their time in Australia. The study also noted that the outcomes and impacts of Australia's international student program go global. As graduates return home or stay in Australia they develop and maintain networks in Australia and in their country of origin driving social, cultural, political and professional exchanges.²⁴ This is a point recognised in COAG's International Students Strategy for Australia, which stated:

International students educated in Australia have also returned home to assume leadership positions in government and industry. Australia's relationship with international students deepens our understanding of the world and the world's understanding of Australia, contributing to our regional and global reputation.²⁵

Summary

The scale of the Australian education export market is well above what might be expected when considering the size of our population and economy. (US education exports for example are estimated to earn the US economy around \$21.8 billion.²⁶) Despite this however, the economy is often thought of as being "resource orientated". While resources and commodities clearly play a leading role in the economy, such characterisations understate the significance of education exports.

²² Department of Education (2014), *uCube*, available at: <http://www.highereducationstatistics.deewr.gov.au/>.

²³ Throsby, D. (1996), *Financing and effects of internationalisation in higher education*, Centre for Educational Research and innovation, Organisation for Economic Co-Operation and Development.

²⁴ IDP (2008), *Outcomes and Impacts of International Education: From International Student to Australian Graduate, the Journey of a Lifetime*.

²⁵ Council of Australian Governments (2010), *International Student Strategy for Australia*, 5.

²⁶ Wilhelm, I. (2012), *Where the International Students Are*, *The Chronicle of Higher Education*, available at: <http://chronicle.com/article/State-by-State/135634/>