The Australian Population Research Institute, Research Report, November 2018

Australia’s higher education overseas student industry: in a precarious state

Bob Birrell

Katharine Betts

The Australian Population Research Institute <tapri.org.au>
PO Box 12500
Middle Camberwell
Victoria 3124
Australia

Report authors

Bob Birrell (mobile 0413 021 126) is the Head of the Australian Population Research Institute (TAPRI), an independent, non-profit research organisation. Katharine Betts is deputy head.

The authors would like to thank Ian Dobson, Don and Tricia Edgar, Bob Kinnaird and Virginia Rapson for editorial suggestions, and Virginia Rapson for help with layout.

Australia's higher education overseas student industry: in a precarious state

Bob Birrell and Katharine Betts

Australia's overseas university student industry: In a precarious state

Executive Summary

Australia's overseas student industry has surged in recent years. It generated some $30 billion in export revenue in 2017 from the fees and living expenses paid by all overseas students in Australia ($20.7 billion attributable to the higher-education sector).

This is a remarkable record. Between 2012 and 2016 the number of commencing overseas students in Australian universities increased from 85,497 to 124,150. As a result, the share of commencing overseas students to all commencing students increased from 21.8 per cent in 2012 to 26.7 per cent in 2016 (Table 2, p. 8).

The overall figure hides a spectacular increase in the dependence of Go8 universities on overseas students. In the case of the University of Sydney, this share increased from 22.8 per cent of all commencing students in 2012 to 39.2 per cent in 2016. This outcome was similar for the University of Melbourne, Monash University and the University of NSW where, by 2016, the share of commencing overseas students to all commencing students was 36.2 per cent, 36.5 per cent and 38.7 per cent respectively (Table 2).

Despite this success, the industry is in a precarious state.

To understand why, we need to differentiate the industry into its two main markets. They are each vulnerable, though for quite different reasons.

The first comprises universities charging very high fees - $40,000 or more a year by 2018. These are primarily the Group of 8 universities. Despite the princely cost, the number of overseas-student commencements at Go8 universities increased massively, by 56 per cent, between 2012 and 2016. Almost all of this increase came from Chinese students (Table 1, p. 3).

The main attraction here for the Chinese students is the prospect of obtaining a higher education degree from a university rated amongst the world's top 100. These ratings are based primarily on publications in prestigious international journals and citations in these journals.

For the most part, the Chinese are not attracted by the possibility of staying on in Australia.

The second market covers universities other than those in the Go8, all of whom charge much lower (though still high) fees of around $25,000 per year. Overseas-student commencements in these universities increased by 41 per cent over the years 2012 to 2016. Most of this growth came from countries located in the Indian subcontinent, particularly India itself.

Students comprising this second market are primarily attracted by the opportunities that study and graduation in Australia offer to enter Australia's labour market and to access a permanent or long-stay temporary visa.

We show that the surge of enrolments in this second market has been largely due to the Australian government's opening up of these opportunities in 2012 (pages 16-17). A key initiative was to allow all overseas student graduates (including those completing two-year Masters-by-Coursework degrees) to gain access to a work-study visa. This provides a minimum of two years in the Australian labour market after completion of a university degree, regardless of field of study.

No such privileges are available in our chief competitor countries – the US and the UK.

Why precarious? The case of the Go8

University revenues, especially amongst the Go8, are highly dependent on overseas-student fees. In the case of the University of Sydney, the share of its ongoing revenues from overseas students increased from 16.3 per cent in 2012 to 28.1 per cent in 2016 (Table 3, p. 9).

For the Go8, fees from overseas students are a major source of cross-subsidisation for the group's research activities. These activities are, in turn, the basis of the group's success in the international ratings.

A key issue is the Go8's dependence on the Chinese market. The fear here is that the student flow from China could be arrested or reversed by Chinese government intervention in pursuit of its geopolitical agenda. This is a well-founded fear as our analysis demonstrates. Other concerns include competition for such a lucrative market from other countries, and from universities within China itself.

We focus on another, rarely acknowledged concern. This is the low quality of the education Chinese students are receiving.

Most Go8 overseas students are taking masters-by-coursework degrees, over half of them in business and commerce with most of the rest enrolled in Information Technology and engineering.

These masters courses were designed in the early 2000s to attract overseas students. These students wanted a short course that would give them a credential acceptable to the relevant accrediting authorities. This would then qualify them to apply for a permanent residence visa based on skill. As in the 2000s, students can still achieve this outcome with just two years study without any previous education in these fields (other than engineering).

Overseas students make up the great majority of those taking these two-year masters courses.

The Go8 are primarily catering to Chinese students whose English language skills are weak (p. 5). The universities have had to adjust their teaching and assessment to the capabilities of these students. For this reason they do not produce highly trained professionals. Go8 claims that these graduates are 'incredibly well trained' (p. 12) are not credible.

The weak performance in the Australian labour market of Chinese nationals with graduate qualifications in management and commerce attests to this assessment. Only 34.1 per cent of young male Chinese with these qualifications held managerial or professional positions in 2016 (Table 4, p. 15). (In contrast the share of Australian-born male graduates in the same age group holding managerial or professional positions was 68.5 per cent.)

Universities, especially the Go8, are vulnerable to reputational damage as this state of affairs becomes better known.

Vulnerabilities in non-Go8 universities

The main source of precariousness for the non-Go8 universities is changes to the rules governing access of overseas student graduates to the Australian labour market and to permanent or long stay temporary visas.

The work-study visa is still intact. However, as a result of immigration reforms in 2017 and 2018, it is now far more difficult to access a permanent residence or a long-stay temporary work visa.

These restrictions are likely to dampen recruitment levels in non-Go8 universities.

The distortion of Australia's Higher Education System

The Federal government has reduced the rate of growth in university funding. But universities have found a way of compensating for this: increasing enrolments from overseas students.

In the case of the Go8, there is much to admire in their achievement of top-100 world university ratings.

But this success has been achieved to the neglect of their teaching effort as well as neglect of any moves toward vocational-education and industry-oriented research. Such work does not contribute to international ratings (pp. 20-21).

The Go8 and, increasingly, other universities are involved in an arms race to maximise research that prioritises the kinds of output that contribute to these ratings.

It is a vicious circle in which high ratings based on favoured types of research help drive overseas-student enrolments, and the revenue delivered is a crucial contributor to the production of this research.

Conclusion

The overseas student industry has been put on a pedestal and its continued growth given high government priority. This report indicates that this stance is not justified. There are too many downsides, including the vulnerabilities outlined above and the major contribution overseas students are making to Sydney and Melbourne's growing pains described in the report (p. 18)

A more balanced approach to the industry is required. There must be more emphasis on ensuring that it is sustainable, that its quality defects diminish, and that it focuses more on vocational education and industry-relevant research.

Australia's higher education overseas student industry: in a precarious state

The setting

Australia's overseas student industry has achieved iconic status. It is the one major knowledge intensive industry selling successfully into Asia. It is lauded as a harbinger of Australia's much hoped for transition from a commodity-intensive to a knowledge-based economy.

The industry does have something to brag about. But as our analysis shows, many of its claims, such as that its progress is built on the excellence of the education it provides, are not credible.

As we have argued for years, a major attraction of an Australian qualification has been that it opens a pathway into the Australian labour market and to permanent residence.

The recent surge in overseas student enrolments in higher education since 2012 (see Table 1, p. 3) is a case in point. It is partly based on Australian government policy changes that have increased overseas student graduates' access to the Australian labour market and to permanent residence in Australia. The danger for this segment of the market is that these changes can be, and as we show later, are being reversed.

However, there is a new factor in play. This is the attraction of graduate credentials from Australian universities ranked in the top-100 by the global university ratings agencies. Almost all the Group of Eight (Go8) universities have achieved this status. We show that this factor has been crucial to the success of these universities in attracting high-fee-paying Chinese students to its courses and that these students represent a different segment of the market.

The ability to attract these high-fee-paying students is a major achievement. But it, too, raises sustainability questions. There are also troubling issues about the impact that this achievement is having on the research and educational priorities of the Australian university system.

This study explores these issues. They can only be understood after an analysis of the ways in which Australia's universities have adapted in order to attract overseas students.

The situation of Australian universities

You have to feel for Australia's universities. Since the mid-1990s successive Australian governments have required the universities to do more to fund themselves. The revenue they receive from government support for each domestic student and from domestic student HECS[1] payments (in real, inflation-adjusted terms) has barely increased at all over the past couple of decades.[2] However the costs of the universities' teaching and research programs have been increasing at a much faster rate.

One response has been to take up every opportunity to increase domestic enrolments – especially after 2009 when the Labor government removed caps on enrolment numbers, except for law and medicine. However, this did not solve the universities' financial problems given the revenue situation just described and the refusal of successive governments to allow universities to increase the fees they charge domestic students.

Overseas students offered a solution. Since the early 2000s Australian governments have allowed the universities to enrol as many overseas students as they wished and to charge them whatever the market would bear.

The outcome has been extraordinary. By 2016 some 20 per cent of all those enrolled in higher education in Australia were overseas students. This compares with 13 per cent in UK universities and five per cent in the US. In 2016, 20.7 per cent of Australian universities' ongoing revenue came from overseas student fees (Table 2, p. 8).

The beauty of overseas student revenue, from the point of view of the universities, is that they can do what they please with the funds. As we show, they can and do use them to cross-subsidize higher priority goals, notably enhancing their research effort.

They don't have to invest in additional academic teaching staff and teaching accommodation capacity. In effect, the universities have piled additional overseas students onto the existing teaching infrastructure. They do need Commonwealth government permission to expand beyond certain limits, but universities can usually apply for and gain adjustments to these constraints.

By 2017 the industry generated some $30 billion in export revenue from the fees and living expenses paid by students in Australia, of which the higher education sector contributed $20.7 billion. This made the industry Australia's third largest exporter, after iron ore and coal.

We start by examining the basis of the universities' success. This is a story told two parts. The first covers the period from 2000 to 2009 which featured strong and continuous advances in overseas-student enrolments in higher education. During this period the main attraction was the direct link between the attainment of an Australian university qualification and eligibility for a permanent entry visa.[3] No such direct link was available for overseas students enrolled in UK and US universities.

The second part of the story straddles public concerns about the consequences by 2009 (described shortly).

Over the years 2009 to 2011 the Labor government disconnected the link between overseas education and an immigration outcome.[4] Higher education overseas student enrolments immediately declined.

They revived after pressure from the overseas-student industry prompted the Labor government at the time, and the subsequent 2013 Coalition government, to restore some (though not all) of the previous links between higher education and an immigration outcome. In addition, the Labor government allowed all overseas students in higher education to gain access to a post-study work visa on graduation (detailed below). This permitted at least two years unrestricted employment in Australia. This right was given to all overseas students who enrolled after October 2011.

The record of university commencements by overseas students since 2012

The subsequent startling increase in higher education overseas student commencements since these administrative changes is the subject of this report.

Over the years 2012 to 2016, these commencements increased from 85,497 to 124,150, or by a massive 45 per cent (Table 1).

The revival is not just a consequence of the restoration of the link between an Australian education, the Australian labour market and a subsequent permanent entry visa. As noted, after 2012, Australian universities succeeded in attracting a new wave of students with relatively little interest in an immigration outcome. They were primarily Chinese and most were enrolled in Go8 universities.

These statements are based on customised (unpublished) data on commencements provided by the Higher Education Statistics branch of the Department of Education and Training.

Table 1 provides a summary. We split the university sector into two groups. One is the Go8 which comprises Australia's most prestigious and research intensive universities (ANU, the Universities of Melbourne, Sydney, NSW, Adelaide, Western Australia, Queensland and Monash University). The other group includes all other Australian universities. Commencement numbers are reported separately for those enrolling in undergraduate and postgraduate-by-coursework courses. There is another, much smaller, stream of commencements at the post-graduate by research level. Though these are not itemised separately, their numbers are included in the total figures for each column.

Table 1: On-shore higher education commencements 2012 and 2016, birthplaces China, India and total Overseas* by group of eight (Go8) and all other universities and by undergraduate, postgraduate-by-coursework (PGC) and total*

	2012			2016			Increase			% Increase		
	China	India	Total	China	India	Total	China	India	Total	China	India	Total
Group of Eight												
Undergraduate	3,566	83	9,849	7,883	175	14,901	4,317	92	5,052	121	111	51
PGC	6,781	363	12,629	14,602	1,096	21,324	7,821	733	8,695	115	202	69
Total	10,770	538	24,441	22,968	1,387	38,179	12,198	849	13,738	113	158	56
All other universities												
Undergraduate	13,508	1,415	36,700	15,293	4,920	46,588	1,785	3,505	9,888	13	248	27
PGC	7,563	3,173	22,223	7,779	12,901	36,983	216	9,728	14,760	3	307	66
Total	21,409	4,753	61,056	23,472	18,015	85,971	2,063	13,262	24,915	10	279	41
All universities												
Undergraduate	17,074	1,498	46,549	23,186	5,093	61,489	6,112	3,595	14,940	36	240	32
PGC	14,344	3,536	34,852	22,381	13,997	58,307	8,037	10,461	23,455	56	296	67
Total	32,179	5,291	85,497	46,440	19,424	124,150	14,261	14,133	38,653	44	267	45

Source: Higher Education Statistics, Department of Education, 2017, unpublished

* Totals for each column include all other countries of origin plus postgraduate-by-research commencements.

The results were a surprise to us and will no doubt be so to most readers (other than Go8 officials) since they have not previously been published in this form.

Surprise number one. The Go8 was the star. Overseas-student commencements grew from 24,441 in 2012 to 38,179 in 2016 or by 56 per cent, compared with growth from 61,056 to 85,971 over the same years or 41 per cent for all other universities.

Surprise number two. Almost all of the increase of 13,738 commencements at Go8 universities came from one country – China. The number of Chinese students at these universities increased by 12,198 or 89 per cent of the total increase for the Go8. By contrast, commencers from China at all non-Go8 universities increased by just 2,063. The largest growth source of commencements for these universities was India. Their numbers increased by 13,262. Indian students made up 53 per cent of the total growth in commencements at the non-Go8 universities over the four years.

Surprise number three (for us) was the surge in enrolments in the postgraduate by coursework sector. Most of the enrolment increase for both the Go8 and other universities over the years 2012 to 2016 came from this sector. In the case of the Go8, Table 1 shows that by 2016 there were far more commencers enrolled in postgraduate-by-coursework courses than undergraduate courses –

21,324 in the former, compared with 14,901 in the latter. This is not yet the case for non-Go8 universities.

This is a surprising finding because the postgraduate-by-coursework sector is usually associated with the universities that provide the shortest and cheapest route to a qualification needed for a permanent residence visa. This is definitely not the case for the Go8, where course fees are princely: $40,000 plus per year for an undergraduate or postgraduate-by-coursework course in business and commerce.

We unravel this mystery later. To do so requires background on the administrative changes that facilitated the overseas student commencement take-off during the 2000s.

Background to enrolment success in the 2000s

When Australian universities began to pursue the overseas-student market seriously in the 2000s they found it to be highly receptive. There were literally millions of Asians – many the products of the massive expansion in higher education in the region – interested in moving to an affluent western country.

Enrolment in a higher education or vocational course offered a way in. The Australian government made this entry point for permanent immigration far more accessible than was the case in the UK and the US.

The process began in the early 2000s when those completing a higher educational degree or a vocational credential (at the trade equivalent level) were allowed to apply for permanent residence via a skilled visa without having to return overseas first. The rules covering skilled visas (which were mostly available under the points-tested visa categories) were rejigged to give preference to such applicants. Previously, applicants had had to possess work experience in their chosen occupation. This requirement was waived for overseas students who had completed their course in Australia and who were applying in Australia. In addition, onshore applicants were given extra points on account of their Australian qualifications.

At the time (and this remains the case), all those applying for a skill visa had to possess a credential that met the minimum entry standards for employment in their field of study. Each occupation had a designated accrediting authority. The ones that mattered most for higher education graduates were the accounting, IT and engineering authorities. During the early 2000s the universities structured the curriculums in these fields to meet the requirements of these authorities. The only constraint was that the Australian government required that the course involved had a minimum period of two years full-time study.[5]

Overseas students commencing a postgraduate-by-coursework degree only had to possess an undergraduate degree (from just about anywhere). Except for engineering, it did not matter what the undergraduate discipline was, or what the standard of the degree had been.

You might imagine that a postgraduate degree would involve some deepening of knowledge relative to an undergraduate degree. This was not the case. The curriculum at both undergraduate and postgraduate levels was essentially the same, except for some narrowing at the postgraduate level, focussed on the minimum requirements specified by the relevant accrediting authority.

A direct pathway to permanent residence was thereby opened up. Enrolments in both undergraduate and postgraduate programs in business and IT surged during the 2000s, particularly at the postgraduate-by-coursework level. This surge occurred across the university sector, including the Go8 and all the other universities. For their part, regional universities showed their entrepreneurial nous by setting up branch campuses in Sydney and Melbourne customised for overseas students. They mainly offered low-fee accounting and IT postgraduate course-work degrees which were delivered almost exclusively to overseas students.

During the same period to 2009, overseas student enrolments in the vocational sector exploded, as did the flow-on to permanent residence visas.

The international student industry in retreat at the end of the 2000s

This surge came to a sharp halt at the end of the 2000s when the credibility of the overseas student industry collapsed. The vocational college system drew the most critical attention. By 2009 there were more overseas student enrolments in these colleges than in the university sector. Private operators of training colleges specialising in providing cheap trade credentials, particularly in cooking and hairdressing, had mushroomed. Their attraction was that these credentials led directly to a permanent residence skill visa.

These outcomes prompted the Labor government to put the brakes on the industry. It instituted far more stringent financial requirements for prospective students. They had to show that they had the financial resources to cover their fees and living expenses in Australia.

The Labor government also tightened the skilled visa selection system. By 2011 the reformed system had severed the direct link between the receipt of an accredited trade or professional qualification and access to a permanent entry skilled visa.

An applicant for a points-tested skill visa had to have an occupation judged to be in national shortage. The eligible occupations were included on a Skilled Occupation List (SOL) prepared by the Department of Employment.

Cooking and hairdressing were not included on the SOL. Largely as a result, overseas-student enrolments in the vocational training industry collapsed. They have never recovered.

However, all the key professional occupations, including accounting, IT and engineering were included on the SOL and the new selection system continued to favour applications from overseas students graduating from Australian universities.

Another crucial reform was the tightening of English language standards. The minimum English standard requirement was set at 6 on the International English Language Testing System (IELTS) test. Applicants who could achieve level 7 were advantaged. In reality, however, this level became a necessity. This was because by 2011 the key accrediting authorities, including those governing accounting and engineering, and almost all the health professions, required a minimum English score of 7. The IT accrediting authority, the Australian Computer Society, was an exception. It kept the minimum requirement at 6 – where it remains to this day.

As a consequence of these reforms, higher education student enrolments in Australia’s universities dipped in 2010 and 2011. All universities were affected, though some of the regional universities (notably Central Queensland University) that depended on metropolitan shop-front campuses were savaged.

The significance of higher English standards

As we are about to see, the Australian government soon backed off from these tough measures – though not on the higher standards for English. This was to have a major impact on the capacity of Chinese students to go on to access permanent residence skill visas. This is because Chinese students struggle to reach the required standard. This observation raises a further question. If their English is poor, how do they comprehend and complete university-level courses?

To answer this question requires some background on the English language question.

Level 6 is not high. Those who have reached level 6 can manage normal commercial and social relationships. But at this level they would still be translating from their native language into English as they speak, listen or read. Only when they reach level 7 are they able to think in English and thus be capable of picking up the nuances of what is written or said when acting as professionals. Without this capacity they will struggle to complete the assessment tasks that were once expected of higher education students.[6]

The impetus for these higher English requirements stemmed from an increasing (and shocked) awareness that many of the overseas-student graduates of Australian higher-education courses, especially those from China, could not achieve level 7, or even level 6. This was after two to three years of university-level study and after successfully completing their university courses. The evidence was concrete – it came from the results of English language tests that the Department of Immigration had required from some applicants for skilled visas in 2004 and 2005.[7]

Nothing much has changed. Chinese students still struggle to meet the ILETS 7 professional standard, and as a result – shown later – relatively few are able to obtain a points-tested skill visa. Nonetheless, the number of Chinese students commencing university studies in Australia have surged since 2012. It is not because their English has suddenly improved or that the universities have required professional-level English either at the point of entry or completion of their courses. They have not.

Rather, the implication, elaborated on below, is that the universities have structured their courses so as to accommodate the limited language skills of the Chinese.

The new migration selection standards in operation by 2011 laid the basis for what was to become two distinct markets for overseas students seeking higher education in Australia. One was based on Chinese students. As Table 1 shows the Go8 universities have dominated this market. Here access to the Australian labour market and permanent residence is not the main attraction. Rather, the attraction is the prestige of a top-100 university credential.

The other market, dominated by non-Go8 universities, has flourished around greater access to the Australian labour market and to permanent residence. We start with this market, beginning with an account of the changes to the rules that have facilitated this access.

The resurgence of enrolment growth since 2012

The universities objected to the toughening of the immigration selection rules introduced by 2011. The Labor government responded by commissioning a *Strategic Review of the Student Visa Pr*ogram in 2011. The report proposed measures 'targeted to improve the competitiveness of Australia's universities in the global market for international students'.[8]

Subsequently, the selection criteria for skilled visas were softened and most of the tough financial requirements for prospective students were eased. In addition, the Australian government provided a much more generous right of access to the Australian labour market for former overseas students when they graduated.

All overseas students who applied for or were issued with a higher education visa after October 2011 and who subsequently completed an undergraduate or higher degree were eligible to apply for a post-study work visa (visa number 485). This visa allowed all overseas graduates to stay on in Australia for at least two years with full work rights.

This initiative represented a significant liberalisation because it applied to all graduates, regardless of their field of study. Access to this visa had previously been restricted to those whose occupations were judged to be in short supply in Australia. This constraint was removed and the 485 visa has become very popular. In 2017-18 some 32,748 485 visas were issued to graduates who had originally entered as overseas students or to nearly half the total number of overseas students graduating in that year.

Overseas student graduates also had relatively unrestricted access to a temporary work visa (457) which allowed a renewable four-year work contract and to a subsequent permanent entry visa via an employer sponsorship visa. (This was if, as was frequently the case, the employer was prepared to sponsor the 457 visa holder being employed for this visa.)

There is no parallel to these privileges for overseas student graduates in the UK and the US. In those countries they have very limited access to the labour markets or to employer sponsorship for temporary work or to a permanent-entry skilled visa.

Enrolments in non-Go8 universities

The 41 per cent expansion in commencements for the non-Go8 universities, shown in Table 1, is impressive. It appears to reflect the rule changes just described. The termination of the vocational pathway noted above also helped. This is because it removed competition from the much cheaper entry point for immigration outcomes that completion of cooking, hairdressing and similar vocational options had previously provided.

A strong indicator of the link between these rule changes and the subsequent enrolment surge is the high take up rate of the work-study (485) visa by Indian and Nepalese students. As noted earlier they are important components of the non-Go8 market segment. In the case of Indian higher education students, there were 50,286 enrolled in 2017. In 2017-18 some 14,026 of them were granted a 485 visa. The parallel figures for the Nepalese, were 19,092 enrolments and 5,165 485 visas granted.

The contrast with the Chinese is striking. Despite constituting 129,737 higher education enrolments in 2017 there were just 11,978 work-study visas granted to Chinese former students in 2017-18. We regard this outcome as compelling evidence that, unlike the Indians and Nepalese, access to the Australian labour market is not a major inducement for the Chinese to enrol in an Australian university.

Another telling sign of the renewal of the immigration market among non Go8 universities has been the resurgence of regional university study centres in Melbourne and Sydney.

The most striking is Charles Sturt University – CSU (its main base is in Albury-Wodonga). By 2016 there were more Indian commencements at CSU (1,864) than in any other Australian university. This is an increase from just 172 in 2012.[9] CSU currently features study centres in Melbourne, Sydney and

Brisbane, located in office blocks within the respective CBDs. The fee for an undergraduate accounting degree is $24,000 a year at the Melbourne centre. CSU only requires a minimum of 6 on the IELTS for both its undergraduate and postgraduate courses. For those who can't achieve this level it offers a conditional entry point requiring a preliminary English language course.

So far so good. But what happens to this market when or if the carrots of access to the labour market or permanent residence are diminished?

We will not have to wait long to find out, because, as is detailed later, these carrots are currently being withdrawn.

The Go8 and the big bet on China

Commencements by overseas students at Go8 universities grew by 13,738 or 56 per cent over the years 2012 to 2016 (Table 1). This growth translates into remarkable increases in the share of all commencing students in the Go8 group that were made up by overseas students. This outcome is shown in Table 2.

Table 2: Per cent share of commencing onshore* overseas students to all onshore commencing students, Go8 universities and total, all Australian universities, 2012 and 2016

	2012	2016
University of Melbourne	27.3	36.2
University of Sydney	22.8	39.2
Monash	24.0	36.5
ANU	28.8	36.5
University of Queensland	27.4	31.8
University of NSW	30.2	38.7
University of Adelaide	28.5	28.3
University of WA	19.1	20.8
All Australian universities	21.8	26.7

Source: Department of Education and Training, Higher Education Statistics, Table 1.10, Commencing Students by State, Higher Education Provider, Citizenship and Residence Status.

*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 part of the focus of this paper.

For the University of Sydney the share of overseas student commencers to all commencers increased from 22.8 per cent in 2012 to the spectacular level of 39.2 per cent in 2016. The pattern is only marginally less striking for the other Go8 universities, especially those located in Sydney and Melbourne.

These gains are largely attributable to increased enrolments from Chinese students. As noted earlier, some 12,198, or 89 per cent of all the growth in commencing overseas students in Go8 universities between 2012 and 2016 is attributable to Chinese students.

In the case of the University of Sydney, the number of overseas student commencers (at all levels – undergraduate and postgraduate) grew from 4,169 in 2012 to 8,076 in 2016. Some 3,683 of this growth, or 94 per cent, came from Chinese students. By 2016, Chinese commencers made up 72 per cent of all overseas-student commencers at the University of Sydney.

There was a similar outcome in most of the other Go8 universities. In the case of the University of Melbourne, 85 per cent of the growth in the number of overseas-student commencers between 2012 and 2106 were from China and at Monash University, 77 per cent.

This outcome has occurred despite the very high fees charged at Go8 universities. To repeat, they charge $40,000 or more per year for undergraduate and postgraduate-by-coursework courses in the main field of study that the Chinese enrol in – business and commerce. On top of this the students in question have to find another $20,000 to $30,000 in living expenses a year. These are enormous sums that few domestic students could manage. What are they getting in return for this expenditure, if it's not access to the Australian labour market or a permanent residence visa?

Before answering this question, consider what the universities are getting from these students.

Revenue

By 2016 (the latest year for which these data are available) Australian universities drew 20.7 per cent of their total revenue from continuing operations (that is, not including borrowings) from overseas student fees. This share is far higher for most Go8 universities (Table 3). It was 28.1 per cent for the University of Sydney and 27.9 per cent for the University of Melbourne. Moreover, as Table 3 shows, this reliance is growing rapidly within the Go8 group. In 2012 it was 16.3 per cent for the University of Sydney and 18.3 per cent for the University of Melbourne.

The financial performance data from which Table 3 is drawn also provide information on the dollar amounts overseas student fees deliver to each university. These are huge and they help explain why the universities (especially Sydney University) have been so vocal in seeking Federal government support for their overseas student initiatives. The University of Sydney reports that its overall revenue growth over the four years to 2016 was $431 million. Of this, $327 million, or 76 per cent came from growth in fees paid by overseas students.

Table 3: Per cent share of total university revenue deriving from fees paid by overseas students, 2012 and 2016

	2012	2016
University of Sydney	16.3	28.1
University of Melbourne	18.3	27.9
Monash	19.7	26.8
University of NSW	19.8	25.2
University of Queensland	16.0	21.9
University of Adelaide	16.8	20.2
ANU	9.9	15.9
University of WA	10.3	12.6
All Australian universities	16.4	20.7

Source: Department of Education and Training, Higher Education Statistics, Table 1, Adjusted Statement of financial Performance for each HEP, 2012 and 2016

The share of revenue from overseas student fees for non-Go8 universities is much lower than for most of the Go8. For example it was 18.8 per cent for Latrobe University and 14.3 per cent for Flinders University. There a few exceptions, notably RMIT, where the figure was 31.3 per cent in 2016 – higher than that of any other Australian university.

What are the Chinese students paying for?

The motive for most Chinese students for attending a Go8 university, as noted, is not to create a pathway to a permanent residence visa. If it was there would be little point in enrolling at a Go8 university. They could achieve this goal by attending a far cheaper non-Go8 university.

Australia is not alone in experiencing a surge in Chinese enrolments in expensive universities. There has been a similar pattern in the US.

To understand why we need to consider the changing context in China. China's economic success has created enclaves – especially Beijing, Shanghai, Shenzhen- where there are now hundreds of thousands of households with access to the funds needed to finance the overseas education of their children (or more often – their child) in an expensive overseas university. This is because of the wealth flowing from China's rapidly growing economy, including its recent property boom. In addition there is allegedly a huge bounty flowing from corruption within government and party ranks.[10]

But why would they want to send their children to expensive overseas universities? There are a number of reasons. For some there is a desire to by-pass the highly competitive and onerous Chinese university entrance examination, the gaokao.[11] Others appear to be seeking an alternative entry point to top jobs in China because, while they may have completed the gaokao, their results are not good enough to meet the very high levels required by China's top universities

There is also the attraction of employment in China's giant state-owned enterprises where experience overseas and an education in a western university is advantageous. This is because many of these enterprises have now established overseas branches. The same is likely to apply for foreign multinationals located in China.

It has long been assumed that students from developing countries regard their career prospects after graduating from a western country as much superior to those available in the home country, a belief that gives them a strong incentive to stay on. This is no longer the case, especially for the Chinese. The opportunities at home, just described, compare well with the uncertain job outcomes for migrant professionals who stay on in Australia or the United States (see Table 4, p. 14, and surrounding discussion).

It is hard from a distance to evaluate the weight of each of these factors. Nonetheless the outcome is irrefutable. There has been a reversal of the earlier pattern where most of the Chinese who studied abroad did not return. Currently, according to the Chinese Ministry of Education, more than 80 per cent of students who study abroad return to China.[12]

But how do Chinese households make their choice of western education providers? It is clear from their choices that they favour high status universities.

Chinese households appear to be heavily influenced in making these judgements by the ranking of prospective universities on the international university rating tables. They regard these as providing an evidence-based reference point. The most widely quoted are the ratings published by the Times Higher Education and the Quacquarelli Symonds World University Rankings (QC). Parents and their children make the reasonable assumption that a credential from a prestigious western university confers some of its lustre on those who graduate from these universities.

The Go8 shine in these ratings. The Times Higher Education ratings released in 2018 had the University of Melbourne at 32 in the world, followed by ANU at 48, Sydney at 61, Queensland at 65, Monash at 80 and the University of NSW at 85. The Universities of WA and Adelaide were just outside the top 100, at 111 and 134 respectively. The QC ratings produced a similar result for 2017.

The ratings agencies base their judgements on the output of hard science research, especially research published in top rating international journals and widely cited in the global scientific literature.[13] The agencies do not measure the quality of the education that their top universities deliver.

No matter. From the point of view of the students attracted by the Go8's ratings, it is the prestige of the qualification that counts, not the educational content.

How has the Go8 done it?

One has to take one's hat off to the Go8. Professor Ian Jacobs (Vice Chancellor of the University of NSW and current Chair of the Go8 group) can justly boast that Australia 'is home to 5 per cent of the top 500 ranked universities globally – 16 fold above its size. On a per capita basis, its Group of Eight universities are better represented in the QS Top 100 ranking of universities across the world than the higher education giants of the United States and the United Kingdom'.[14]

How has the Go8 done it, given that there are thousands of universities across the developed world (and more recently in the developing world – including China) that aspire to climb into the top ranks? As Ellen Hazelkorn has documented, government and educational authorities around the world now regard the ratings achieved by their higher education institutions as key indicators of their quality.[15]

Part of the explanation for the Go8's success is that since the 1990s successive Australian governments have supported research in all Australian universities. This was a product of the Dawkins reforms in the late 1980s and early 1990s which eliminated the previous binary division within the higher education system. Technical and other tertiary educational institutes rushed to transform themselves into universities and to embrace both the teaching and research functions associated with university status.

This outcome was institutionalised in 2002 when state and federal education ministers agreed on a protocol for accrediting universities. To gain such accreditation, aspiring universities had to prove that they could offer research in at least three broad fields of study. As Glyn Davis, former Vice-Chancellor of Melbourne University has written, this 'made research a legislated requirement of any Australian university'.[16]

Substantial government funds have been allocated to help fund this research. They have been distributed on a competitive, meritocratic basis with the key criteria being much the same as those which shape the judgements of the international ratings agencies. That is, funds go to research which meets the standards of the top international scientific journals and which are widely cited in these journals.

The Go8 have been best placed to win in this environment. They have had a head start in building their research apparatus. The Go8 universities received two-thirds of the total $3.64 billion allocated via research block grants to the Australian university sector in 2016 and 70 per cent of the total income from competitive grants (which includes those administered by the Australian Research Council and other government research councils).[17]

Nonetheless, the Go8 constantly complain that the present level of government funding for research falls far short of what they require to maintain their international standing.

This is why revenue gained from overseas students has been so important. The Go8 openly acknowledges that its members have to rely on teaching revenue in order to 'cross-subsidise a large portion of essential research'.[18]

Another factor contributing to the Go8's research achievement is the ruthlessness with which their academic staff have been mobilised to prioritise research outputs that score well on the ratings' metrics. Academic appointments and career pathways have, since the 1990s, depended on this research performance. Teaching has been relegated to a chore, wherever possible performed by non-tenured staff.

That's not all. The Go8 have encouraged rapid growth in the PhD enrolments needed to support their leading researchers. The number of PhD completions across all universities has surged from 6,847 in 2012 to 8,903 in 2016 (these figures include both domestic and overseas students). In 2016, around half of these completions were at Go8 universities.

The universities have also gone global in their search for staff who will add to their research performance. In 2014-15 some 1,421 university lecturers and tutors were sponsored on temporary visas. This is a huge number relative to the total full-time equivalent academic staff employed by Australia's universities of around 21,500 at the time.[19]

You might respond that universities elsewhere do much the same. We don't think so. In any case few overseas universities have anything like the freedom that Australian universities have to recruit offshore staff on a temporary basis. Australia's immigration rules are unique in allowing unlimited recruitment of such staff.

We make these points because of their significance in shaping the priorities of Australia's higher education system – to which we return later in this paper.

The Go8 tells a different story

Go8 leaders, though justly proud of their international ratings achievements, maintain (in public) that these are not the secret of their overseas student recruitment success. Rather, they claim, it is the high quality of the education provided.

Professor Jacobs, for example, asserts that: 'These graduates are really well-trained, they get great jobs'.[20] Jacobs is referring to the overseas students who stay on in Australia as well as those who return overseas.

The workforce contribution of overseas students who stay on after graduation is a favoured theme of Go8 vice-chancellors. ANU vice-chancellor, Professor Brian Schmidt, insists that:

> The graduates we have here, who are incredibly well trained, have the opportunity to contribute to the Australian economy. They're not displacing other workers, they're actually very high value people that are hard to attract.[21]

This claim is not limited to Go8 leaders. According to Universities Australia (which represents all Australian universities) the expansion of overseas student enrolments 'is testament to the outstanding quality of education in Australia'. 'Quality is our drawcard,' said Belinda Robinson, Chief Executive of Universities Australia. 'We know that international students are attracted to Australia by the excellent quality of the education we provide and the calibre of both teaching and research here'.[22]

Some observers may accept these assertions without question because they have in mind the American experience. In the US, overseas students are famous for their participation in science research at universities and as innovators in Silicon Valley and elsewhere. In 2015, the National Science Foundation reports that the majority of engineering and mathematical and computer science PhDs granted at American universities were to overseas students.[23]

There are some counterparts who have studied at Australian universities, but, in relative terms, far fewer. In any case, the emphasis in Australian universities is on basic research rather than advanced applied research, as is the case of many elite US universities, like the California Institute of Technology.

How well trained?

Consider the context. Over half of the Go8 overseas student enrolees are taking courses in business and commerce. Most are Chinese. There are far more overseas students doing these courses than are domestic students. Moreover, this dominance is increasing with the rapid increase in Chinese student enrolments since 2012. As a result, the mode of teaching has had to be tailored to the learning capacity of the overseas students.

As explained earlier, Level 7 on the IELTS test is the minimum standard needed if students are to cope with university-level instruction and assessment. The evidence cited above indicated that many Chinese students fall well short of this level. The minimum requirement for a higher education student visa is an IELTS of 6.5.

The result is that lecturing and assessment standards have had to be adjusted to the English language capacity of the Chinese students.

One consequence is that presentation and writing skills play a minor part in assignments and assessment. Examinations focus on mathematical or numerical tasks rather than on an evaluation of the candidates' understanding of business planning or project assessment that requires literary skills.

Teaching staff face regular teaching evaluations from their students. Overseas students thus have ample opportunity to complain about staff who are reluctant to adjust their teaching practices to accommodate their students' capacities. The staff in question have little choice but to comply given the importance universities place on maintaining overseas student enrolment levels.

This is not a new story. The deficiencies in the academic standards of resulting courses have been well documented.[24] They have been confirmed by numerous discussions (including very recently) that the authors have had with business and commerce lecturers. Reports continue to surface about the strategies overseas students employ to compensate for their language difficulties, including the purchase of completed assignments and cheating.[25]

Not surprisingly, those Chinese graduates from Australian universities who do stay on in Australia and enter the labour market, struggle to find employment at the managerial or professional level (Table 4).

Why no remedial action?

No Australian university, including those comprising the Go8, require a prerequisite of 7 for entry into their business and commerce courses. Likewise, no university requires overseas student graduates to demonstrate that they have achieved professional level English language standards before completing their course.

The fees charged by the Go8 are high enough to provide their overseas students with remedial English courses. But this is not their priority. They frankly acknowledge that they need 'profitable' courses in order to help fund their research activities. They draw on the revenue from relatively low cost courses provided to domestic undergraduates as well as to overseas students. As Glyn Davis puts it, overseas students 'keep the lights on at every Australian public university'.[26]

One of Davis's Go8 Vice Chancellor colleagues admits that, as a consequence of inadequate Australian government support for the Go8's research effort and the high cross-subsidising of these costs from student fees: 'the students at research-intensive universities, will, therefore disproportionally carry the burden of the national research effort'. In a stunning admission, this anonymous Vice Chancellor states that it is unfair that students 'attending a Go8 university should cross-subsidise research whereas somebody going to a less research-intensive university does not do that to the same extent'.[27]

Outcomes for former Chinese students in the job market

As indicated, the Chinese students who do stay on in Australia after graduation and enter the job market find it difficult to obtain employment at the professional or managerial levels. Employers expect their appointees to have complex problem solving, collaboration and communication skills. Many Chinese graduates lack these skills and thus struggle to compete with local graduates and with graduates from English-Speaking-Background (ESB) countries.

Data from the 2016 Census documents this point. Table 4 shows employment outcomes for young China-born males (aged 25-34) in Australia as of 2016, who arrived here between 2006 to 2016 and who held qualifications at degree level or above in Management and Commerce. Only 34.1 per cent were employed as managers or professionals. The outcome was similar for those with Engineering degrees, though a bit better for IT graduates.

Table 4 also indicates that a high proportion (some 31.4 per cent of those with management and commerce qualifications) were unemployed or not in the workforce. This is why we chose to focus on males. The high share of those not in the workforce category is unlikely to be explained by child care responsibilities.

Table 4: Male graduates aged 25-34, born in China who arrived between 2006 and 2015, field of study, by labour force status, 2016, %

	Management and Commerce	Engineering and Related Technologies	IT	Health	Society and Culture	Education	Total China-born male graduates, all fields of study
Employed as manager or professional	34.1	32.5	49.0	49.0	28.8	40.4	36.1
Employed but not as manager or professional	34.5	26.3	23.4	22.5	27.3	33.0	29.3
Unemployed	9.5	11.1	9.7	4.5	8.6	6.4	9.5
Not in the labour force	21.9	30.1	17.8	24.1	35.3	20.2	25.0
Total %	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total N	12,065	5,978	4,740	627	1,233	218	28,230
Total unemployed or not in the labour force %	31.4	41.2	27.5	28.5	43.9	26.6	34.5

Source: ABS TableBuilder 2016 census
Note: Only the top six fields of study (by number of graduates) are shown.

The Census did not ask graduates to indicate where they obtained their qualifications. It could be from overseas, in which case their employment difficulties cannot be attributed to any deficiencies in their professional training in Australia. However we can be confident that most of the Chinese graduates recorded in Table 4 did receive their qualifications in Australia. This is because the great majority of China-born graduates who have obtained a skilled visa in recent years applied from within Australia (rather than from China) – meaning that they would have graduated from an Australian university.

True, it is not just a problem for the Chinese. Most graduates from non-English-speaking background (NESB) countries in business and commerce, engineering, and IT fields struggle to find professional level appointments in these fields. This is because there is a serious oversupply of entry-level candidates, relative to the available job openings.

Employers prefer local graduates.[28] Though not shown in Table 4, the share of Australian-born male graduates in the same age group who held managerial or professional positions was 68.5 per cent, nearly twice as high as for their Chinese counterparts.

The universities' claims that they are producing highly trained graduates vital for the functioning of the Australian economy lack substance.

What's the problem?

On the face of it the higher education overseas student industry appears to be flourishing. Enrolments have surged in both the key markets since 2012. However we have flagged areas of concern about the sustainability of enrolments for each market segment.

In the case of the non-Go8 market the problem is that the inflow of overseas students is tied to access to the Australian labour market and permanent residence. The obvious issue here is: what happens if the rules governing such access becomes more restrictive?

In the case of the Go8 market the main issue is its extraordinary dependence on enrolments by the Chinese. Concern about this dependence is growing. For example, the Audit Office of the NSW government has warned that NSW universities have a risky reliance 'on students from a single country of origin'. This is China. Though it does not single out Go8 universities, the Office calculates that by 2017 some 54 per cent of all overseas student enrolments in NSW universities came from China, up from 45 per cent in 2016 and 39 per cent in 2015.[29]

Peter Varghese, Chancellor of the University of Queensland and former head of the Department of Foreign Affairs and Trade, wonders whether 'demand from China will hold up'.[30]

Varghese asserts that there are two threats to this dependence. One is the extraordinary investment China is making in its own university system. The other is the possibility that China, for political reasons, may choose to reduce the flow of students to Australia.[31] Simon Marginson, the former Australian specialist in higher education (now Professor of International Higher Education at Oxford University), has also voiced such concerns. He writes that the growth of Australia-China tensions had generated warnings on official Chinese websites that Australia is not safe for students. Marginson warns that 'numbers may well fall in the future'.[32]

We agree that both of the threats Varghese sites are valid, especially the second, which we elaborate on below. However, there is another threat, which Varghese and other spokespersons for the Go8 never mention. This is reputational damage flowing from the poor quality of the education provided to Chinese students (a point which is also developed below).

Access to labour-market entry and permanent residence and the viability of the non-Go8 market

The universities are well aware of the importance of subsequent access to the Australian labour market and opportunities for continued residence in Australia for the overseas students whom they attract. They spark up in protest against any proposals to tighten the rules on this access.

In particular they have fought against strict interpretation of the Skills Occupation List (SOL). As indicated above, when it was introduced in 2011 the SOL required that occupations eligible for points-tested visa selection had to be in 'national shortage'. Within a few years it became evident that there was no national shortage of accountants, IT professionals or engineers – all crucial occupations for the overseas student industry.

Yet all three occupations remain eligible for skilled visas. How could this be? Successive governments have resisted any change to the SOL largely because of pressure from the universities. Universities' concerns that their removal would be harmful for enrolment levels have prevailed.[33]

In 2016 the SOL was abolished and replaced by a Medium and Long-term Strategic Skill List (MLTSSL). Occupations on this list were eligible for a points-tested visa. But the criteria were changed to refer, not to the current labour market situation, but instead to whether there might be a *future* skill shortage in the occupation in question.[34] As of 2018, accounting, IT and engineering remain on the MLTSSL.

Nevertheless, access to the labour market and to subsequent temporary or permanent entry visas for former overseas students has narrowed. These changes mostly flowed from the Coalition government's *457 Reset* announced in April 2017. The permanent head of the Department of Homeland Affairs stated at the time that the new rules were motivated by the Department's belief that the temporary entry work visa (457) had become 'bloated out and a proxy pathway to permanent residence'.[35]

Though the new rules did not directly target overseas students they have abridged their access to a temporary work visa (457) and thus to subsequent employer sponsorship for a permanent residence visa. Thousands of former overseas students had been using this pathway each year.

Since March 2018, applicants for a temporary work visa, now called a Temporary Skill Shortage (TSS) visa, must have had two years relevant work experience in the occupation that they are being sponsored for. Most overseas students cannot meet this provision.[36] The number of TSS visas issued to former overseas students has dropped sharply as a result.

Another consequence is that, since former overseas students now have much less access to a TSS visa, their eligibility for a subsequent employer sponsored permanent residence visa has declined.

It is also much harder now for former overseas students to access permanent entry status via the points-tested skilled visa categories.

This is not a consequence of the *457 Reset* but of a contraction in the number of points-tested skilled visas issued in the last couple of years. Since 2016, the Coalition government has required the Department of Immigration to treat the annual immigration program as a ceiling rather than a target (as had been the case in the past). Officers have been instructed to assess the bona-fides of all applicants thoroughly, even if this means that the ceiling will not be reached.

The migration program level has been kept at 190,000 since 2012-13. This total includes family, skill and employer sponsored visas (but not humanitarian visas).[37] However, in 2016-17 the number of permanent residence visas issued under the general migration program was 183,608 and in 2017-18 it was 162,417. A further contraction is likely in 2018-19.

It is unlikely that the government intended to affect overseas student recruitment when it instituted these changes. But this will be a consequence of the reduction in the program's outcome. The reason is that the number of visas issued under the points-tested visas has declined, including amongst the occupations most overseas students are eligible for – notably accounting. As competition for the available places has mounted, so has the pass mark needed for selection. All applicants now need 7 or higher on the IELTS test. This makes it very tough for the relatively few former Chinese students who apply. But even the more proficient English language speakers from India are finding it hard to reach the points needed for these visas.

A striking sign of how tough access to points-tested visas is becoming is the recent contraction in the number of applications for the skilled independent category – the main points-tested visa subclass relevant to overseas students. The number of applicants slumped from 49,613 in 2016-17 to 35,107 in 2017-18.[38] The number of applicants is a key indicator of tightness of access because those aspiring for a skilled independent visa first have to establish with the Department of Immigration that have enough points to reach the likely pass mark. Only after doing so are they permitted to make a formal application.

As this news percolates through to immigration agents serving the student market in the subcontinent of India it is likely that enrolments from this source will decline.

The introduction of the *457 Reset* reflected the rise of immigration as a public issue. As indicated, the overseas student industry was not a target but rather has suffered collateral damage. There has not been any challenge to the highly generous concessions granted to overseas students once they complete their course. These include the right to stay on in Australia for at least two years after completion of a degree-level qualification. Nor has there been any contraction in the rights former overseas students now possess to apply for another temporary entry visa, such as a working holiday, tourist visa or another student visa.

This may change with greater public awareness of the extent to which many overseas students do delay their departure from Australia, and thereby contribute to the very high level of net overseas migration (NOM) in Sydney and Melbourne.

The ABS has estimated that NOM added 104,480 to the population of NSW in 2016-17 and 90,010 to the population of Victoria. It also estimated that the higher education sector alone contributed between 25 and 30 per cent of this growth of NOM in the two states.[39] Almost all of this growth occurred in Sydney and Melbourne.

Threats to Chinese enrolments

Chinese enrolments and reputational damage

What happens if the standing of the educational product is damaged?

As indicated earlier, courses with high numbers of Chinese students have had to be restructured to accommodate the limited English language capacity of most of these students – with consequent deleterious implications for the quality of the qualification they receive.

As a result, there is a yawning gap between this outcome and Go8 claims to be delivering, not just a credential from a top-100 university, but also one that is of high educational value.

Australia's universities are more vulnerable to reputational damage on this account than are their competitors in the US and the UK. This is partly because, at least within the Go8, Chinese students constitute the bulk of those taking business and commerce courses – particularly at the postgraduate-by-coursework level. There is no parallel to the domination of such courses in the US and the UK where, as a consequence, there is less need to adjust teaching and assessment practices to the English language capacities of overseas students.

Also, as noted above, a far higher percentage of overseas students in the US are enrolled in STEM courses, particularly at the post-graduate level in elite universities. This is not to say that English language skills are not an issue. But they are far less of an issue for the high level technical and mathematically-oriented research programs that these universities are renowned for.

Dependence on China and geopolitical risks

Varghese is surely right about the risk that the Chinese government may limit overseas student enrolments in Australia. We elaborate on why this is the case.

Australia is already being caught in the cross fire of geopolitical conflict between China and the US The Chinese government has signalled that it is willing to use the leverage it holds on the flow of Chinese students to Australia in this context.

Background to the China risk

Over the past few years, China has aggressively pressed its claim to hegemony over the East and South China Seas. It has openly challenged the hitherto dominant position of the US in the region. In response, the US has pushed back with its 'pivot' towards Asia, initiated in 2011.

Australia has been caught in the crossfire. As Stephen Kotkin, writing in the establishment policy journal, *Foreign Affairs*, puts it: Australia 'is a crucial pillar of the American order'. However, 'it happens to be smack in the path of China's expansion'. China, he writes, has embarked on a 'deliberate long-term campaign' to lure Australia into its orbit.[40]

It is becoming increasingly difficult for Australian political leaders to sit on the fence.

The influential ANU international strategist, Hugh White, has argued that Australia will have to make a choice. White says that the choice must be China. Australia has more at stake in appeasing the Chinese on account of its economic dependence on Chinese markets. He also believes that the Chinese will not hesitate to use whatever political leverage they have to, in effect, force Australia to comply.

White bolsters his argument by citing numerous cases where China has used its economic leverage with Pacific nations, like South Korea, to achieve its regional geo-political goals. Clive Hamilton, in his book, *Silent Invasion*,[41] makes a similar case.

This is no distant prospect. It has manifested in the Chinese response to recent actions by the Australian government to toughen the rules on foreign lobbying in Australia. Rulings that limit the engagement of state-linked Chinese companies, like the telecommunications giant Huawei in Australia's telecommunication network, have also caused annoyance. The Chinese response has been to huff and puff. In effect, Australia has been put into the diplomatic freezer – as a result of which Australian politicians and officials have, until very recently, been denied access to their Chinese counterparts.[42]

Australia's universities are highly sensitive to the possibility that they may find themselves in the firing line. Their leaders have demanded that the Australian government appease China. In January 2018 Michael Spence, Vice-Chancellor of the University of Sydney, sharply criticised the Australian government's recent legislation on foreign lobbying and its accompanying warnings about China's motives. Spence declared this to be 'Sinophobic blatherings'. Referring to Chinese student enrolments he warned that: 'Quite frankly for Australian universities to maintain their position in the world's top 100 universities, they need to [be] open to students from around the world'.[43]

This tantrum is understandable given the University of Sydney's disproportionate dependence on revenue from overseas student enrolments.

Remarkably, this and other entreaties from the university sector soon brought results. In March 2018, university leaders met with Turnbull and relevant government ministers and bureaucrats. The outcome is described in Phillip Coorey's report in the *Australian Financial Review.* The university representatives allegedly demanded that the Australian government make a strong statement attesting to the value and importance of foreign students in Australia. For his part, Turnbull accused the universities of having a 'selfish point of view' because they were so reliant on Chinese funding.[44]

Nonetheless, the universities prevailed. On July 9 2018, Malcolm Turnbull did his best to appease the Chinese government with the statement that it was a mistake to assume 'that the United States and its allies would or should seek to contain China'.[45]

This was a major concession to the Chinese, since the goal of containing China is the principal objective of US strategy in the Indo-Pacific.

Turnbull's speech shows how easily the Australian government can be brought to heel by Chinese threats. It also shows how foolish it has been to allow Australia's universities to become so dependent on Chinese student enrolments. They and the government are now hostages to the global strategies of the Chinese government.

The distortion of Australia's higher education system

Since the Dawkins reforms of the late 1980s and early 1990s Australia's universities have dominated post-school educational offerings. The focus has been on the traditional professions and on generalist arts, social and physical science courses. Vocational programs outside these fields have atrophied with the demise of the older technical colleges.

Australia now has 38 universities offering much the same curriculum. As Davis puts it, Australian universities offer 'a similar range of undergraduate programs, postgraduate education, and research. There are no specialist institutions, no engineering schools without an arts program, no public institution of scale with a discipline-specific mission'.[46]

The overseas student industry has accentuated this pattern. All universities have been financially squeezed as government revenues have lagged their rising costs. Overseas students have offered an alternative source of funding that almost all universities have pursued. As noted, overseas student fees made up 20.7 per cent of higher education operational revenues in 2016, up from 16.4 per cent just four years previously.

For universities competing in the market sector dependent on high international ratings, it has been imperative that they enhance their research effort. These ratings, as we have seen, are based on publications and citations in elite international journals. Research relevant to local industry or to Australia's social conditions does not count. Nor does any effort to develop new vocational courses relevant to local employment.

Teaching has become a distant second-order priority. As one Go8 leader put it: 'Most academics believe that they are here to do research…. They know they have to pay their taxes in order to get the chance to do their research. "Taxes" means you have to teach… Provide engagement? They don't even know what it (engagement) means.' Here, the reference is to links (engagement) with local industry.[47]

Another Go8 Vice Chancellor acknowledges that the result is an immoral and unsustainable outcome in which a large portion of university research is funded by both domestic and international fees.[48]

Meanwhile the Australian government has turbocharged the prioritisation of global knowledge over applied research. It has done this by making access to the pool of government funds allocated to research dependent on outcomes prioritised by the global university ratings.

All of Australia's 38 universities want to emulate the Go8's success, but to do so they have to participate in an arms race to improve their global rating.

In this setting concerns about the parlous state of vocational research and teaching in Australia hardly get a look in.

The Group of Eight's achievement of obtaining top 100 status in the global university rankings is impressive. The problem is that this achievement has little flow-on effect to the wider economy. Australian universities are adding to the global knowledge bank. But little of what they do is of an applied nature with any direct spin-off to local enterprises. This is hardly a new observation. However it may help to cite a few acknowledgements of the point from within Go8 leadership ranks.

One university leader admitted that: 'Research is terribly important… but research can be done in a variety of ways. And we are doing it all in the same way. Trying to climb up on rankings, that bear little resemblance to what the country needs'.[49] Another government leader and former university researcher interviewed by Lacy acknowledged that: 'Individual careers at Group of Eight institutions are based on research performance, as they should be in a research-intensive university. But the nature of that research is the classic blue skies fundamental research'.[50]

True, even if university researchers were motivated to do research relevant to industry they would face a fundamental handicap. There is not much manufacturing industry left in Australia that is internationally competitive and thus potentially interested in their expertise.

By 2015-16 Australia exported $20.8 billion of Elaborately Transformed Manufactures (a proxy for knowledge-intensive goods) and imported $190.3 billion of these products. The resulting deficit of $169.5 billion was largely covered by a net surplus of exports of primary goods, mainly minerals and fuels of $129 billion.

It will not be easy to change this situation. There will have to be much greater incentives for Australian industry to re-enter the manufacturing marketplace. If or when that happens, there will have to be similar incentives to mobilise Australia's internationally competitive basic research capacity so that it can contribute to this transformation.

Conclusion

The overseas student industry has been put on a pedestal and its continued growth given high government priority.

The reality is that the industry is too big, with too many downsides. At present, the tail is wagging the dog. Such is the importance attached to the industry's progress that the Australian government is privileging its aspiration for continued expansion. The downsides of this growth have largely been ignored.

Overseas students attending Australian universities don't just add a pinch of salt to the campus ambience, giving it a vibrant international flavour. Their presence is huge. At the extreme is the University of Sydney where, by 2016, overseas student made up 39 per cent of all commencing students. Most of these came from one country – China.

The University of Sydney was not exceptional. All Go8 universities are moving rapidly towards this scale of overseas student enrolment (Table 2, p. 8). By 2016, 26.7 per cent of all students commencing at Australian universities were overseas students.

With this enrolment growth has come a high degree of financial dependence on fee revenue from overseas students. This dependence is alarming given the precarious state of the industry and the downsides it has generated. Here is a brief summary of the most serious downsides.

Because overseas students concentrate in business and commerce courses, and to a lesser extent in IT and engineering, they often constitute a majority presence in these courses. The result has been that the curriculum, teaching and assessment practices reflect the needs and capacities of these students. As we have argued, the educational standards fall far short of university claims that it is of the highest quality.

Universities prioritise their research output over teaching, in large part because of the need to gain the high ratings to attract overseas students. As a result Australian universities have given little attention to the need to develop courses which privilege the vocational interests of their students. This is a huge issue given that universities now dominate post-school study opportunities.

Such is the scale of the overseas student industry that it is generating wider social downsides. This was flagged by the Productivity Commission (PC) in its 2016 report on the migrant intake. The PC suggested that the number of student and other temporary visas might have to be limited because of their 'indirect costs and benefits (externalities)'. The Commission noted that 'educational institutions have little incentive to consider these effects'.[51]

Since this PC report much more evidence of these 'externalities' has emerged.

We have described the impact on immigration policy of pressure from universities to keep accounting, IT and engineering occupations on the list of occupations eligible for points-tested permanent residence skill visas. This is despite the oversupply of entry-level domestic graduates in these fields.

We also documented the remarkable contribution of higher education student visa holders to the level of NOM in NSW and Victoria (which in practice means Sydney and Melbourne – since that is where the great majority of overseas students locate). By 2016-17 this contribution reached 25 to 30 per cent of the additional population attributable to NOM in these two states.

Finally, the health of the overseas student industry is of such importance to the Australian government that it has shaped its foreign policy. The Coalition government's statement in 2018 that it would not seek to contain China in its geopolitical conflict with the US in the Indo-Pacific appears to have been a direct result of university lobbying.

The overseas student industry should be removed from its pedestal, and its priorities balanced against these downsides.

References

[1] Higher Education Contribution Scheme

[2] *The Facts on University Funding*, Universities Australia, 24 April, 2017, p. 13

[3] Parliamentary Library Research, *Overseas students: immigration policy changes 1997-2015*, February 2016, pp. 5-7 https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1516/OverseasStudents

[4] Ibid., p. 8

[5] Bob Birrell, Lesleyanne Hawthorne and Sue Richardson, 'Evaluation of the General Skilled Migration Categories', Department of Immigration, March 2006, pp. 26-27

[6] Bob Birrell, 'Implications of Low-English Standards Among Overseas Students at Australian Universities', *People and Place*, vol. 14, no. 1, 2006. p. 59

[7] Bob Birrell, Lesleyanne Hawthorne and Sue Richardson, op. cit., p. 107; Bob Birrell, 2006, op. cit., p. 61

[8] *Strategic review of the Student Visa Program 2011*, Report, Australian Government, 2011, p. vii

[9] Higher Education Statistics, unpublished

[10] Minxin Pei, 2016, *China's Crony Capitalism*, Harvard

[11] Gareth Davey, Chuan De Lian & Louise Higgins, 2007, 'The University Entrance Examination System in China', *Journal of Further and Higher Education*, v. 31, no. 4, pp. 385-396

[12] 'More Chinese student set to study overseas', *China Daily*, 21 March 2017.

[13] Ibid., pp. 32-37

[14] Ian Jacobs, 24 August 2018, 'Universities – The creators of the new wealth of nations', *University World News*, August 2018, Issue no: 517

[15] Ellen Hazelkorn, 2011, *Ratings and the Reshaping of Higher Education*, Palgrave McMillan

[16] Glyn Davis, 2017, *The Australian Idea of a University*, Melbourne University Press p. 102

[17] London Economics, 2018, *The Economic Impact of Group of Eight Universities*, p. 13

[18] Go8 media release, 15 July 2016, Group of Eight ' "Priority Directions" – Time for Action not Activity'

[19] Bob Birrell, *The Coalition's 457 Visa Reset: Tougher Than You Think*, The Australian Population Research Institute, Research Report, August 2017, p. 9

[20] Ian Jacobs, op. cit.

[21] Jackson Gothe-Snape, 'Record number of international students sticking around on visas with full work rights, ABC, 27 July 2018 <https://www.abc.net.au/news/2018-07-27/temporary-graduate-visa-485-boom/10035390>

[22] Media Release, Universities Australia, 'Australia's international Student Numbers Continue to Grow', 26 May 2017

[23] National Science Foundation, *2015 Doctoral Recipients from U.S. Universities*, p. 5

[24] Tracey Bretag, 'The emperor's new clothes: yes, there is a link between English language competence and academic standards', *People and Place*, 2007, 15, 1, pp. 13-21; Kim Watty, 'Quality in accounting education and low English standards among overseas students: is there a link?, *People and Place*, 2007, 15, 1, pp. 22-29

[25] For example, Tracey Bretag, 'Australian unis should take responsibility for corrupt practices in international education', *The Conversation*, 20 April 2015; Erica Cervini, 'Teachers suspect students are cheats', *The Australian*, 9 May 2018, p. 31; Julie Hare, 'Cheating is par for the course for some students', *The Australian*, 19 April 2017, p. 27

[26] Glyn Davis, 2017, op. cit., p. 112

[27] William B. Lacy, et al., *Australian Universities at a Crossroad: Insights from Their Leaders and Implications for the Future*, Melbourne Centre for the Study of Higher Education, 2017, p. 50

[28] Bob Birrell, *Australia's Skilled Migration Program: Scarce Skills Not Required*, The Australian Population Research Institute, March 2018, pp. 12-15

[29] Ibid., p. 20

[30] Peter Varghese, Australian Universities and China. Part 1 of 2, *Pearls and Irritations*, 18 October 2018

[31] Ibid., Part 2 or 2

[32] Simon Marginson, 'Britain's loss could be our gain as Brexit takes its toll, *The Australian*, August 1, 2018, p. 33

[33] Bob Birrell and Ernest Healy, 'Immigration and Unemployment in 2014, CPUR Research Report, August 2014, Ibid., pp. 13-14

[34] Bob Birrell, *Australia's Skilled Migration Program*, op cit., pp. 5-6

[35] Bob Birrell, *The Coalition's 457 Visa Reset: Tougher Than You Think*, The Australian Population Research Institute, Research Report, August 2017, p. i
[36] Ibid.
[37] Fact sheet - Australia's Refugee and Humanitarian program <https://www.homeaffairs.gov.au/about/corporate/information/fact-sheets/60refugee#b>
[38] Department of Homeland Affairs, *2017-18 Migration Program Report*, p. 13
[39] ABS, 2018, *Net Overseas migration, Arrivals, departures and net, State/Territory, Major groupings and visas – Financial years, 2004-5 onwards*
[40] Stephen Kotkin, 'Realist World, The Players Change, but the game Remains', *Foreign Affairs*, July/August 2018, p. 14
[41] Clive Hamilton, 2018, *Silent Invasion, China's Influence in Australia*, Hardie Grant, Chapters 2 and 3
[42] Jennifer Hewett, et al., 'China puts Malcolm Turnbull's government into the deep freeze', *Financial Review,* April 11, 2018
[43] Andrew Clark, 'Sydney Uni's Michael Spence lashes government over 'Sinophobic blatherings'', *The Australian Financial Review*, January 28, 2018
[44] Phillip Coorey, 'How a meeting with the universities led to Turnbull's China reset', *The Australian Financial Review*, August 9, 2018
[45] Malcolm Turnbull, quoted in Phillip Coorey, 'PM hits reset on China', *The Australian Financial Review*, 8 August 2018, p. 1
[46] Glyn Davis, 2017, op. cit., p. 103
[47] Lacy, 2017, op. cit., p. 24
[48] Ibid.
[49] Ibid., p. 23
[50] Ibid., p. 29
[51] Productivity Commission Inquiry Report, 2016, *Migrant Intake into Australia*, p. 374