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PROTECTING EDUCATION EXPORTS: MINIMISING THE DAMAGE OF CHINA'S FUTURE ECONOMIC COERCION

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Key points

- Education is Australia's only remaining export to China valued over $10 billion annually which is both reliant on China and which Beijing can target without significant self-harm.
- Education, unlike many industries currently subject to China's economic coercion, is job-intensive and closely linked to Australia's technological competitiveness. Coercion against the sector would significantly impact Australia's prosperity.
- Australia's education sector is fragmented in its approach to international marketing and student experience, and the *Foreign Relations Act 2020* risks inhibiting new international education arrangements.
- The Australian Government has no mechanism to coordinate efforts to diversify education export markets or cohesively promote Australian education – this makes the sector more exposed to coercion.

Policy recommendations

- The Department of Foreign Affairs and Trade (DFAT) should establish an Office for Education Trade Diversification. Headed by an Ambassador for Australian Education, its primary focus would be leading a whole-of-nation approach to diversify Australian education export markets.
- Austrade should expand its international education promotion workforce and activities with a focus on market diversification, including the creation of an 'Education Australia' brand.
- The Australian Government should amend the *Foreign Relations Act 2020* and introduce a new, more streamlined International Research Transparency Scheme for universities, administered by the Department of Education, Skills and Employment (DESE).

Australia needs to be prepared for the possibility that Beijing will further discourage Chinese students from studying in Australia. In April 2020, China's Ambassador to Australia explicitly mentioned four exports – wine, beef, tourism and education – as ones that Chinese consumers might choose to avoid.[1]

Since then, tariffs, duties and regulatory restrictions have been placed on Australian wine and beef entering the Chinese market. However, the COVID-19 pandemic has reduced tourism flows and student enrolments without Beijing's intervention. But in February 2021, journalists reported that education agents in some second- and third-tier Chinese cities were discouraged from promoting Australia as an education destination.

It is difficult to know if this will spread further. But, if there was a significant drop in students from China, the revenue and research loss would be impossible to fully replace through other international markets because China is the largest source of globally mobile students. It would also be costly for the government to step in and fully fund the gap.

A Plausible Ploy: Sustained Restrictions on Education Exports

There are logical reasons why education would be the next target of China's economic coercion. It is the last remaining Australian export to China valued over $10 billion annually that Beijing can target without noticeably harming itself economically.

Prior to COVID-19, Australia had four exports to China valued over $10 billion:

1. iron ore (63 billion in FY18-19)
2. natural gas (17 billion)
3. coal (14 billion)
4. education-related travel (12 billion).

Of those, coal is already restricted by Beijing. There is currently no other similarly reliable source of high-quality iron ore for China. Gas restrictions would give China's gas importers short-term headaches as they rearrange supply. But Australia could also find alternate markets to sell gas. There is no easy alternate export market for Australian education. So, it remains the most vulnerable of Australia's major exports to China's economic coercion.

Would Beijing do it?

One line of thinking is that restricting Chinese students going abroad would upset members of the Chinese middle class who want to provide a high quality international education for their children.

But Beijing has shown a willingness to restrict popular Australian products for its middle class in this trade dispute – clean affordable meat, wine and other agricultural products. Many other countries also offer education to international students.

Could Beijing do it?

Education is admittedly different to resources and agriculture. Beijing can turn the taps off completely at the border for goods imports. But if a Chinese student insists on studying in Australia, the government cannot easily stop them.

Beijing nevertheless has many tools available to make Australia an undesirable destination, including directing education agents in first-tier cities to push students away from Australian universities and fostering negative views of Australia and its universities via the state-controlled media and consular warnings.

The Ministry of Education could also stop recognising some or all Australian qualifications. Many employers in China are usually unwilling to hire people if their degree is not recognised by the Ministry of Education.[2] Beijing could also instruct government employers and state-owned firms (the public sector, including state-owned firms, accounted for 13 per cent of urban employment in 2018[3]) to not hire people with Australian qualifications. The last two options would be a dramatic escalation and are unlikely but cannot be ruled out. Under any scenario, the number of students is unlikely to trend to zero but a precipitous drop is possible.

Not Just Academic: The High Costs of Coercion

Education is more employment-intensive than mining or agriculture. Education employed 1.07 million people at the end of 2019.[4] Agriculture, fishing and forestry employed 318,800 people. Mining employed 251,200 people.

If international student numbers dropped, there would be significant job losses. Australian universities shed at least 17,300 jobs in 2020 and lost an estimated $1.8 billion in revenue compared to 2019, according to figures from Universities Australia.[5]

A sustained reduction in international students from China would probably have a larger impact. Australian education-related travel exports to China were $12 billion in FY18-19. If this was to halve, we could feasibly expect tens of thousands of extra job losses across the international education sector.

Australian international education is much broader than universities. In 2020 only 54 per cent of international students were enrolled in higher education. The remaining 46 per cent were spread across vocational education, English-language courses, non-award sectors, and school-level education.[6]

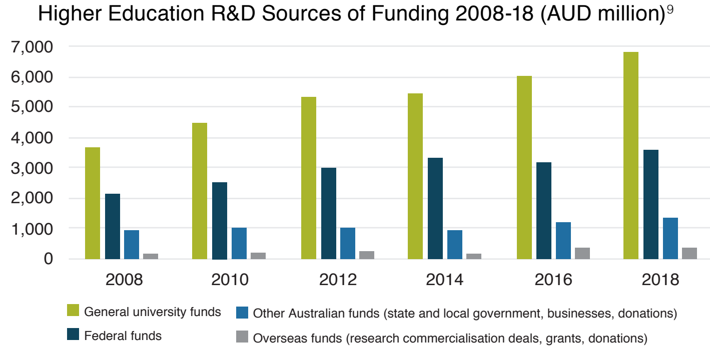
It would take several years for the economic effects to work through the system. Students often study for multiple years; those who had already commenced would continue paying until the end of their qualification. This gives education providers time to adapt, but a drop in enrolments would still result in cascading revenue losses over multiple years.

Australia's research competitiveness

Coercion against the education sector would also impact Australian research. Universities' share of R&D spending is higher for Australia than most other advanced economies.[7]

Australian university R&D funding increased rapidly over the last decade, due almost entirely to money allocated by universities from their own budgets (shown as "General university funds" in the figure). Universities have had more money in their budgets to allocate to research because of a sharp rise in revenue driven by international student fees. The reduction of international students will have flow-on effects into other industries. Almost 275,000 of the 1.44 million Chinese visits – about 20% – were for educational purposes (for the period Dec 2018-Nov 2019). Chinese students stayed an average of 124 nights before going home and spent an average of $27,000, which is more than any other nationality.[8]

Higher Education R&D Sources of Funding 2008-18 (AUD million)[9]



Build resilience now to reduce coercion's impact

Ramp up education diplomacy

Australia's education diplomacy and government-led promotion is spread thinly across a range of government departments and agencies with limited funding. In comparison, tourism – a smaller export to both China and the world – has a dedicated agency for promotion (Tourism Australia) that was allocated $231.6 million in FY20-21.

Despite widespread appreciation in government and the education sector of the need to diversify education export markets, Australia lacks a whole-of-government mechanism to pursue such diversification. There is an opportunity for DFAT to establish an Office for Education Trade Diversification given education is Australia's largest service export by far. This Office and its Ambassador for Australian Education would be akin to the UK's newly-created International Education Champion.

The Office would coordinate international education policy and pursue a whole-of-government market diversification agenda. These efforts would include coordinating external promotion and ensuring that Australia's offering – from visas to work rights to student experience – remained competitive. At the moment, these functions are poorly coordinated and siloed.

While no market could replace China, there is capacity to tap into growth elsewhere and to divert market share from other education exporters. For example, Canada now has more Indian students than Chinese students, after its enrolments from India more than doubled between 2016 and 2018.[10]

The Office would help build networks in countries where Australian education providers are underserved compared to other major education exporters. A key focus should be emerging markets across the Indo-Pacific and Africa. The Ambassador would regularly lead delegations of senior university leaders and prominent academics to target markets. Delegations would engage with senior officials and political leaders and meet with local university leaders.

The Office could also be charged with executing a Special Visits Program targeting political leaders, celebrities and social media influencers from high-growth markets.

To supplement working-level education diplomacy, the Office could bring a regular stream of these figures to Australia to tour universities and other education providers.

Rebrand education exports and prioritise emerging markets

As part of the COVID-19 Relief and Recovery Fund, the Australian Government should consider providing Austrade with additional funding of $20 million to develop and launch an 'Education Australia' export promotion brand in FY21-22.[11]

This would create a cohesive Australian education brand akin to Tourism Australia. Rather than supplanting the promotional activities of individual education providers, this brand would offer an additional whole-of-nation means of selling Australia as a preferred choice for education services in an increasingly competitive international market.

This export promotion would be designed and executed in collaboration with the Department of Home Affairs and education providers to ensure it was not directed towards markets where immigration and security issues pose major visa barriers. At the same time, the newly-established DFAT Office for Education Trade Diversification would work with Austrade and Home Affairs to ensure the regulatory and visa environment was conducive to attracting students.

As part of the 'Education Australia' brand, Austrade could also establish country-specific education export promotion teams for a limited number of priority growth markets. These might include India, Indonesia, Nigeria, Pakistan, the Philippines, Vietnam and Bangladesh. To minimise costs, these Austrade teams could be built using DFAT and DESE secondees.

Further, Austrade's Indo-Pacific and African network could be expanded with minimal additional costs by closing and consolidating select Austrade offices in small Eastern European and Latin American markets, including Peru, Chile, Poland and the Czech Republic. New offices could be established in select large and growing urban centres where Australia is not represented in India (Ahmedabad), Pakistan (Karachi and Lahore), Bangladesh (Chittagong) and Nigeria (Lagos).[12]

Give universities freedom to manoeuvre

Foreign Relations Act: Unintended outcomes

The *Foreign Relations Act 2020* was designed to ensure consistency of Australia's foreign policy and to avoid states, territories and public universities from entering into international arrangements that are against the national interest. The Act empowers the Foreign Minister to review and veto arrangements with foreign governments or universities that lack appropriate levels of "institutional autonomy".

This presumably means the Act applies to all universities in China. It is possible the Act will be applied to few countries beyond China, even if many universities in the Indo-Pacific operate with significantly less autonomy than Australian universities. But much confusion remains in the sector as to which arrangements will be subject to review and which ones will be cancelled. The government should clarify this for the sector.

Already there are industry reports that the Act is hindering efforts by Australian universities to diversify.[13] The Act's reporting requirements increase the resources and bureaucratic processes required for universities to pursue arrangements with universities with less autonomy. One university representative told the authors of a plan to sign an MoU with a Vietnamese university for a small student exchange which could grow, but the bureaucratic burden of the Act deterred them from progressing. University representatives raised similar concerns about arrangements with Malaysia and Singapore. Given uncertainty about the Act's applicability, the marginal immediate benefits of these arrangements mean they may not be entered into. This may particularly affect arrangements with universities in emerging growth markets.

A better way

The Act's objectives of transparency and protecting the national interest can be achieved without onerous bureaucratic burden and reduction in autonomy for universities. Ideally, universities should be exempted from the Act's reporting requirements and Foreign Minister veto power. Instead, the government could establish an International Research Transparency Scheme.

This scheme would be managed by DESE and would collate active international research arrangements between Australian universities and their international counterparts. Like the Foreign Influence Transparency Scheme, the register would be public.

To ensure the regulatory burden on universities is proportionate, the scheme would only apply to legally binding arrangements valued above a certain threshold – for example, $200,000 measured in allocated personnel costs, revenue or research commercialisation.[14] Universities would only need to provide a one-off submission of key particulars (or material changes) once an agreement passes this threshold.

This reporting threshold would not prevent intelligence and national security agencies flagging security risks associated with international arrangements below the threshold.

DESE's longstanding relations with the higher education sector make it well-placed to coordinate the scheme and ensure high levels of compliance. To further assist universities navigate the foreign interference and sensitive technology transfer risks associated with some international arrangements, the scheme could be audited by the Australian Security Intelligence Organisation (ASIO) with input from relevant intelligence and national security agencies. ASIO could provide confidential briefings to universities if risks were identified.

The proposals in this paper are cost-effective, actionable policy options that the government can implement quickly. They will help diversify education exports should China coerce Australia in this sector. If the bilateral relationship improves, these policy options do not prevent education exports to China. They could form the first steps of the government's broader Australian Strategy for International Education 2021-30.

Notes

1. Transcript of Chinese Ambassador Cheng Jingye's interview with Australian Financial Review political correspondent Andrew Tillett, 27 April 2020, http://au.china-embassy.org/eng/gdtp_16/t1773741.htm
2. Interviews with higher education sector specialists.
3. M. Zhou, "China's economy: state of the state versus private sector" (Australia-China Relations Institute, 2019).
4. Australian Bureau of Statistics, Labour Force Quarterly, February 2020.
5. Universities Australia, "17,000 Uni Jobs Lost to COVID-19," 3 February 2021, https://www.universitiesaustralia.edu.au/media-item/17000-uni-jobs-lost-to-covid-19/
6. Department of Education, Skills and Employment, "International Student Data Monthly Summary," December 2020, https://internationaleducation.gov.au/research/international-student-data/Documents/MONTHLY%20SUMMARIES/2020/Dec%202020%20MonthlyInfographic.pdf
7. UNESCO Institute for Statistics, "How much does your country invest in R&D?" http://uis.unesco.org/apps/visualisations/research-and-development-spending/
8. M. Cheng, "We depend so much more on Chinese travellers now. That makes the impact of this coronavirus novel," *The Conversation*, 12 February 2020.
9. Australian Bureau of Statistics, Research and Experimental Development, Higher Education Organisations, 20 May 2020
10. "Exodus of Indian international students from US as many choose to study in Canada," Immigration Canada, 18 June 2020, https://www.immigration.ca/exodus-of-indian-international-students-from-u-s-as-many-choose-to-study-in-canada. See also Canadian Bureau for International Education, https://cbie.ca/infographic/
11. Estimate based on Austrade rebrands in other sectors: https://thenewdaily.com.au/news/politics/australian-politics/2020/07/03/australia-logo-twiggy-forrest/
12. Each is projected to be in the top 40 cities globally by population in 2050, with populations over 10 million.
13. Interviews with higher education sector specialists.
14. The scheme would not cut across the Defence Export Control regime.

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