INTERNATIONAL TRADE WITH HIGHER EDUCATION SERVICES AND ECONOMIC GROWTH IN CENTRAL AND EASTERN EUROPE

Ana Mihei*

Abstract: *The higher education international market is currently in a continuous development. In this article, we have analyzed the statistical data in order to determine Central and Eastern European countries' flows of higher education. The aim was to see to which extent these countries are involved in international trade with higher education services, as well as the impact that this trade has on national economies. We have also tried to determine the conditions that would make these states benefit more due to educational flows.*

Keywords: higher education; international trade; Central and Eastern Europe.
JEL Classification: I29, N70.

INTRODUCTION

International trade with higher education services, or transnational higher education, refers to the movement of people, programs, providers, knowledge, ideas, projects, and services beyond national borders. The term is seldom used alternatively with "transnational education", "offshore education", and "education with no borders" (CVCP, 2000, p. 29).

According to GATS there are four modes in which a service can be traded. These are known as "modes of supply" and they apply to all of the twelve services sectors, education included. Table 1 presents a generic definition for each mode, applies them to higher education, and comments the relative dimension of the market.

* Alexandru Ioan Cuza University, Romania; email: ana.mihei@uaic.ro.

Table1 – Transnational higher education: modes of supply

Mode of Supply According to GATS	Explanation	Examples in Higher Education	Size /Potential of market
1.Cross Border Supply	-the provision of a service where the service crosses the border (does not require the physical movement of the consumer)	-distance education - e-learning -virtual universities	- currently a relatively small market -seen to have great potential through the use of new ICTs and especially the Internet
2.Consumption Abroad	provision of the service involving the movement of the consumer to the country of the supplier	- students who go to another country to study	-currently represents the largest share of the global market for education services
3.Commercial Presence	the service provider establishes or has presence of commercial facilities in another country in order to render service	-local branch or satellite campuses -twinning partnerships - franchising arrangements with local institutions	-growing interest and strong potential for future growth -most controversial as it appears to set international rules on foreign investment
4.Presence of Natural Persons	persons travelling to another country on a temporary basis to provide service	-professors, teachers, researchers working abroad	- -potentially a strong market given the emphasis on mobility of professionals

Source: Knight, 2002, p. 60.

Student international mobility continues to stand for the main form of transnational higher education. In 2008 there were 3.3 million international students worldwide, marking an increase of 250% compared to the 1990 level, and an increase of over 400% compared to the year 1975 (OCDE, 2010). The OECD countries host about 85% out of the world's international students, 2.8 million to be more exact; in 2007, 67% of the foreign students located in the OCDE are were coming from a third country. These proportions have remained the same for the last decade (Vincent – Lancrin, 2009, p. 65).

According to UNESCO, 11% of the mobile students in the world were coming from Central and Eastern Europe. About 1.5% of the region's students are studying abroad. Russia has the lowest rate, of 0.5%, and Macedonia the highest, of 10.9%. The outgoing students rates have also been

significant in Slovakia (10.3%), Bulgaria (8.8%), Bosnia and Herzegovina (8.7%), Moldova (7.1%), and Estonia (5%).

More than half of the region's students that go abroad for education take the road of Western Europe. Nevertheless, the percentage of students heading to the Eastern European region has grown since 1999, from 25% to 28%. Russia and the Czech Republic are the main destinations. Generally, students from Eastern Europe tend to explore different options, excepting those from Albania, Byelorussia and Slovakia, who prefer destinations such as Russia, Italy, and the Czech Republic.

In the attempt to determine to which extent international trade with higher education services has an impact on economic growth in Central and Eastern Europe, we have identified two perspectives: on the short term, and on the long term.

1. SHORT TERM PERSPECTIVE

From the short term perspective, the financial evaluation of higher education services flows is taken into consideration, as they would be reflected in a national balance of payments. We have noticed that the education sector, the higher education sector the less, does not have affected a special account, being included in *Other services.* Therefore, based on national accounting, it is practically impossible to extract a certain value of education or higher education flows.

In a study aiming to estimate the economic impact of international higher education in Canada, the national situation of the higher education export sector is highlighted (Roslyn Kunin & Associates, 2009, p. 2). In this study, the methodology for evaluating the economic impact of Canada's foreign students consisted in corroborating the tuition fees and living costs in order to determine the total amount injected into the Canadian economy. For such a calculus the following are needed: a realistic number of foreign students; a clear distinction between self-supported expenses and host state's aid; a weighted average of the tuition fees; a weighted average of living costs. These data are practically non-existent in Central and Eastern Europe. Another example for good practice in collecting such data comes from Australia. The Australian Council for Private Education and Training has published a report that set the direct contribution of international students at over fourteen billion Australian dollars (and an indirect contribution of more than 12.5 billion Australian dollars), that is the counterpart of more than 126.000 full time employees. The statistic evidence and the questioning of international visitors has given the Australian educational sector a significant advantage and could stand for an example that other countries could follow in order to comprehensively evaluate the

economic impact of the commercial transnational higher education. Institute of International Education, another Australian institution, has carried on a parallel campaign aiming at the same purpose. Their approach is more realistic, as they have excluded scholarships and other forms of financial assistance that benefited foreign students. Nonetheless, according to Roslyn Kunin & Associates (2009, p. 10), the final amount is not "accurate", because the calculus has not included tourism and leisure expenditures.

Relating to Central and Eastern European countries, which are less engaged than Australia in commercial transnational education, such a collection of data is not available. Instead, we have referred to the UNESCO Institute of Statistics data, from which we have selected information about the economic situation of the countries, the proportion of students in the countries' population having the official age for pursuing university studies, the amount of exports and imports of higher education services, asserted in numbers of mobile students.

On the basis of these data, we have made a series of comments.

First of all, the majority of the region's countries have attained mass education, with a proportion of about 50% of the people having the official age to follow university studies, actually being enrolled in universities. This figure does not yet apply to Albania, Macedonia, Moldova, and Turkey.

Second of all, the Central and East European states are developing countries (excepting the newly developed ones: Slovenia, Slovakia, and the Czech Republic), the GDP per capita weighted average being USD 16624.72, compared to the OECD average of USD 26000.

Regarding the international trade with higher education services, the most important form for this kind of trade is student mobility, as noted for the entire world. For our analysis, we have considered data dating back from 1990, up until 2010; however, we have noted that most of the countries have been active or have reported data in this sector starting with 1999, and not for all of them the information is up to date.

Albania, between 1999 and 2004, has registered modest higher education exports, the imports for the last year being 28 times more significant that exports. The main destinations have been Italy, Greece, the United States of America, Germany, and Turkey.

Belarus, in the period 1999 – 2008, has only once been a net exporter, in 1999, the imports in the following years (especially from Russia, Poland, Lithuania, Germany, and France) marking a gradual growth. As such, Belarus is a net importer of higher education.

Bulgaria has started with similar levels of higher education imports and exports in 1999. Both flows have grown, but the country has still remained a net importer even in 2004. Bulgarian students prefer destinations such as Germany, the United States of America, France, Great Britain, and Austria.

The Czech Republic attracts students from all continents, most of them from Europe, however. The percentage of foreign incoming students has grown from 2% in 1999 to 7% in 2009, this evolution being supported by a national policy for attracting international students. The Czech Republic is not appealing for students coming from Central and East European countries, their number increasing both in absolute value (from 1559 in 1999 to 24466 in 2009), as in relative value (from 34.02% in 1999 to 79.89% in 2009).

Croatia, as most countries in the region, is a net higher education importer too. Exports have fluctuated below the regional average level, and imports, although double than the exports, have also been below the average for the 1999 – 2009 period. The main destinations for Croatian students have been Austria, Italy, Germany, Slovenia, and the United States of America.

Estonia, similar to Croatia, has had fluctuations for imports and exports between 1999 and 2009, imports being significantly more important that exports. The main destinations for Estonians are Great Britain, Finland, Russia, Germany, and the United States of America.

Latvia is a country that has had a surplus for the higher education account between 1999 and 2001, due to a strong increase of exports. From 2002 until 2009, however, exports have decreased, and imports have grown. This trend has made Latvia a net importer of higher education services. Main sources of imports are Great Britain, Russia, Germany, the United States of America, and Denmark.

Lithuania occupies, in average, the fifteenth place in the region, out of nineteen, regarding both exports and imports in higher education, for the period 1999 -2009. Both flows have increased during the considered decade. Lithuanian students go to study abroad in countries such as Great Britain, Germany, Russia, Poland, and Denmark.

Macedonia imports more education than it exports, being the sixteenth importer and the nineteenth exporter in the region. Main destinations are Bulgaria, Germany, Austria, Italy, and Turkey.

Moldova is also a net importer, ranking in the lower part of the region's top, main destinations being Russia, Romania, Ukraine, France, and Italy.

Poland has also a negative balance for trade in higher education services. We note, however, several particularities: exports have continuously grown from 1999 to 2009, and imports have grown

faster until 2007, gently decreasing afterwards; commercial flows with higher education are among the most significant in the region, Poland ranking third and sixth, for imports and exports, right after Romania. Main destinations for Polish students are Germany, Great Britain, France, the United States of America, and Austria.

Romania has been a net exporter between 1999 and 2000, after which the fluctuant decrease in exports and the continuous increase in imports have made it a net importer also. In the region, however, Romania is the sixth importer in terms of volume, and the fifth exporter. As for main destinations, Romanian students got to France, Germany, Italy, the United States of America, and Hungary.

Russia is the main importer in Central and Eastern Europe. Although imports have been growing in the period 2000 – 2008, the higher level of exports and their substantial growth in 2008 has made Russia a net exporter of higher education. If foreign students originate mainly from Asia, Russian students prefer destinations such as Germany, the United States of America, Ukraine, France, and Great Britain.

Serbia is a newer actor on the international higher education arena, the data for this country covering three years: 2007, 2008, and 2009. In this period, Serbia has imported more in the first year, and has exported more in the next two. The flows have been superior to the regional average. For studies abroad, nationals go to Austria, the United States of America, Hungary, Germany, and Macedonia.

Slovakia is an important importer, ranking the sixth, the top destinations being the Czech Republic, Hungary, Austria, Great Britain, and Germany.

Slovenia is a country that is less involved in international education, being the weakest importer and one of the least important exporters. All in all, it is a net importer.

Turkey records a strong implication in international student mobility. Most students head to the United States of America, Germany, Azerbaijan, Bulgaria, and Great Britain. Turkey is also the number three destination in the region for mobile international students. Although the flows are highly important, Turkey remains a net importer for the years 1999 – 2009.

Ukraine is another significant actor in the region, being the fourth most important higher education importer.

A constant growth, though less pronounced than the Czech Republic, has had Hungary, the percentage of foreign students going from 3% in 1999 to 4% in 2009. Most of these students originate from Europe. On the other hand, exports have gone from 63.01% in 2001 down to 50.03% in 2009.

Considering all the above, the region has been a net importer of higher education beginning with 1999. Net exporters have been Belarus in 1999, Latvia between 1999 and 2002, Romania in 1999 and 2000, and Serbia in 2008 and 2009. Net exporters for the entire analyzed period have been the Czech Republic, Russia, and Hungary.

The Czech Republic and Hungary have outlined strategies to attract foreign students and to facilitate their stay in these countries. Both offer courses in English, Hungarian, and German. In this way, an essential barrier, the language, is overcome. A problem recorded in the region consists in the lack of programs in a foreign language, more accessible to foreign students.

Another issue is the recognition of diplomas. A good example is the degrees offered in the Hungarian system to medical school graduates, which are recognized by the World Health Organization and the EU.

In this context we refer to the Top 500 Universities classification, all three aforementioned countries appearing in it. The Czech Republic has four universities in top 500, Hungary two, and Russia eight. Besides these, we find one university from Estonia, four from Poland, two from Romania, and one from Slovenia. This top is becoming more of a reference point for students looking to study abroad. They are looking for better quality than in their own country or good quality but at lower prices than those of the most prestigious universities. Therefore, the Czech Republic, Hungary and Poland have a comparative advantage in Europe in terms of cost and comparative advantage in the Central and Eastern European bloc in terms of quality. Moreover, implementing a higher education export development strategy, secures the premises for success in this area.

2. LONG TERM PERSPECTIVE

Higher education importing states can integrate this flow into a long-term development strategy, providing an increased capacity in the higher education sector. In this vision, the improvement and enhancement of the human capital stock is included in the analysis of endogenous growth theories. Increasing human capital and capacity development in higher education and related areas (sectors of the economy that are in contact with the university system) is achieved by training a greater number of young people at higher international standards.

Thus, capacity development principles can be applied. But, for this mechanism to work, a number of conditions are requested.

From the perspective of student mobility, for a higher education importing country that aims at capacity development and at carrying forward the development mechanism through the involvement of human capital, it is crucial to create national conditions to attract the best brains back into the national area. Although a developing country cannot offer the exact remuneration as in the developed ones, the minimum conditions such as study recognition and employment facilities are required. Again, this would imply the existence of a specific strategic and tactical plan. In addition to capacity building strategy, at national level higher education exports can be pursued, namely attracting foreign students for studies. For this, small steps can be taken until a better development of the university system. Notably, the implementation of study programs in a foreign language, especially English, easy procedures for obtaining visas where appropriate, clear and easily accessible regulations explaining the steps to be followed for enrolling.

From the perspective of teacher mobility, a valuable import with long-term effects consists in inviting leading teachers, on topics covered less at a national level, to take part in diversifying the information transmitted in universities.

Regarding foreign universities' campuses, legislation gaps are recorded in the countries of Central and Eastern Europe, making it difficult to invest in this area. Also, the country risk is an important factor in this area and forecasts are not very favourable, especially considering the continuing effects of the recent economic crisis. A successful strategy, however, would be attracting a renowned investor and the establishment of a regional university centre. The country that would have such an approach would achieve substantial potential benefits.

CONCLUSIONS

The higher education systems in this area, due to having experienced a relatively long period in the Communist regime, have followed a path of development that has distanced itself from the systems in the developed world. After the collapse of the Soviet regime, they followed the path of transition, which involved a series of reforms and adapting to new market conditions, reforms that in practice continue today. Before 1990 little was said about transnational education, even less about the commercial form. Entering the market economy and having it easier to travel beyond borders have generated considerable imports of higher education to these countries. In fact, only three states from the region are net exporters due to the development of their education systems or geo-strategic position. An analysis of the impact of international trade on the economic development in these

countries therefore primarily aims at correlating with capacity development. Education imports, although determining capital outflows, can ensure sustainable economic development, through national strategies involving higher education.

The problem that we ran into, however, is precisely the lack of regulations and strategies for transnational higher education. The positive premises for development by enhancing capacity can be eroded by factors such as brain drain, brains that are not involved in the production process of the national area of origin and are not encouraged to stay.

REFERENCES

CVCP (Committee of Vice-Chancellors and Principals) (2000) *The Business of Borderless Education: UK Perspectives*, CVCP, London.

International Monetary Fund (IMF) (2009) *World Economic Outlook. Country Composition of WEO Groups*, http://www.imf.org/external/pubs/ft/weo/2009/01/weodata/groups.htm#ae

Knight, J. (2002), *GATS – Trade in Higher Education Services: The implications of GATS,* in *The Observatory on borderless higher education,* UNESCO, Paris, http://www.unesco.org/education/studyingabroad/highlights/global_forum/gats_he/jk_trade_he_gats_implications.pdf

OECD-CERI (2002) *Indicators on Internationalisation and Trade of Post-secondary Education,* Paris.

OECD (2004) *Quality and Recognition in Higher Education: The Cross-border Challenge*, OCDE Publishing, Paris.

OECD, *Education at a Glance 2010,*
http://www.oecd.org/document/52/0,3746,en_2649_39263238_45897844_1_1_1_1,00.html

Roslyn Kunin & Associates, Inc. (RKA, Inc.) (2009), *Economic Impact of International Education in Canada*. Final Report, Presented to: Foreign Affairs and International Trade Canada,Vancouver,
http://globalhighered.files.wordpress.com/2009/10/rka_inted_report_eng.pdf

UNESCO Institute for Statistics, United Nations Educational, Scientific and Cultural Organisation, http://stats.uis.unesco.org/unesco/TableViewer/document.aspx?ReportId=136&IF_Language=eng&BR_Topic=0

Vincent – Lancrin, S. (2004) „Building Capacity through Cross-Border Tertiary Education", *Unesco/OCDE Forum: Bridging the Divide – Building Capacity for Post-secondary Education through Cross-border Provision,* Sydney.

Vincent – Lancrin, S. (2009) *Cross – border Higher – Education: Trends and Perspectives*, in *Higher Education to 2030, Volume 2: Globalisation*, OCDE Publishing, Paris, http://cyber.law.harvard.edu/communia2010/sites/communia2010/images/OCDE_2009_Higher_Education_to_2030_Volume_2_Globalisation.pdf

***http://www.topuniversities.com/university-rankings