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**The Crisis in the Overseas Student Industry: How should Government respond?**

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## **The Crisis in the Overseas Student Industry: How should Government respond?**

**TAPRI, June 2020**

### **The setting**

Since 2012 successive Australian governments have encouraged Australia's universities to find alternative sources of income other than direct government support. There has been some increase in funding attributable to increased domestic enrolments, however the inflation adjusted value of Commonwealth support per student has declined.

The number of domestic student enrolments by field of study has been controlled as have student fees. Prestigious universities could not charge higher fees for domestic students than other universities.

These arrangements were like a straight-jacket, especially for elite universities. They wanted to escape these constraints. They have been able to do so by increasing their enrolment of overseas students. The Commonwealth left it to the universities to decide how many of these students to enroll and the fees charged. The only stipulation imposed by government has been that such enrolments were not to be at the expense of domestic enrolments.

Indeed, universities have been encouraged by government to increase their enrolments of overseas students. Since 2012, the arrangements covering the funds overseas students must bring with them before beginning their courses have been devolved to the universities themselves, with overseas students only required to bring in enough money to finance one year of study. Overseas students have also been given generous access to the Australian labour market.

### **The result**

As Table 1 indicates there has been an explosion in the level of overseas student enrolments relative to domestic student enrolments since 2012.

The growth in overseas student enrolments has been very strong in the Group of Eight universities. By 2018 near half of all commencing student enrolments in these universities were overseas students.

**Table 1: Per cent share of commencing onshore\* overseas students to all onshore commencing students, Go8 universities and all Australian higher education institutions, 2012, 2016, 2017 and 2018**

	2012	2016	2017	2018
<i>Group of eight:</i>				
University of Melbourne	27.3	36.2	38.7	41.2
University of Sydney	22.8	39.2	42.9	45.6
Monash	24.0	36.5	39.8	43.6
ANU	28.8	36.5	43.1	48.8
University of Queensland	27.4	31.8	37.0	41.8
University of NSW	30.2	38.7	42.9	45.7
University of Adelaide	28.5	28.3	31.4	33.0
University of WA	19.1	20.8	25.1	24.3
All Australian higher education institutions	21.8	26.7	28.9	31.6

Source: Department of Education, Skills and Employment Higher Education Statistics, Table 1.10, Commencing Students by State, Higher Education Provider, Citizenship and Residence Status, full year 2018

\* The term *onshore* is used to distinguish overseas students being educated in Australia from those in Australian campuses set up overseas. The latter are not included in these figures.

In the case of the Go8, most of the students came from China.<sup>1</sup> In other Australian universities the share of commencing students who were from overseas was lower, on average 28 percent in 2018. In their case most overseas students came from the Indian subcontinent, especially India and Nepal.

The Go8's enrolment of overseas students has given a massive boost to these universities' revenue. They have been able to charge \$40,000 plus a year for their undergraduate and for post-graduate Masters courses. Other universities charge around \$25,000 a year for the same courses.

Overall, total Australian university overseas student fee revenue more than doubled from 2012 to 2018, increasing from \$4.1 billion in 2012 to \$8.9 billion in 2018. By 2018 this revenue amounted to 26 per cent of total university revenues, and represented an increase of 117 percent.<sup>2</sup>

By contrast, over the same period Australian Government Financial Assistance increased from \$14.67 billion to \$17.62 billion, an increase of 20 percent.

The Go8 universities were the main beneficiaries of this surge in overseas student fee revenue.

For example, total revenue from overseas student fees increased from \$285 million in 2012 to \$884 million for the University of Sydney in 2018. By 2018, this overseas student fee revenue accounted for 34.1 per cent of the University of Sydney's total revenue of \$2.589 billion.

In the case of Monash University this fee revenue increased from \$319 million in 2012 to \$852 million, by which time it also made up 34.1 per cent of the University's total revenue. This was \$2,498 million in 2018.

### **What have the universities done with the fee revenue from overseas students?**

In the case of the Go8 universities, they have not used the increased funding to train more domestic students. This is despite the fact that until recently the Australian government has allowed some increase in domestic enrolments. The Go8 could have increased their domestic enrolments if they had wanted to. They chose not to do so.

Their domestic enrolments of commencing students (at all course levels, including post-graduate) shrank from 87,939 in 2012 to 85,529 in 2018 (a drop of 2,410).<sup>3</sup> In sharp contrast, the number of commencing overseas students at Go8 universities increased over the years 2012 to 2018 from 30,320 to 62,423, an increase of 32,103.

In other words, the Go8 have used what capacity they had to increase student commencement numbers to accommodate overseas students. The main field of teaching has been business studies with courses tailored to meet the capacities of the overseas students enrolled.

In the case of the Go8, where enrollees are primarily Chinese, this has meant that teaching staff have had to adjust these courses to the limited English capacity of most of their students.

On the other hand, the annual number of commencing domestic students in non-Go8 universities have increased over the same years from 282,375 to 323,841, an increase of 41,466.<sup>4</sup> But they too have taken an expanding share of the overseas student bounty. Their overseas student commencement numbers grew by 53,737 between 2012 and 2018 (from 72,820 to 126,557).

So what did the Go8 do with their overseas student fee revenue? Much of the additional revenue has been directed to their research effort. The focus has been on a research output acceptable to high status international publications. This reflects the priority that the Go8 gives to their research prestige and the link between these international publications and each university's ranking on the global research rating lists.

Universities that can make the top hundred on these lists are attractive to Chinese students. The Go8's ability to charge very high fees stems from this. The Chinese are buying qualifications from high research prestige universities.

The Go8 have also invested heavily in the renewal of their campuses, featuring expensive buildings, landscaping and new research centers.

University bureaucracies have also benefited. At the Go8, non-academic salaries cost almost as much as academic salaries. At the University of Sydney by 2018 the University paid \$517 million for academic salaries and \$478 million for non-academic salaries. Monash University paid \$508 million for academic salaries and \$472 million for non-academic salaries in 2018.

### **The Covid-19 calamity**

The Prime-Minister, Scott Morrison, has put a dent in universities' claims that Covid-19 has left a serious hole in their revenue. On May 26 he stated that by the end of April 2020 80 per cent of those holding overseas student visas were in Australia. He declared that the way it's talked about you'd think that they weren't.<sup>5</sup>

Morrison's numbers are right.

The Go8, however, will not escape revenue damage even in the first half of 2020. This is because most of the 20 per cent not here were Chinese students. Some 67,919

of the total of 177,442 Chinese citizens holding student visas were not in Australia at the end of March 2020.<sup>6</sup> Since March 20 they cannot come (or return) to Australia. Thousands are likely to defer or delay their studies in Australia, thus diminishing the fee revenue Australian universities, especially the Go8, had budgeted for.

The seriousness of the revenue crisis, not just for the Go8, but for all universities relying on overseas student revenue will deepen over the year 2020-21. This is because normally about half of those taking up higher education student visas do so in the second half of the calendar year. It is likely that few will do so this year. The numbers are also likely to drop in the first half of 2021.

In 2018-19 the Australian government issued 142,098 higher education visas off shore. Only a fraction of this number are likely to be issued in 2020-21. This, plus attrition from students completing courses, means that the number of overseas students enrolled in higher education Australia could fall by up to a half by mid-2021.

The Go8 will take the biggest hit. In addition, these universities will lose substantial fee revenue from their normal sales of accommodation, parking and other services (including remedial English training) to overseas students. Losses of revenue of \$300-\$400 million over 2020-21, compared to budget expectations for the largest Go8 universities, are in store.

The impact so far has been less for non-Go8 universities because the great majority of their enrollees, the largest sources of which are from India and Nepal, were in Australia as of the end of March 2020. But their enrolments are also likely to drop significantly in 2020-21.

Perhaps this dire outlook will be softened. Advocates for the industry are arguing that the Australian government should open up preferential arrangements for the testing, processing, transporting and quarantining of overseas student movements to Australia later this year.

Nonetheless the outlook for the Chinese is clouded by the geopolitical standoff between the Australian and Chinese governments, even should these procedures be put in place.

The outlook for non-Go8 universities is also uncertain. Even if the Australian government does grant universities permission to recruit as advocates wish, there is no guarantee that students from the Indian-subcontinent will take up the offer.

Prospective applicants have to take into account the money they can make from working in Australia. They need this to pay for their fees and expenses. Work will not be as available as in the past because of the collapse of low skilled hospitality and similar work opportunities since the Covid-19 crisis began and because a huge number of residents will also be chasing similar employment.

### **Should government compensate Australia's universities?**

The universities, including the Go8, want to return to the government fold. They have gone out on their own to pursue overseas student revenue and are now left hanging.

We have some sympathy for their cause given the scale of job losses likely if they are not compensated. Their research effort is also at risk. So is the export revenue from the payment of student fees and living expenses in Australia.

Not much can be done about the export revenue at least for the next year or so. But the government can contribute to universities' educational and research expenses.

However, if this is to occur the universities should be required to deliver educational and research activity relevant to Australian domestic students and to Australian industry needs.

We need to remember that it was the universities, and especially the Go8 that chose to put all their financial eggs in the overseas student revenue basket. When they had the opportunity to do so they also chose to ignore any responsibility to train extra domestic students and to forgo any focus on research targeted at applied issues in Australia.

If Australian universities are compensated it should be in return for major university reforms. They should devote far more of their teaching activity to the needs of domestic students and refocus their research towards Australian industry, and Australia's social and environmental needs.

## References

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- <sup>1</sup> B. Birrell and K. Betts, *Australia's higher education overseas student industry: in a precarious state*, The Australian Population Research Institute, November 2018, Table 1, p. 3
- <sup>2</sup> This and other financial data cited below is drawn from Department of Education, Skills and Employment, Finance Tables, Higher Education Providers, Table 1, 2018 and earlier years
- <sup>3</sup> Calculated from Department of Education, Skills and Employment, Higher Education Statistics, Table 1.10, 2012 and 2018
- <sup>4</sup> *ibid.*
- <sup>5</sup> Quoted in Editorial, 'Time to court overseas students', *The Australian*, 27 May 2020, p. 11
- <sup>6</sup> Department of Education, Skills and Employment, *Research Snapshot*, April 2020