

5 Conclusions

The purpose of this chapter is to develop some recommendations for achieving more free and open exchange and investment in higher education services in the APEC region. Before doing so, it is useful to review briefly the expected benefits of free and open exchange, and the limitations that legitimate domestic regulatory objectives might place on that opening up.

5.1 Benefits of more open exchange

The benefits of opening up services markets to foreign providers can *potentially* be similar to the benefits from opening up goods markets. Foreign suppliers may be able to offer higher education at a higher quality, lower cost, or better value for money. Foreign providers may expand the resource base for higher education, offering new areas of instruction, and bringing additional skills, capital, and ideas. And foreign providers may bring better teaching techniques, curriculum design, quality assurance processes and research capacity, improving the efficiency of the sector and possibly generating spillover benefits to local providers.

In services markets, *some* of the benefits of more open exchange can be obtained by removing discrimination against foreign suppliers. However, services suppliers typically provide highly differentiated services, and foreign and domestic providers often focus on different market niches. In these circumstances, only by also removing the regulatory restrictions that limit the performance of domestic providers can the best economic outcomes be obtained. Notwithstanding formal GATS concepts and definitions, recent research has suggested that the economic gains from removing non-discriminatory restrictions, ie those regulatory restrictions that affect domestic and foreign providers equally, can greatly exceed the gains from only removing discrimination against foreigners (Dee 2007). At best, a policy focus on ensuring national treatment can deliver relatively small gains. At worst, opening up a services market to particular foreign suppliers can, in the absence of measures to ensure better performance generally, simply hand over monopoly rents to foreigners. This can defeat development objectives, inflate adjustment costs and generate negative net economic consequences.

This means that pathways to achieving more open exchange of higher education services should pay at least as much attention to removing non-discriminatory regulatory

restrictions as to ensuring national treatment. Not only will this ensure that the gains from opening up are substantial, it is also best way to maximise the chances that domestic service providers will themselves gain from the exchange, rather than simply being hurt by greater foreign competition.

5.2 Limitations on more open exchange

In many services sectors, not just education, there are legitimate reasons for domestic regulation. For example, a key reason for prudential regulation in banking and insurance markets is to guard against systemic instability of the financial system. A key reason for regulating transport industries is to ensure passenger safety. A key reason for having regulated access regimes in telecommunications is to avoid the inefficient duplication of infrastructure components that have ‘natural monopoly’ characteristics.

Generically, in services such as education and health, there are typically at least two key regulatory objectives. One is to deal with asymmetric information. Almost by definition, the clients of health firms or education institutions are not sufficiently trained to know whether the services they are receiving are of high quality. In some markets, this problem is dealt with after the event, via product liability legislation. In education and health markets, this option is typically deemed unsatisfactory, so quality is regulated before the event — via training and perhaps licensing/registration requirements for individual instructors, and by licensing and quality assurance processes for educational institutions.

Note, however, that regulated quality assurance processes are not the only solution to this problem. Reputation also has a role to play. Services providers who plan to be in a market for the long term cannot afford to offer shoddy service for ever, or they will lose clients. They have an incentive to offer quality, and to establish a reputation for doing so. This is the basis on which the world’s best higher education institutions operate. Newer institutions cannot compete with them on the basis of their own reputation, but can use adherence to quality assurance processes, as well as external accreditation and audit, as a basis for competition (Shackleton 2003).

A second key regulatory objective in education and health markets is to ensure equitable and affordable access, either for all, or for particular disadvantaged segments of society. Government provision is the traditional method of meeting this objective. Government subsidies to private institutions, and government subsidies (through scholarships and the like) to students, are also ways in which it is achieved. However, few governments can afford to subsidise everyone. So typically there are limits on who can get government funding, simply for budgetary reasons.

In some services sectors like banking and insurance, there is a relative clear-cut distinction between the regulatory instruments used for legitimate prudential reasons, and those that are deemed regulatory impediments to trade. The instruments commonly used for prudential purposes include minimum capital requirements, capital adequacy ratios, liquidity reserve ratios, possible coverage by an insolvency guarantee or deposit insurance scheme, and a required frequency of publication of financial statements.

While there are a few grey areas, in most cases regulatory restrictions affecting trade in banking and insurance services can be dismantled without jeopardising prudential objectives, which are achieved using other means. Of course, there is still a sequencing issue — it would be unwise to open financial markets without adequate prudential regulation and without adequate regulatory capacity to design and enforce it.

In higher education services, the distinction between instruments used to achieve quality and access objectives and those deemed to be regulatory barriers to trade is less clear-cut. And as noted earlier, some of the most prevalent regulatory restrictions in higher education have been justified for ensuring quality, or for budgetary reasons.

Achieving quality objectives in higher education will inevitably mean that there are barriers to the entry and operation of at least some providers. However, a well-designed quality control framework will ensure that the providers who are locked out are the genuinely low-quality ones. The framework can afford to be relatively neutral in its treatment of domestic and foreign providers.

Similarly, while seeking to achieve equity objectives in higher education, governments typically cannot subsidise everybody. Therefore, even in the most open system, not all providers or clients will gain access to government subsidies. If the system is to not unduly constrain trade, then this denial of subsidies should be the same for domestically owned and foreign providers (although to date, WTO Members seem unwilling to go this far). Governments may choose not to be neutral in their treatment of access to subsidies by domestic and foreign students, however. For obvious reasons, they may choose to deny the right of foreign students to higher education subsidies.

5.3 Recommendations

The survey of measures affecting international exchange and investment has shown that one of the biggest avoidable impediments to international exchange is bans on the entry of private or foreign-invested higher education institutions.

A key conclusion of this report is that, to make further progress in opening up higher education markets, the APEC member economies should work to strengthen quality assurance processes. This will be a key prerequisite to dismantling the bans and other

regulatory restrictions that, while having a possible rationale in quality assurance, are either more discriminatory or more burdensome than required.

This need not involve establishing the same standards in each economy. The quality of higher education varies enormously across the region, and the stringency (in content terms) of quality assurance frameworks also varies. At one extreme, Australia is a major exporter of higher education services, and needs to compete with other high-reputation suppliers, particularly from the United States — the world's biggest education exporter. So it has established a quality assurance framework designed to ensure that its higher education institutions achieve world-standard quality. Towards the other end of the spectrum, Indonesia, at this stage of its development, has neither the skills nor the resources to maintain Harvard-standard institutions. Nor could it afford the bureaucratic and administrative resources to run a quality assurance framework like Australia's. And requiring it to do so would impose an opportunity cost, in terms of diverting resources from other vital purposes, that would be inimical to its longer-term development objectives.

In a situation where at least some regulatory restrictions cannot be removed completely, because they are required to meet legitimate regulatory objectives, economies need to ensure that their regulatory regimes, in the words of the GATS, are 'not more burdensome than necessary to ensure quality', and are 'not in themselves a restriction on the supply of the service'. In the case of higher education services, one way to operationalise the necessity test is to develop quality assurance frameworks that define *minimum acceptable standards*.

Economies could choose to adopt standards in their home economy that were higher than the minimum acceptable standards. But having a 'ladder' of quality standards across the region would help to do two things:

- it would put a floor under standards, providing a benchmark for standards that were not more burdensome than necessary; and
- it would also provide a viable alternative for the replacement of standards or regulatory restrictions that were discriminatory against foreign providers, particularly the bans on entry.

Work is already under way in APEC forums to develop Higher Education Quality Assurance Principles for the Asia Pacific region. One initiative was the hosting of a workshop in Chiba, Japan in 2008, which developed draft 'Chiba Principles' for quality assurance in the Asia-Pacific region. These emphasise a generic approach that has relevance for all higher education institutions, quality assurance agencies and quality assessment practices in the region, regardless of the level of development, size and

national context. Inevitably, because of the generic nature of the principles, they are heavily tilted to defining the process rather than the content of good quality assurance.

Developing an agreement about content is much more difficult, as any attempt at 'standardisation' will attest. However, arguably, attempts to develop *minimum acceptable standards*, with an understanding they need not to apply to every economy, may be slightly easier than agreeing on a single universal standard. The OECD (2007) notes that conceptually, quality assurance frameworks in higher education could set minimum standards rather than across-the-board standards, but that in practice, few systems have done so. One of the key suggestions of this report is that encouraging the removal of bans on entry may require building greater confidence in general quality assurance frameworks, so that they can apply to domestic and foreign providers equally. The frameworks may need to be strengthened, but they need to be strengthened on an affordable basis. So useful discussion of the content of quality assurance should not focus solely, or even mainly, on 'best practice' or 'world standard'.

Recognising that achieving any agreement about content is difficult, an important first step would be to facilitate further information-sharing among quality assurance agencies about the content of current standards. In this respect, the diversity of the APEC region is a strength rather than a weakness. The range of current standards may itself span what many could agree to be *minimum acceptable standards*. The discussion may then be able to define a 'ladder' of quality standards, giving economies a clear and feasible path of improvement over time.

As noted in the previous chapter, there are no moves to operationalise a necessity test for higher education within the WTO. In many respects, the APEC forum is a more natural home for such an endeavour.

In addition to information-sharing among quality assurance agencies about the content of current standards, a complementary effort would be capacity-building initiatives in those economies whose quality assurance frameworks were still fragile or under-developed. According to the survey responses, there is little to distinguish the quality assurance regimes in most of the responding economies, at least in terms of process. Yet some economies apparently lack the confidence to extend their regimes to private for-profit or foreign-invested institutions. Capacity-building initiatives, combined with feasible aspirations for quality standards, could help build such confidence. Such capacity building could be accompanied by awareness raising about the general benefits of international exchange.

The survey of measures affecting international exchange and investment has also shown that major impediments to international exchange are restrictions on the inward

movement of international students. But these restrictions are linked to immigration policies, particularly since the pool of international students in some economies has become an important source of skilled migration.

The survey of measures affecting international exchange and investment has not had great success in documenting restrictions on the credit transfer and the recognition of qualifications for the purposes of employment or further education.

This lack of success suggests in itself that problems with credit transfer and recognition may be best dealt with indirectly, by promoting quality assurance among the higher education institutions, and by promoting the transparency of those quality assurance processes. The above suggestions for facilitating further information-sharing among quality assurance agencies about the content of current standards, and not just the processes, would contribute greatly to this transparency. This is because cross-border recognition requires an understanding of foreign quality assurance standards, not just having good quality assurance processes at home.

There have also been recent initiatives within the APEC region for promoting the recognition of higher education qualifications across the Asia Pacific region. One such study is by DEEWR (2008). It notes that differences in structure, regulation and outcomes do not preclude 'recognition'. Nevertheless, the document still talks about 'convergence'. An example is the following extract (DEEWR 2008, p. 14):

A factor which will need to be addressed relates to the perception of member countries of the role they may have to play (ie some will be interested in exporting higher education services, while others will be interested in importing education while safeguarding the interest of their citizens). Other higher education systems (eg Cambodia and Laos) are being stabilised. The divide between countries has to be bridged and every country encouraged to move towards convergence.

This creates the impression that recognition involves equivalence. Indeed, this is the default presumption under the Lisbon Recognition Convention, with its emphasis on recognising qualifications at face value unless 'significant difference' can be demonstrated.

An alternative approach is to work at establishing a 'ladder' of qualifications (not all equivalent) across the Asia-Pacific region, similar to the above suggestion for a creating a 'ladder' of quality assurance standards. Indeed, the DEEWR (2008) document talks about establishing National Qualifications Frameworks in each economy in the Asia-Pacific region. These provide a single metric against which all the qualifications within a given economy are judged. They would then provide a mechanism for benchmarking higher

education qualifications and the quality of education outcomes across borders. This is precisely the concept of a ladder. However, the goal should not be convergence.

Another tool to promote recognition is to encourage higher education institutions to issue a so-called Diploma Supplement — a document issued with a degree/diploma that describes the qualification in an easily understandable way and relates it to the higher education system in which it was issued.

Australia's 37 publicly funded universities are currently assisting the Australian Government in implementing an Australian Higher Education Graduation Statement. Already, 27 universities have taken up the Government's offer of \$100,000 per institution and the remaining 10 have indicated they will participate in the funding round at the end of 2009

Under the Lisbon Recognition Convention (ratified by Australia in 2002), Australia has an international obligation to promote the widespread use of the Diploma Supplement by Australian tertiary institutions.

Formatting of the Graduation Statement is at the discretion of the respective university, but its structure includes five sections:

1. Graduate details;
2. Details of the award;
3. Information about the awarding institution;
4. Graduate's academic achievements (including academic transcript or a statement referring the reader to the academic transcript); and
5. Description of the Australia higher education system.

A final impediment to international exchange, which the survey has revealed only implicitly, is a lack of transparency in some economies about the regulatory requirements that need to be satisfied in order to provide higher education services. Survey instruments of the sort used in this project can reveal where such information exists, if it exists. They typically do not bring it into existence. There is scope for mechanisms to encourage economies in the region to develop packages of information that can be available to prospective higher education providers, whether domestic or foreign, about the regulatory requirements to enter a market. Such information is vital to improving the investment climate for higher education so that economies can harness the additional resources. Developing such packages may also require some capacity-building assistance.

The above general recommendations suggest the following initiatives for the APEC Human Resources Development Working Group:

- facilitating further information-sharing among quality assurance agencies about the content, not just the process, of current quality assurance standards;
- using such exchange as a basis for developing *minimum acceptable* quality standards, thus providing a benchmark for standards that were not more burdensome than necessary;
- facilitating capacity building among quality assurance agencies, and awareness raising about the general benefits of international exchange;
- promoting the use of recognition tools by higher education institutions, and the establishment of National Qualifications Frameworks in each APEC economy, to provide a single metric against which all the qualifications within a given economy are judged;
- promoting these national qualifications frameworks as a mechanism for benchmarking higher education qualifications and the quality of education outcomes across borders; and
- facilitating the development of information packages that can be available to prospective higher education providers, whether domestic or foreign, about the regulatory requirements to enter a market.