

Industry Insight

February 2018

International
Education



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INDUSTRY INSIGHT
Education

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Summary

This report focuses on the international education industry, which is concerned with the export of educational services to full fee paying international students studying in New Zealand as well as students studying overseas at New Zealand institutions. As the name suggests, full fee paying international students do not receive any subsidies from government, although some may receive financial assistance in the form of scholarships and bursaries.

The industry provides educational services to international students that attend public and privately funded primary, secondary and tertiary education institutions. Tertiary education encompasses all post-school learning. It includes higher education provided by a small number of universities and institutes of technology and polytechnics, as well as vocational and foundation training provided by a mix of aforesaid institutes and a much larger group of private training establishments.

The industry is big business in New Zealand – it's our 5th biggest export earner, and when multiplier effects associated with living and tuition costs are included, it is a significant contributor to the country's gross domestic product.

Two key trends stand out for this industry. The first is that the number of providers catering for full fee paying international students in New Zealand has declined steadily since the turn of the century due to the closure/merger of some primary schools as well as the de-registration of private training institutions found to be involved in a number of unethical and often illegal practices. By contrast, the number of universities and institutes of technology and polytechnics catering to international students has remained relatively constant.

The second key trend is that in direct contrast to the global experience, the number of international students enrolled at local education providers has been pretty flat for much of the last decade, only really picking up from 2013 onwards. Private training establishments were a primary beneficiary of this increase, and now account for just over half of all international student enrolments in New Zealand. A broadening range of shorter duration, cheaper courses that offer the possibility of migration and employment pathways into New Zealand are likely to have underpinned this growth. Institutes of technology and polytechnics also experienced a big increase in student numbers, presumably

for the same reasons, although this came off a low base, while schools and universities recorded comparatively low growth over the period.

The factors determining how many international students come to New Zealand are varied and complex.

Demand for international education has been underpinned by the inability of education systems to meet the aspirations of an expanding middle class in fast-growing emerging economies. At the same time, factors such as reduced transportation costs, the increased use of the internet (to access information and make comparisons) and greater global integration (evidenced in part by the internationalisation of labour markets) has contributed to making international mobility more affordable and less irreversible than in the past.

Once a student has decided to leave their home country and study overseas, where to study is heavily influenced by the quality of education that is on offer, safety considerations and the cost of studying in a foreign country. Government migration policy, which affects the ability of international students to study and possibly work in New Zealand, is also of critical importance. New Zealand does quite well on these factors. It has traditionally been seen as a low cost provider of high quality education. However, that is only part of the story. While tuition fees are often lower than those found in countries that New Zealand traditionally competes with for international students, living costs, underpinned by a very high exchange rate, have tended to be higher, effectively undermining the competitive benefits offered by lower fees.

Education providers do not really work together to market New Zealand as an education destination. Most operate as separate entities when encouraging international students to look at New Zealand as a possible place for study, with each leveraging off promotional work already done by

the Ministry of Foreign Affairs and Trade, Immigration New Zealand, Tourism New Zealand and New Zealand Trade and Enterprise.

New Zealand's education providers compete with each other by stressing the quality of education and the pastoral care that they are able to offer. In so far as the quality of education is concerned, points of differentiation include recognition of academic standing, what qualifications are on offer and possible pathways to further education and employment (usually in partnership with other education providers and/or employers). With respect to pastoral care, education providers advertise the accommodation that they are able to offer, the support services they are able to provide (ranging from financial to mental health), opportunities for social interaction with other students and extra-mural activities.

The goal for education providers is to maximise volumes. The more students that an education provider is able to enrol, the lower the marginal costs of teaching an additional student. The more the marginal cost of teaching an additional student falls below the average cost of teaching all students for a given level of revenue, the lower the unit costs of delivery and the more "profitable" education becomes. Revenues generated from fee paying international students reinforce this business model, improving operating surpluses for publicly funded producers and profits for privately funded ones.

Education providers generally do not compete on price. Educational offerings differ so markedly between education providers that it is difficult to differentiate on this basis.

Paul Clark

Industry Economist



Outlook

Demand for international education is expected to expand further as global economic power shifts from the West to the East and a rising middle-class spurs demand for and spending on educational products and services. Advances in information communication technology and growing levels of automation are expected to underpin growth rates.

This increase in demand will be evidenced by more and more students travelling from their home countries to destination countries for the purpose of gaining an education. Home countries, sometimes called source countries, refer to those from where students originate from. Destination or host countries refer to those where international education is provided.

International education is not only set to become bigger, it's also likely to become more complex, marked by increased competition between host countries and a widening distribution of international students across study destinations. Top countries providing international education today are still expected to grow their exports, but their overall shares are likely to fall. This is true for New Zealand, which may also lose market share.

Competitive threats are likely to come from three sources. The first is the desire of smaller host countries to increase their market shares. The second is the emergence of new competitors, especially non-English speaking countries who are able to offer high quality tuition in English at a lower cost than host countries that have traditionally dominated provision. The third is an expected improvement in the quality of education in the home countries from where most international students originate. Education providers in traditional host countries are likely to respond to these threats by pursuing options that allow them to tap into market segments not previously catered for.

The most important new segment will be the delivery of offshore education. This is education that is provided by an education provider in a host country to students that are located in home countries. These students often do not have the financial resources to physically travel overseas but are looking for an international education. Offshore education is typically delivered by establishing a direct

physical presence in a home country, e.g. a branch campus, or through partnerships and joint ventures with local education providers, and/or remotely using information communication technologies such as the internet.

There could also be a change in the pecking order of traditional source countries from where international students originate. Population projections suggest that the number of people within younger age cohorts in China will decline over coming years, while those in other countries, such as Saudi Arabia, Nigeria, Nepal, Pakistan, Brazil, India and Pakistan will increase. This doesn't mean that China will not remain a key source country for international students, it's just that there are likely to be others that New Zealand might wish to tap into, in part to reduce its reliance on a few key markets.

In New Zealand, public funding of education is seen as insufficient. Being able to tap into alternative revenue sources has become ever more critical for education providers seeking to provide a quality education to all its students. International students are a major source of this extra revenue. This is true for all types of providers, with the exception perhaps of those private training establishments that receive no funding from government.

A combination of low domestic funding and increased competition from offshore is likely to mean that New Zealand providers will need to work harder to attract international students. Competition in the first instance will be at a country level and this will grow as new competitors emerge. New Zealand will continue to leverage off an established reputation as a safe destination where tuition costs are low and the quality of education is amongst the best in the world. The effect of higher living costs on the competitive advantages generated from low tuition costs are expected to lessen in coming years. Our long-term forecasts suggest a further moderate weakening in the NZ\$ over the next 5 years, which should support the ability of the industry to compete for international students going forward.

Competition among education providers in New Zealand is expected to increase, albeit from a relatively low level of intensity. It will occur mostly between education providers

of the same type, although there will be some competition between providers of different types. Universities, for example will largely compete with other universities rather than, say, private teaching establishments that provide vocational courses of much shorter duration. Price will not be the key differentiator going forward. Rather, education providers in New Zealand will continue to market their ability to provide an educational experience, covering academic, environmental and social aspects.

One factor that might increase competition among education providers are changes to migration policy. Mooted changes to migration settings, which includes limiting the number of students enrolled in courses that are assessed as being low level, could affect enrolments at private training establishments. This is especially true for some of the smaller private training establishments that specialise in a particular vocations. Some may go out of business as a result.

The impact of changes to migration policy on the enrolment of international students at institutes of technology and polytechnics is likely to be much smaller. Universities may even see a lift in international student numbers if entry into New Zealand requires enrolment in higher quality courses.

Within this competitive environment, we would expect that education providers in New Zealand will increasingly look to compete by offering education packages more tailored to the needs of individual students than at present. In other words, they will shift away from providing a largely generic product/service offering. To do this they will look to leverage off the expertise of other education providers and employers, both within New Zealand and abroad, through joint ventures, alliances and accreditations. This may create more possibilities for the provision of offshore education, which, perhaps is, the international education industry's biggest opportunity for growth.

Introducing the industry

Broadly defined, the international education industry refers to the export of educational services to full fee paying international students coming into New Zealand and students studying at New Zealand institutions located offshore. As the name suggests, full fee paying international students do not receive any subsidies from government, although some may receive financial assistance in the form of scholarships and bursaries that might have been awarded to them.

New Zealand's foray into international education dates back to the Colombo Plan developed in 1950 by a group of Commonwealth countries to promote economic and social development in Asia and the Pacific region. A key aspect to the plan was the provision of tertiary education to promising students from the region. About 3,500 students came to New Zealand as part of the plan during the 1950s, 1960s and 1970s.

What this report covers

This report focuses on the provision of educational services to international students that attend primary, secondary and tertiary education institutions in New Zealand. Specifically, they include:

Primary, intermediate and secondary schools. These are publicly funded state schools and "state integrated" schools or privately funded schools. They mainly teach New Zealand students, with international students being a fee paying minority. New Zealand secondary schools work towards the National Certificate of Educational Achievement (NCEA). However, some secondary schools also offer Cambridge International Exams, International Baccalaureate or an Accelerated Christian Education programme.

Private Training Establishments (PTEs). These are private organisations that provide quick training for people wanting to enter the workplace or upgrade their skills. There are about 500 PTEs operating in New Zealand, but not all cater for international fee paying students. Some are partly funded by government, although most receive no assistance. They offer academic certificates, diplomas and degrees at various levels. Teachers are usually industry professionals and as such are able to adapt quickly to the demands of the marketplace. They offer courses in a wide range of areas, including English language tuition (see below), tourism and information technology. Many companies and government training establishments register their staff training operations as PTEs, but most do not cater for international students.

English Language Schools (ELTs). These are privately funded PTEs that provide multiple course options (running between 4 weeks and 12 months depending on level of competency) to prospective students, ranging from general English language courses to those that target use in business and academia. They typically provide a pathway to secondary school and tertiary education providers (other PTEs, ITPs and Universities), which require students to be proficient in English.

Institutes of Technology & Polytechnics (ITPs). These are government-owned institutions that take a structured, applied approach to learning, offering certificate and diploma level qualifications. They also offer limited undergraduate and postgraduate degrees as well as micro-credential courses, which closely align to the needs of industry. While they follow a similar structure to universities, they specialise in vocational training, providing teaching in industry based areas such as hospitality or the trades.

Universities. These are government funded institutions that follow research based academic methods. They offer teaching and independent research opportunities on a wide range of topics, especially at a post-graduate level. Every university in New Zealand offers degrees in the arts and humanities (including teaching), business and the sciences.

Universities and ITPs are crown entities. They are governed by councils, up to 50% of members of which are appointed by the responsible minister. They must provide annual reports to the government and are subject to various constraints on their financial management and activities that do not apply to PTEs or ELTs.

What this report doesn't cover

This report does not refer to education providers that currently have no enrolled international fee paying students. Specifically excluded are:

Industry Training Organisations (ITOs). New Zealand has 12 ITOs that have been established by specific industries, such as agriculture, building and construction, motor vehicle trades. They are responsible for setting national skill standards for their respective industries, arranging for the delivery of on and off-the-job training (including developing

training packages for employers) as well as the assessment of trainees. They also monitor the quality of training within their particular industries.

Wānanga. These are publicly owned institutions that provide tertiary education within a Māori context. Similar to universities, they offer a range of qualifications from certificates and undergraduate degrees to high level postgraduate qualifications. Although they have provided education services to full fee paying international students in the past, they have not done so for over a decade.

This report does not cover any international students that receive financial assistance from the New Zealand government. These students typically pay the same fees as domestic students and so by definition are not full fee paying. These include NZAID students, those on recognised exchange systems, foreign research based post-graduates, and international students studying for a doctorate.

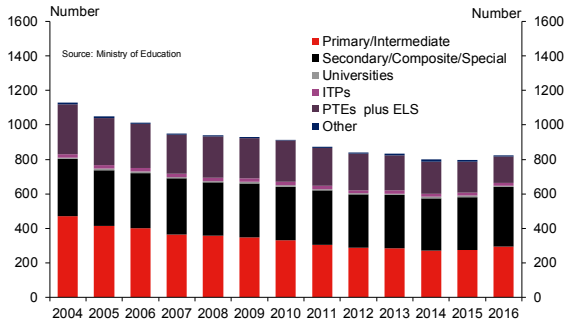
Number of education providers

The number of education providers catering for international fee paying students has trended downwards due to the closure of a number of primary schools and private training establishments.

In 2016, there were 817 education providers in New Zealand that catered to international students. Of these, 639 were schools (294 were primary or intermediate schools, 345 were high schools), 8 were universities, 16 were institutes of technology & polytechnics (ITPs), and 154 were private training establishments (PTEs). Of the PTEs, 50 were English language schools (ELSSs).

The number of education providers in New Zealand catering to international students has fallen over the past decade or so. The small reversal seen in 2016 was due to an increase in the number of schools registered to provide education services to fee paying international students.

Figure 1: International education providers in New Zealand by type



The decline in the overall number of education providers was largely due to a drop in the number of primary schools that were either closed or merged in response to declining enrolment numbers (not just of international students), concerns about their financial stability and the effects of natural events, such as the 2011 Christchurch earthquake.

The number of PTEs that cater to international students fell from 296 in 2003 to 154 in 2016. In part, this decline reflects the relatively low barriers to entry and exit that characterise this particular market segment. It also reflects the actions taken by the authorities to clamp down on unethical PTEs that had offered migration pathways into New Zealand on false pretences via low value qualifications. Key actions included the removal of accreditations and a tightening of visa conditions on students coming into New Zealand. An industry source has suggested that despite these actions, unethical practices still continue and more needs to be done to clean the sector up.

Barriers to entry are high because most schools, all ITPs and universities are crown entities. Barriers are lower for PTEs, which are not state funded (although some receive financial assistance from government). Any new provider, irrespective of whether they are privately or publicly funded must still apply to the responsible minister for permission to operate.

Number of international students

The number of full fee paying international students in New Zealand has grown strongly in recent years, led by increases in enrolments at PTEs and, to a lesser extent, ITPs. Education providers in Auckland receive by far the most international students in New Zealand.

Table 1: International student enrolment numbers - 2016

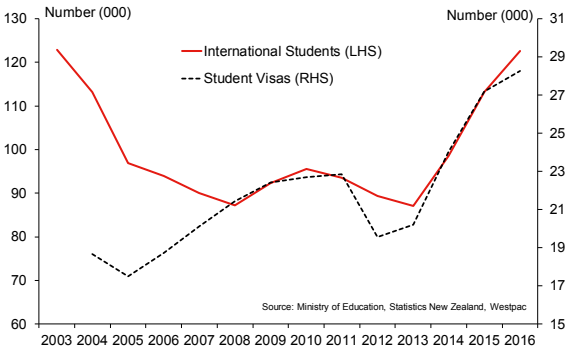
Aspect	Number
By Education Provider	122,000
PTEs	67,000
Universities	20,000
Schools	19,000
ITPs	17,000
By Region	
Auckland	81,000
Canterbury	10,000
Wellington	7,000

Source: Ministry of Education

According to the Ministry of Education, about 122,000 full fee paying international students were enrolled at education providers in New Zealand in 2016. This excludes an estimated 8,000 international students, mostly university students (a large chunk of who are studying for a PhD) that receive some form of government assistance. It also excludes another 3,500 students enrolled at education providers in New Zealand who are located offshore.

About 65%, or just under 81,000 of these were enrolled at institutions in the Auckland region. A further 9% of students were enrolled at education providers in Canterbury and 6% in Wellington. Other geographic areas of concentration include the Waikato and Otago (each accounting for about 5%) and the Bay of Plenty, where 4% of fee paying international students were located.

Figure 2: Enrolment of international students at New Zealand institutions vs approved student visas



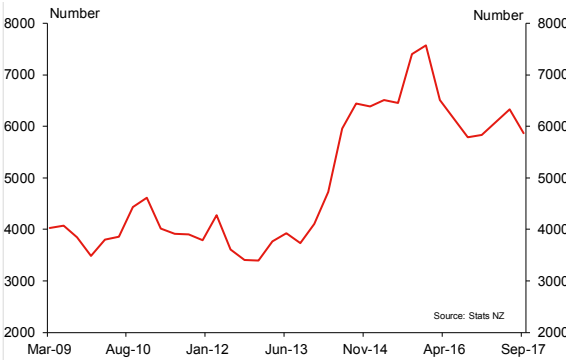
Almost 67,000 international students were enrolled with PTEs. About 25,000 of these were students at ELSS, 17,000 at PTEs that were government funded, and the remaining

25,000 at PTEs that receive no government assistance. Just over 20,000 international students were enrolled at New Zealand universities, 19,000 at schools (of which over 16,000 were at secondary schools) and 17,000 at ITPs.

The number of international students enrolled at education providers in 2016 is not much different to the number that were studying in New Zealand in 2003. From 2003 to 2013, the number of students enrolled at local education providers fell quite sharply and then went sideways, eventually bottoming out 87,000 in 2013. Since then, the total number of enrolments has grown strongly and this has been supported by an increase in the number of student visas being issued.

The number of enrolments represents the total number of international students enrolled with education providers at all years of study. New international student enrolments are closely correlated to new student arrivals into the country and the issuance of student visas. In recent years, new student arrivals from abroad have trended downwards, in part because of the closure of a number of PTEs.

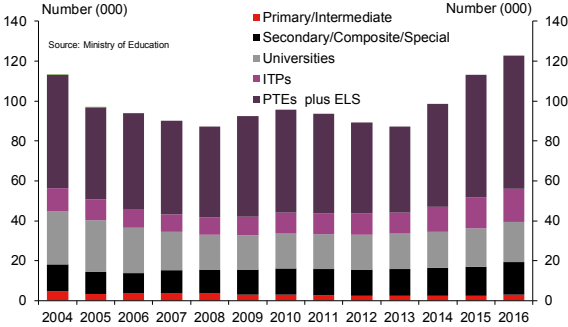
Figure 3: Student arrivals into New Zealand



The slowdown in new student arrivals is reflected in the slight easing in the growth of total enrolments during 2016. The impact of this will become more pronounced as enrolled students complete their studies.

The acceleration in the number of international students since 2013 has, to a large extent, been due to an increase in enrolment at PTEs. Despite a drop in the number of PTEs, student enrolments at PTEs rose by 52% from 2013 to 2016 – from 44,000 to almost 67,000. Key factors driving growth in enrolment numbers include the vocational nature of courses provided by PTEs, the fact that they provide a pathway to possible employment, and relatively low tuition costs.

Figure 4: Enrolment of full fee paying international students by type of education provider



The increase in enrolments at ITPs has been even more spectacular, growing by 58% over the same period, albeit from a lower base.

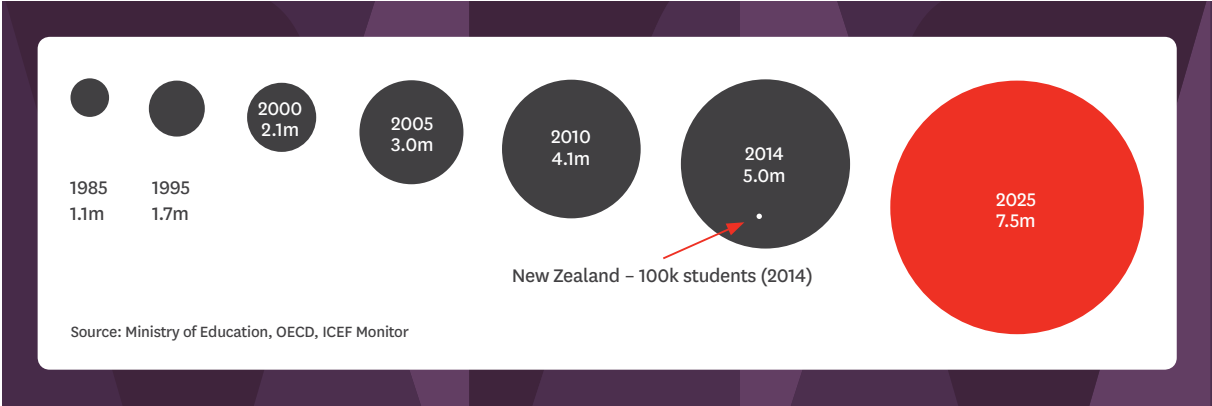
The increase in enrolments at schools and universities was less pronounced, with the number of international students growing by 22% and 14%, respectively between 2013 and 2016.

The number of international students enrolled at education providers in New Zealand depends on migration policy and conditions relevant to student visas. These conditions typically relate to the ability to work while studying.

International students by major host country

Student mobility globally has grown rapidly over the years as demand for international education has increased.

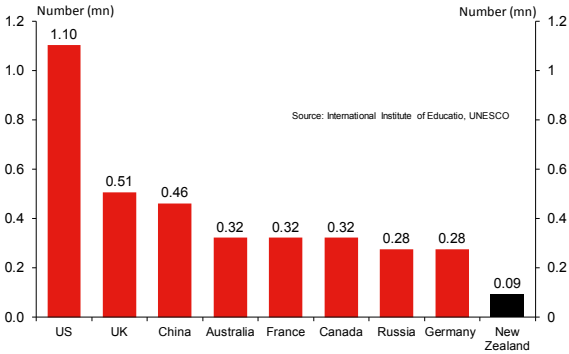
Figure 5: Global international student volumes



According to the OECD, over 5m students currently study outside of their home countries, more than double the number who did so in 2000, and almost 5 times more than those who did so in 1985. Of these, 4.5m were in enrolled in higher education. This growth has occurred within the context of an increasingly globalised world evidenced by the free movement of trade, capital and people across borders.

As the number of international students has increased, so too has the profile of international education in academic, commercial, and government circles. For many host countries that provide international education, it's not only a major export, it's also an important pillar in trade policy which underpins cross-cultural links and promotes diplomacy.

Figure 6: International students at higher education by host country



Despite recording impressive growth in recent years, New Zealand remains a minor player in the global international education sector. According to statistics from the Institute of International Education and UNESCO

it accounts for only 2% of global international student enrolments within higher education, way behind the other main English speaking destination countries (MESD) such as the US (24%), the UK (11%), Australia (7%) and Canada (7%), which are its main competitors.

It also lags other major providers of international education that are not English speaking, such as China (10%), France (7%), Germany (6%) and Russia (6%). New Zealand sits firmly in the 2nd tier of countries behind Japan (3%), but in line with countries such as Austria (2%), Spain (2%), Italy (2%) and South Africa (2%).

New Zealand has more international students per head of population than any of the countries it competes against

An industry source has suggested that although New Zealand has been successful in growing its student numbers in recent years, it is losing market share to already established competitors. It also faces threats from a number of other countries, such as Ireland and Netherlands, who traditionally have not been major players, but who are actively promoting themselves as providers of international education. Another possible threat is the rapid rise in the availability and quality of price competitive education in traditional source countries from where international students have mostly originated. This could make domestic study more attractive to locals

in these countries who might otherwise have looked for education overseas. It's also one of the key reasons why student mobility is unlikely to keep pace with demand for international education in the future.

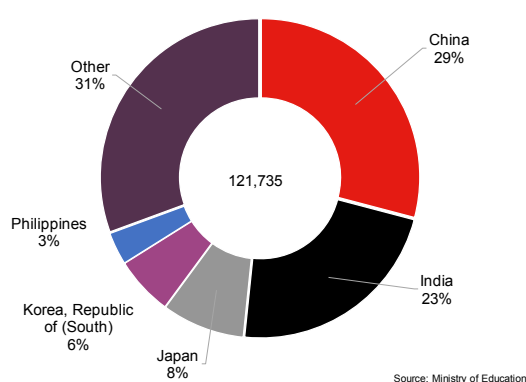
Source countries, from where most international students have historically come from, are now repositioning themselves as competitor host countries. If current trends prevail, education and research infrastructure across the whole of East Asia should be comparable to that of Western Europe within a generation.

International students by source country

International students in New Zealand primarily come from China, India and to a lesser extent, South Korea and Japan. This is not particularly unusual. China, in particular, is a major source of international students for most countries that offer international education services.

About 52% of full fee paying international students in New Zealand come from China and India. The motivations of students from these countries differ, with Indian students more likely than their Chinese counterparts to look for migration and employment opportunities in New Zealand.

Figure 7: Enrolment of full fee paying international students by source country - 2016



China is the primary source of international fee paying students in New Zealand. According to the Ministry of Education, 35,415 were enrolled at education providers in New Zealand in 2016. A further 2,631 international students from China also received some form of financial support from government to study in New Zealand.

India is the second largest source of international fee paying students, with 27,445 students enrolled at education providers in New Zealand in 2016. A further 709 international students from India received some form of financial support from government to study in New Zealand during the same year.

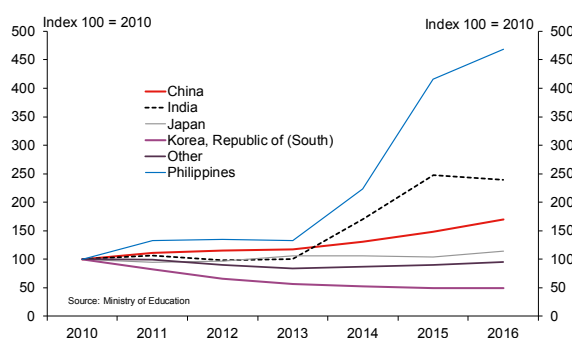
Other major source countries for international fee paying students in 2016 included Japan (10,300), South Korea (7,280), Philippines (4,030), Thailand (3,435) and Brazil (3,290).

Students from the Philippines are the fastest growing segment of full fee paying international students in New Zealand. Although only accounting for 3% of total international student numbers, growth in enrolments from the Philippines accelerated by 253% between 2013 and 2016. Most of this growth was in enrolments at PTEs and ITPs.

Even more impressive considering the relatively large number of students involved, was the 137% increase in enrolments from India. This was mainly due to a 111% increase in enrolments of Indian students at PTEs. Growth in enrolments of Indian students at ITPs rose by a whopping

160% over the period, but this came off a much lower base. The main factors driving the growth in PTE enrolment was a change in the English language requirement for Indian students, introduced in 2013. In essence, primary responsibility for testing English proficiency was given to the PTEs. This reportedly led to a sharp increase in fraudulent activity, both in India and at PTEs in New Zealand looking to make money off easy-to-exploit entry requirements. The reduction in numbers in 2016 can be attributed to the authorities closing some loopholes and re-introducing English literacy requirements.

Figure 8: Scaled growth in enrolment of full fee paying international students by source country



Despite being the largest source of full fee paying international students, China still managed to post a 44% increase in enrolment between 2013 and 2016. Growth was broad based, but strongest for universities and non-funded PTEs.

International students by education provider

There are marked differences in the type of institutions that students from different countries study at when coming to New Zealand.

International students from China reflect a relatively even split between those enrolled at universities and at PTEs. A large proportion also attend school – mostly at secondary school level – as well as ELSs. A relatively large number of Chinese students attending ELSs will go on to enrol at universities in New Zealand. Most will return home to China on completion of their studies. PTEs also offer English language courses to prepare students for further study.

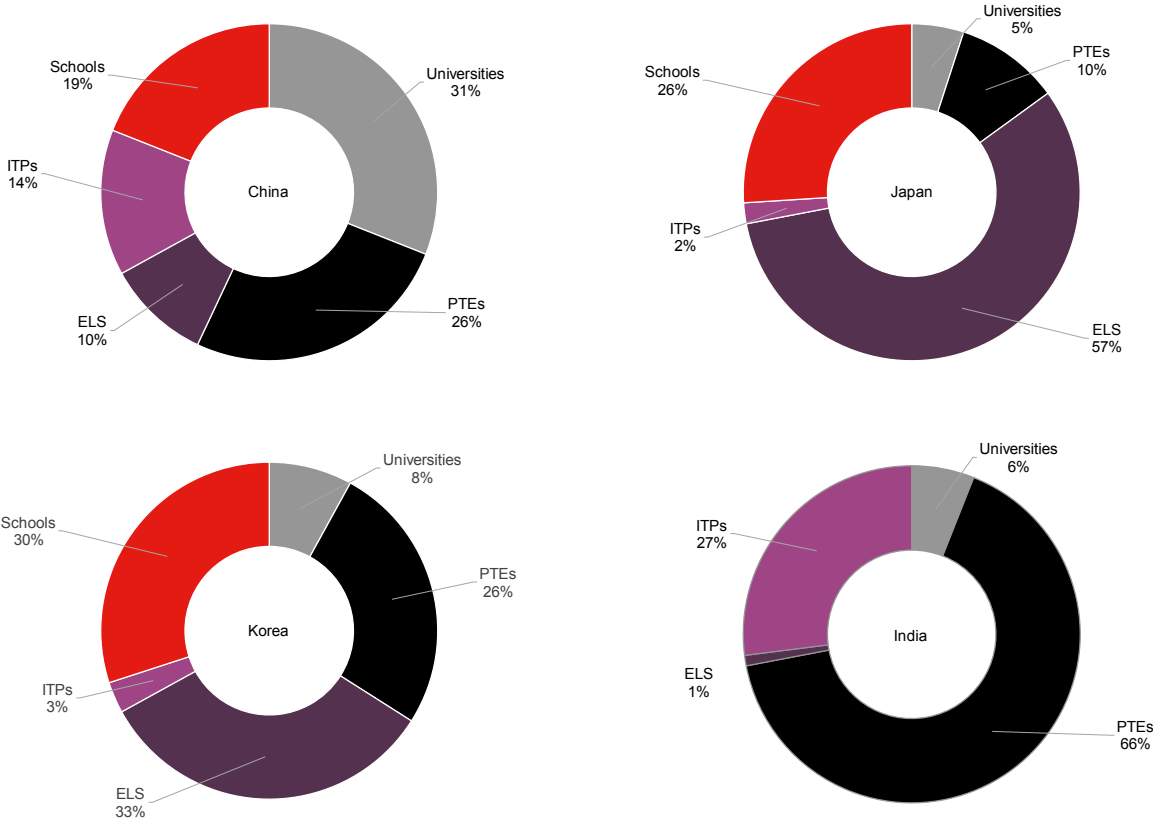
By contrast, students from India mostly study at PTEs and ITPs. Only a small number of students from India enrol at universities and because most speak English, few attend ELSs. It is widely perceived that a large number of Indians study in New Zealand with a view to gaining residency and possibly New Zealand citizenship at a later stage. According to Ministry of Education statistics, there were only 110 students from India enrolled in the New Zealand school system in 2016.

Full fee paying students from Japan study mostly at ELSs or PTEs that offer English language classes. A relatively large proportion attend school in New Zealand – mostly secondary school. Very few students from Japan enrol

at ITPs. Enrolment shares are similar for international fee paying students from Korea, although in percentage terms more are enrolled at PTEs rather than ELSs.

International students in New Zealand are more represented in short-cycle programmes than is the case for most other countries. A large number of students from East and South East Asia come to New Zealand to learn English before going on to further education.

Figure 9: Proportion of international students by source country and type of education provider



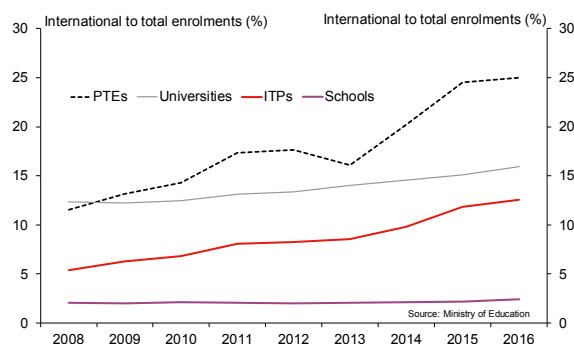
International students share of total enrolment

The number of fee paying international students as a proportion of total student enrolment in New Zealand has grown as education providers find themselves relying more and more on this income stream to fund infrastructure for all students.

According to the Ministry of Education, the proportion of full fee paying international students to total enrolment across all education providers rose from 5% in 2008 to 8% in 2016.

The number of full fee paying international students to total enrolment at ITPs rose from 5% in 2008 to 12% in 2016, while for PTEs, penetration rates rose from 9% to 14%. In part, this reflects the growth in number of international students at these institutions. However, it also reflects a fall in overall enrolment levels. Between 2008 and 2016, the total number of students (both international and domestic) enrolled at PTEs fell from 468,000 to 422,000 and at ITPs from about 190,000 to 146,000.

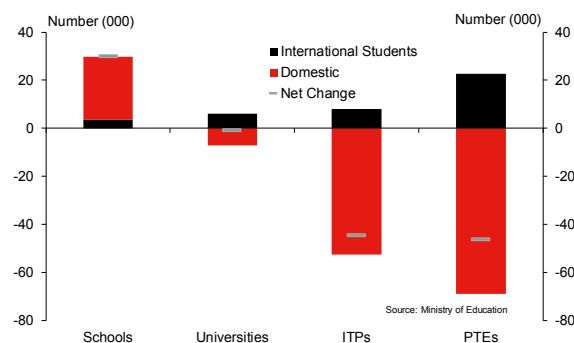
Figure 10: Enrolment of international students to total enrolment by type of education provider



Not surprisingly, the average number of international students attending each ITP and PTE grew significantly between 2008 and 2016. For the 16 ITPs currently in operation, the average number of international students more than doubled from 438 to 1,041. For PTEs, the average depends on whether the provider is privately or publicly funded. For privately funded PTEs, the average number of international students rose from 265 to 665 over the period. For government funded PTEs, the average number of international students rose from 92 and 190.

Although less pronounced, universities also experienced a fall in total enrolment between 2008 and 2016. According to the Ministry of Education, total enrolment at New Zealand's universities slipped from 175,000 to 174,000 between 2008 and 2016, with international students all but offsetting an 8,000 drop in domestic student numbers. The net result was an increase in the proportion of full fee paying international students at New Zealand universities, from 12% in 2008 to 16% in 2016 and an increase in the average number of international students from 2,155 to 2,528 over the same period.

Figure 11: Net change in enrolment by type of education provider between 2008 and 2016



The experience of schools has been a little different. Total enrolment at schools has grown sharply since 2008, mainly because of a big pickup in domestic enrolment (a function of stronger net migration), supplemented by some modest gains in international students at the secondary school level. As a result, the proportion of international students to total enrolment at schools has remained relatively constant at about 2% although there has been a modest increase in the average number attending secondary school, from 40 in 2008 to 47 in 2016. The average number of international students at primary schools has remained constant at 10 over the same period.

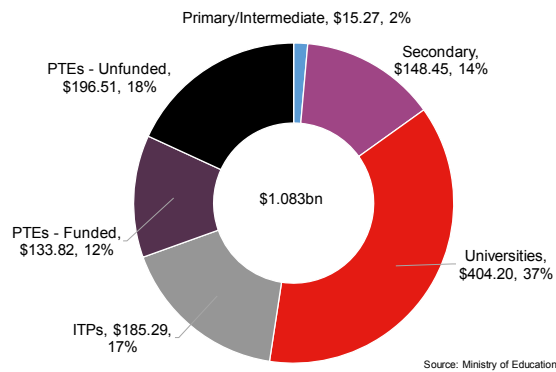
The International Institute of Education estimates that in 2016 international students accounted for over 16% of total enrolment in higher education in New Zealand, third only to Australia (23.8%) and the UK (21.1%). International students are also estimated to account for more than 30% of enrolments in advanced research courses in New Zealand. However, most of these are not full-fee paying students.

Tuition fees generated from international fee paying students

Tuition fees have grown as student numbers have increased. However, the pattern of growth differs depending on the type of education provider.

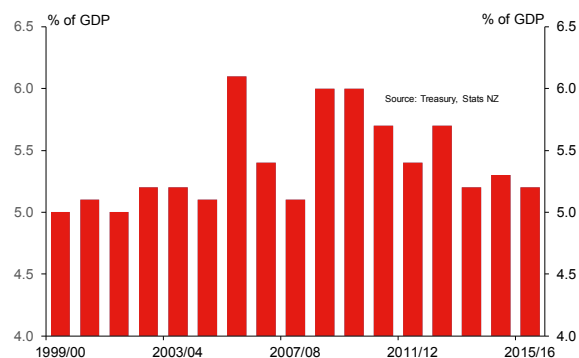
Tuition fees generated from fee paying international students totalled just under \$1.1bn in 2016 or about 10% of total income received by the education sector as a whole. Universities accounted for 37% of this total. Unfunded PTEs generated about half as much as the universities, followed closely by ITPs, secondary schools and funded PTEs. Tuition fees generated by primary schools were comparatively low, largely reflecting the relatively small number of children from abroad attending these schools.

Figure 12: Tuition fees by type of education provider - 2016



An industry source has suggested that the education sector is becoming increasingly dependent on revenues generated from international students. The income earned from international students enables education providers to deliver a high level quality learning experience to all students (both domestic and international).

Figure 13: Public expenditure on education expressed as a percentage of GDP

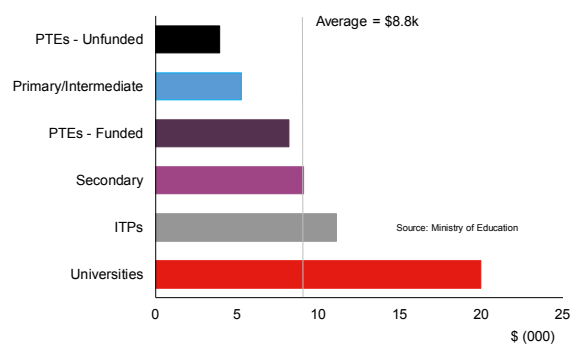


Public funding of education is seen as insufficient. Expressed as percentage of GDP, it has trended down

since the global financial crisis in 2009 (although it remains slightly higher than what is was at the turn of the century). University sources have suggested that this is one of the reasons why they are struggling to maintain their relatively high global rankings at a time when Asian universities are moving up the rankings relative to Australasian universities.

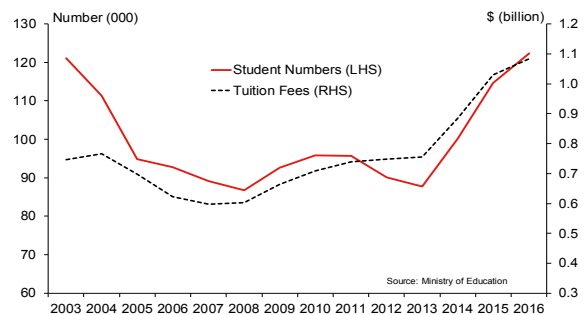
The average tuition fee per international student across all education providers in 2016 was \$8,857.

Figure 14: Average tuition fees by type of education provider



The average tuition fee per international student at university (excluding those undertaking doctorates) was NZ\$19,985 in 2016. This is significantly higher than the average tuition fee generated per international student at ITPs (NZ\$11,125) and at secondary schools (NZ\$9,093). The average tuition fee per international student at government funded PTEs (NZ\$8,182) were higher than those at privately funded PTEs (NZ\$3,955). Tuition fees from international students at primary school averaged \$5,257 over the period.

Figure 15: Revenues from tuition fees vs student enrolments



Not surprisingly, revenues from tuition fees have generally moved in line with enrolment numbers.

Revenues generated from tuition fees show an improving trend across all education providers. ITPs grew their revenues from tuition fees by 86% between 2013 and 2016, followed by unfunded PTEs, which saw a 71% increase in revenues. Although off a low base, primary school revenues from tuition fees rose by 47% while revenues for government funded PTEs increased by 44% over the period. Secondary school revenues increased by 33% while revenues from tuition fees at universities rose 24%.

Patterns in revenue growth vary greatly over time. Tuition fees generated by universities, secondary and primary schools have gradually increased over time, much in line with patterns of enrolment. By contrast, ITPs and PTEs (funded and unfunded) have been far more volatile.

The contribution made by universities to total tuition fees has shown a declining trend since 2006, while that of ITPs and PTEs – both funded and unfunded – has generally increased. This reflects the large increases in international students enrolled at these institutions referred to earlier. The contribution made by secondary schools to total revenues has also trended downwards, while that for primary schools has effectively flat-lined.

Educators support having international students at their institutions. In addition to generating income, international students are seen as promoting greater cultural awareness among domestic students, promoting racial tolerance, and broadening personal and professional networks. International students, as part of their alumni, also become lifetime ambassadors for the New Zealand education brand and their previous education provider, which could have significant long-term benefits for the country.

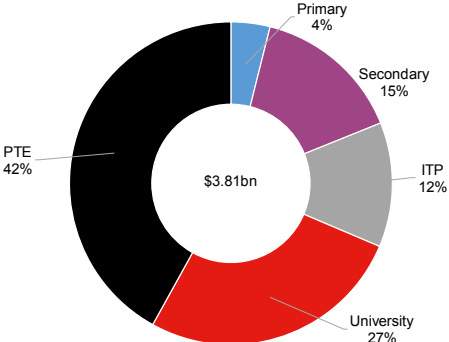
Importance of the industry to the economy

The international education industry is a significant export earner within the services sector.

According to Stats NZ, expenditure by international students in New Zealand, which includes tuition fees and living expenses, increased from \$3.48bn to \$3.65bn for the year ending June 2017. Education travel services are now New Zealand's 5th largest export earner, contributing 5.1% to total exports. By way of comparison, exports of logs, wood and wood articles amounted to \$4.2bn (or 5.9% of total exports).

Education New Zealand estimated that the contribution of the international education industry to the economy was between \$4.0bn and \$4.2bn in 2016, up from \$2.5bn in 2009. These estimates were based on direct spending by students on tuition and other goods and services produced domestically, the upstream effects of this spending on suppliers, and any downstream consumption effects that occur because of it. However, they exclude the offshore delivery of education services and products, which amounted to about \$242m in 2015/16.

Figure 16: Export earnings by type of education provider - 2016

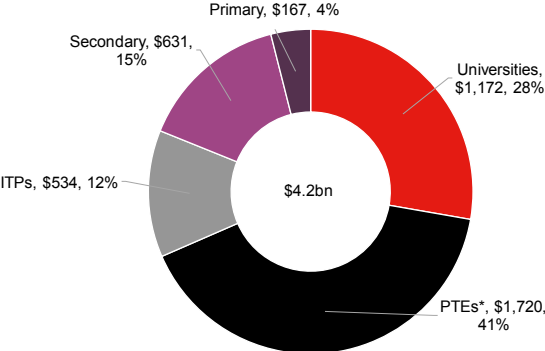


Source: Infometrics - report "The Economic Impact of International Education in New Zealand in 2015/16"

This is slightly lower than other estimates of export earnings. A 2016 report by Infometrics¹ estimated that education travel services were worth about \$3.8bn for the year ending June 2016. Of this, unfunded and funded PTEs contributed \$1.6bn, universities about \$1.0bn, followed by secondary schools (\$0.57bn), ITPs (\$0.48bn) and schools (\$0.15bn).

The industry seems to be well on track to achieve a \$5bn contribution to the economy by 2025. This excludes a targeted \$500m from 10,000 students located offshore.

Figure 17: Contributions to the New Zealand economy - 2016



* includes English Language Schools, which contributed \$643m to the economy

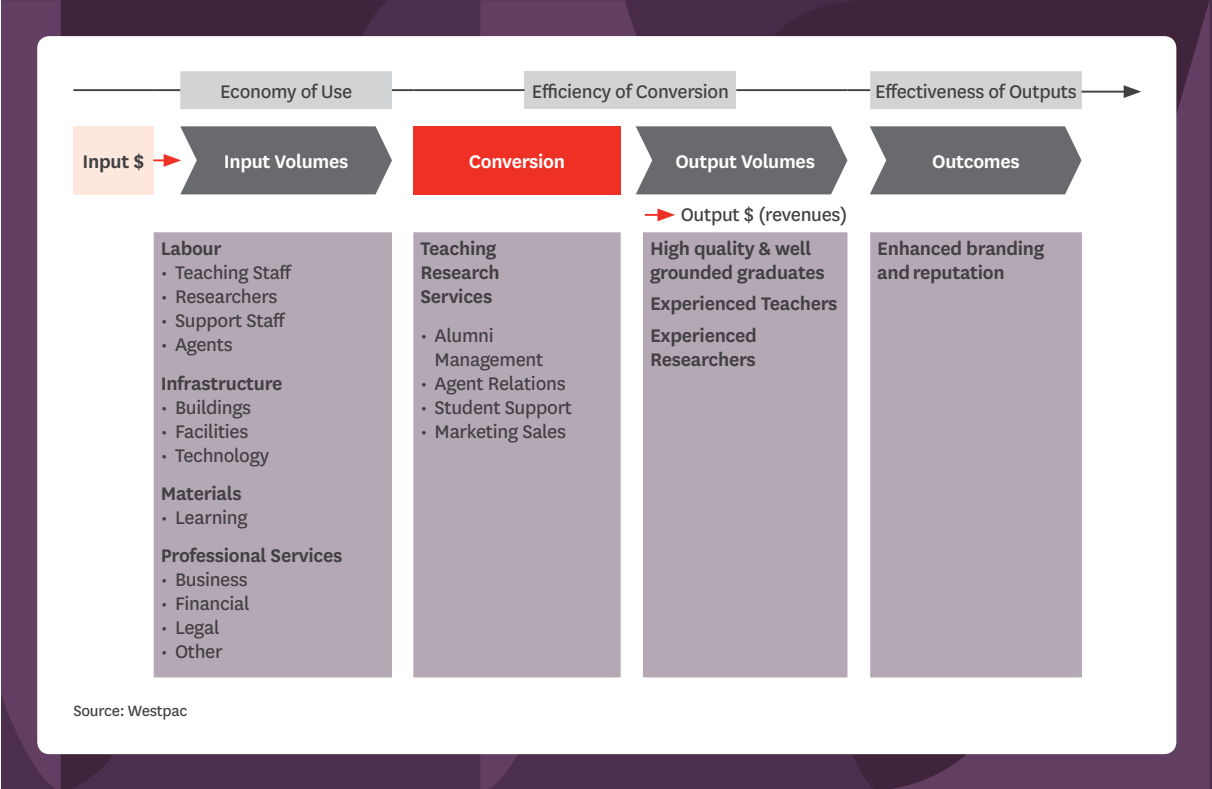
Source: Education New Zealand - Dashboard "New Zealand International Student Enrolments - 2016 Full Year"

¹ Infometrics Report titled "The Economic Impact of International Education in New Zealand 2015/16" was published in October 2016.

Service value chain model

A value chain describes the range of activities which are required to bring a product or service from conception, through the intermediary phases of production, and delivery to final consumers and disposal after use. The value chain below, which also includes aspects of a value-for money framework, applies equally to international and domestic students.

Figure 18: Adapted value chain model for the education sector



For the education sector, value chain activities are initiated through the use of funds (government funding, tuition fees – both domestic and international, income from research and other forms of income such as interest and dividends) to acquire the resources needed to deliver an education to students. These resources are then used to produce outputs, which for education providers are high quality, well-grounded graduates that have the necessary attributes that will make them valuable to employers. Ultimately by delivering these outputs, education providers seek an improved reputation, which is an essential requirement for attracting new students as well as retaining existing ones.

Figure 19 (overleaf) attempts to summarise the value of inputs and outputs produced by the education industry using basic price data from Stats NZ 2013 Input-Output tables. Because they are expressed in basic price terms they exclude taxes payable, any subsidies received and transport charges invoiced separately by suppliers. It is not possible to provide a detailed breakdown just for international fee paying students.

The inputs used by the education sector can be categorised either as materials, labour or services:

Services are provided by a large number of firms and organisations who generally do not have excessive pricing power over the sector. In total, they cost education providers about \$3.6bn per year (expressed in basic prices as at March 2013). Of this, business services cost almost \$400m per year. About half of this was management consultancy fees, with almost \$172m incurred by tertiary education providers. Other significant business services expenses include advertising and marketing (\$66m), accounting and taxation (\$55m) and commercial and residential property services (\$43m).

Materials are used by education providers to produce outputs. Non-residential buildings are the largest cost component. In total they cost the education sector \$252m, of which \$182m was used by the tertiary education industry. The other large cost item was machinery & equipment purchased by tertiary education providers, \$74m of which

was special purpose machinery. Other relatively large outlays include computers (\$56m), and games, toys and sportswear (\$78m, almost all purchased by schools),

Labour relates primarily to teaching staff, but also includes researchers and support staff. According to the Treasury, about \$3.8bn was allocated within the 2017/18 budget for primary and secondary school teacher salaries. The Tertiary Education Commission reported that total labour costs at New Zealand’s universities amounted to about

\$2.0bn in 2015, while those of ITPs were in the region of \$1bn. There are no estimate available for PTEs.

There are about 143,000 jobs in the education sector – about 97,000 of these are in the school sector. There are just under 55,000 teachers (translating into 50,000 full time equivalents) at state and state integrated schools. Universities also employ more than 27,000 active researchers – 73% of all of staff employed in research & development in New Zealand.

Figure 19: Simplified value chain mapping of the education sector

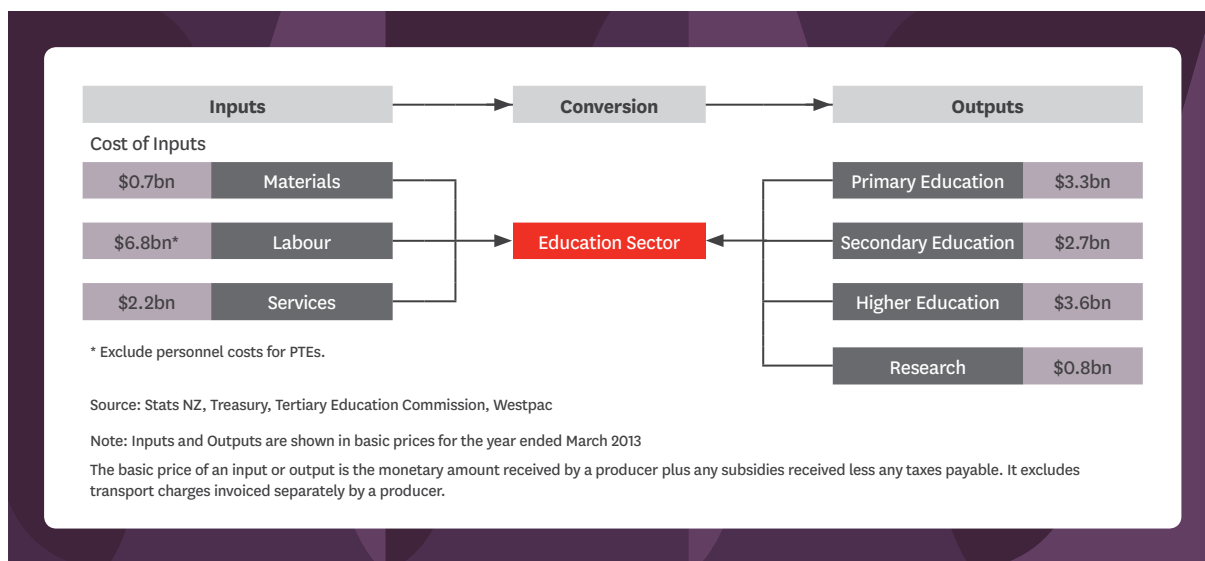


Figure 20: Breakdown of services provided to the education sector

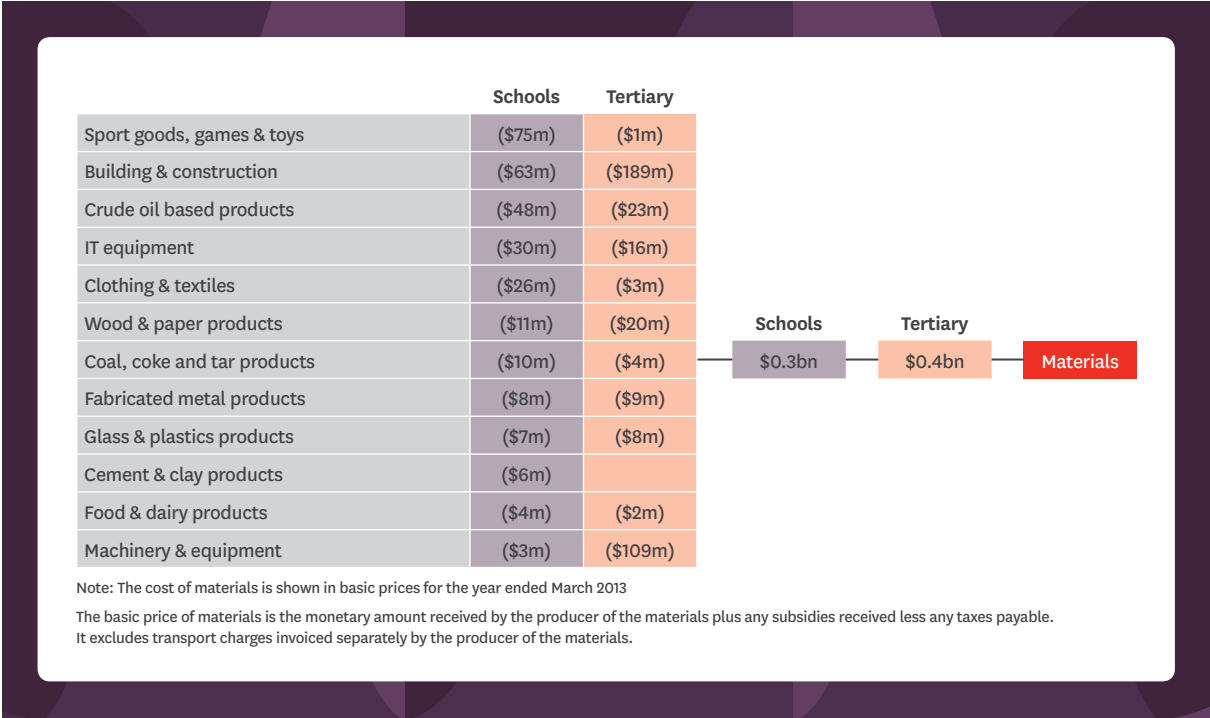
	Schools	Tertiary
Business services	(\$153m)	(\$245m)
Cleaning & other support services	(\$148m)	(\$117m)
Sport & recreation services	(\$134m)	
Education services	(\$107m)	(\$116m)
Information, media and telecom services	(\$98m)	(\$127m)
Machinery & equipment maintenance	(\$94m)	(\$86m)
Utilities	(\$83m)	(\$102m)
Transport, postal & warehousing services	(\$72m)	(\$71m)
Trade, food & accommodation services	(\$67m)	(\$59m)
Financial & Insurance services	(\$61m)	(\$53m)
Government administration services	(\$48m)	(\$19m)
Property services	(\$31m)	(\$27m)
Other support services	(\$25m)	(\$55m)
Social services	(\$16m)	(\$1m)

Schools \$1.1bn **Tertiary** \$1.1bn **Services**

Note: The cost services is shown in basic prices for the year ended March 2013

The basic price of a service is the monetary amount received by the service provider plus any subsidies received less any taxes payable. It excludes transport charges invoiced separately by the service provider.

Figure 21: Breakdown of materials provided to the education sector



Legislative and Regulatory Environment

The following pieces of legislation and regulation are relevant to the international education industry.

Education Act 1989

The Education Act 1989 (the Act) establishes the legal and governance frameworks for New Zealand's education system, from early childhood education to compulsory schooling to international and tertiary education. As such, it sets out the parameters for the establishment and activities of all education providers in New Zealand, both private and government funded, including teacher registration.

For education providers that have enrolled international students, the Act allows for the imposition of an export education levy set at 0.45% of total tuition fees (excluding GST). This generated just over \$5m in 2016. The levy is used to support a broad range of marketing and related activities. Industry sources had differing opinions on the level of support provided to them when recruiting offshore for students.

Education (Pastoral Care of International Students) Code of Practice 2016

Education providers in New Zealand that enrol international students (of any age) must be approved signatories to the Education (Pastoral Care of International Students) Code of Practice 2016. New Zealand was the first country in the world to introduce a Code of Practice and only Australia offers anything similar. In 2014/15, 1,096 education providers in New Zealand had already signed up to the Code, although just 814 had actually enrolled international fee-paying students.

The Code of Practice seeks to ensure the safety and wellbeing of international students studying and living in New Zealand. It requires that prospective students have a full and realistic picture of what they are getting into and that they have a clear understanding of what their obligations are as well as those of their education providers and recruiting agents. Under the Code, education providers are required to have robust processes in place to resolve any grievances international students may have.

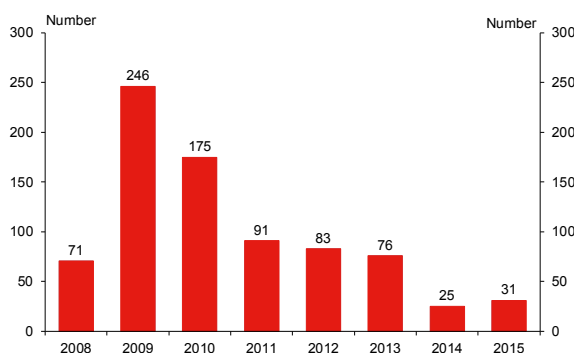
The government is looking to review the performance of offshore recruiting agents. This could result in a code of practice for agents (and education providers that engage them) to protect students from illegal and unethical practices.

International Student Contract Dispute Scheme Rules

The International Student Contract Dispute Resolution Scheme (DRS) replaced the International Education Appeal Authority (IEAA) and Review Panel on 1 July 2016. The objective of the DRS is to resolve contractual and financial disputes between international students and education providers.

The DRS rules specify how an international student may initiate a dispute against an education provider, the range of possibilities once initiated, and approaches to dispute resolution. It provides a faster and more effective process than the IEAA and Review Panel for students to resolve contractual and financial disputes. The number of complaints received by the IEAA shows a marked drop since 2009. Most of these concerned PTEs – in 2015 PTEs accounted for 23 of the 31 complaints lodged.

Figure 22: Complaints to lodged with the International Education Appeal Authority



Under the DRS, a contractual or financial dispute is acted upon by FairWay Resolutions Limited, appointed by the Minister for Tertiary Education, Skills and Employment to administer and operate the scheme. Students may make a verbal or written DRS claim, free of charge to Fairway Resolutions. The remedies from DRS are payment of up to \$200,000, remedial actions ordered, non-monetary redress and cessation of conduct. Alternatively students can take their dispute to tribunals or courts, which will charge a fee, and may take longer.

Other legislation

The Education (Tertiary Education and Other Matters) Amendment Bill, which passed its first reading in May 2017, proposes to adjust the Education Act 1989 to enable a plan-based funding system. The goals of the Bill are to increase the flexibility of funding for tertiary institutions, strengthen

monitoring and compliance, ensure consistent treatment of public and private tertiary education providers and broaden student protection arrangements. By so doing, the Bill aims to provide a greater choice of educational offerings to prospective students.

Under this amendment, PTEs could be funded on the same basis as public tertiary institutions for directly comparable programmes or activities. ITPs and universities have raised concerns about this possibility, suggesting the public funds could be diverted to PTEs of dubious quality. This may be so, but the Bill does include provisions for monitoring non-financial and financial performance as well as ensuring compliance with legislation.

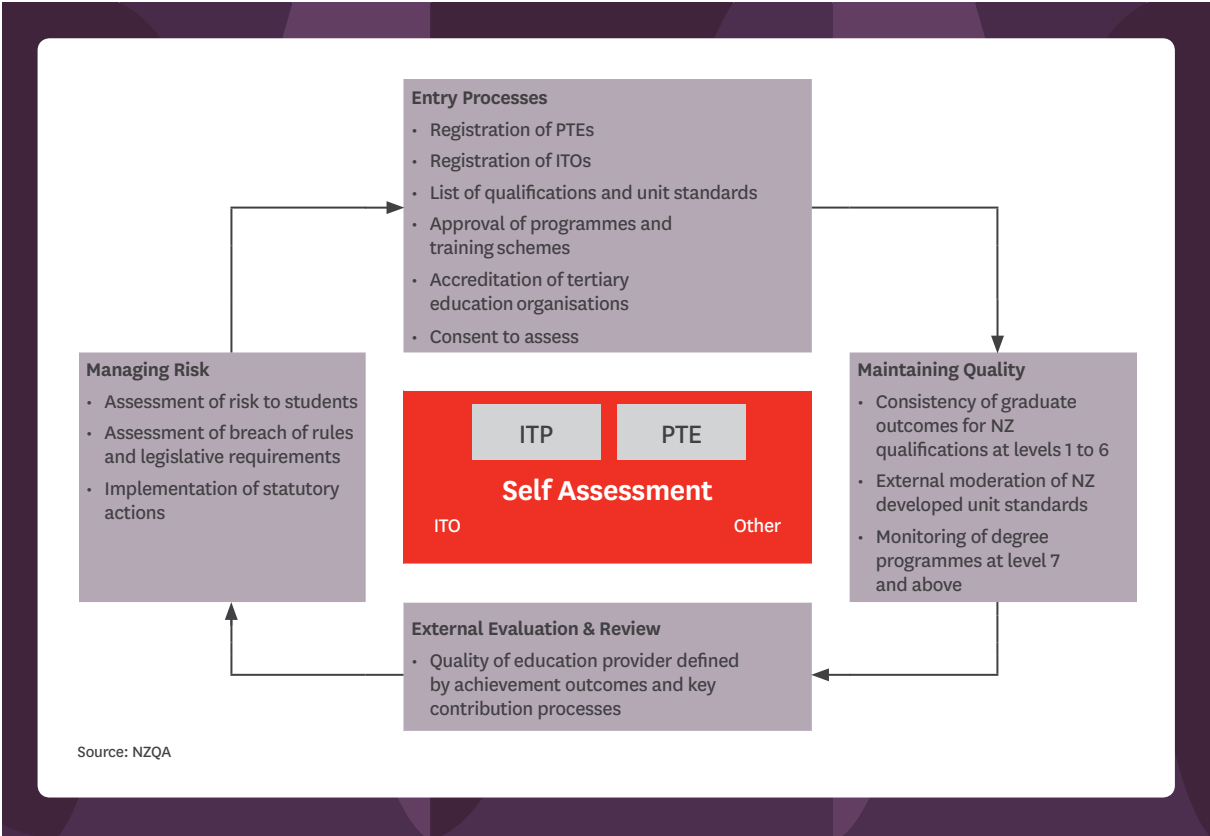
Institutions

Policies for the regulation and guidance of the education system as well as funding arrangements are set by central government, but administered by various agencies. Administrative authority is devolved to education providers, which for the most part, are governed by boards or councils.

Key government agencies are the Ministry of Education, which is central government’s lead advisor on the New Zealand education system, and the Tertiary Education Commission which is responsible for funding, monitoring and reporting on the performance (financial and non-financial) of tertiary education. Education New Zealand (ENZ) is the government agency tasked with increasing awareness of New Zealand as a study destination internationally. The Schools International Education Business Association is tasked with encouraging greater collaboration and stronger representation for international education in New Zealand schools.

Quality assurance at schools is provided by the Education Review Office while the New Zealand Qualification Authority (NZQA) ensures that secondary school and non-university tertiary qualifications in New Zealand are credible and robust. Similarly, Universities NZ assures the quality of academic programmes at New Zealand’s universities (through the Universities NZ Committee on University Academic Programmes (CUAP) and the Academic Quality Agency for New Zealand Universities), while English New Zealand provides an quality assurance function to ELSs that are voluntary members.

Figure 23: NZQA's quality assurance system for non-university tertiary education providers



Factors that drive demand for international education

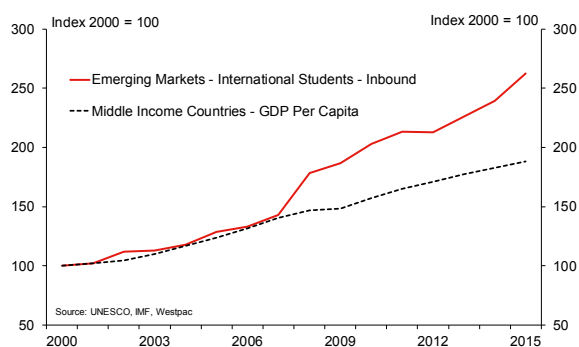
While macro-drivers explain overall patterns, demand for international education is ultimately a function of the micro-level decisions made by individual students and/or parents.

Macro-drivers

Demand for international education has largely been driven by the inability of local education systems to keep pace with the increasing skill requirements of knowledge-based and innovation-driven economies.

As wealth in these economies have increased, so too have the career aspirations of the growing middle classes, better positioned to take advantage of educational opportunities abroad.

Figure 24: International student mobility vs Income levels

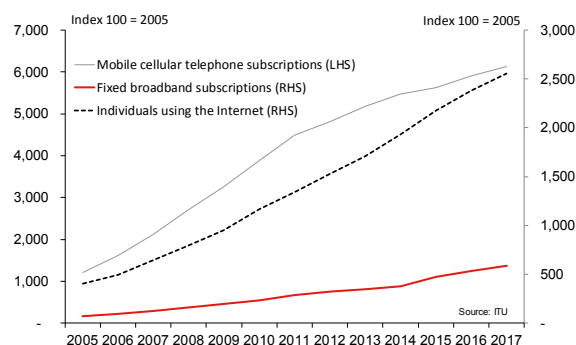


Rising incomes in Asia have produced a ready source of potential students to our part of the world.

At the same time, reducing transportation costs, the proliferation of information and communication technologies (to access information and make comparisons), and increasing global integration, have contributed to making international mobility more affordable and less irreversible than in the past.

That said there are also some risks to growth. The size of younger age cohorts across East and South Asia has declined and is expected to continue to do so. China, for example, is experiencing significant population ageing with notable declines in younger age cohorts forecasted for the next 10 years. India too, is expected to experience declines, although these are forecast to be less extreme.

Figure 25: Access to information and communications technology in developing countries



Micro-drivers

At a micro-level, demand for international education is driven by decisions made by individual students on whether to study abroad and where to study. Ultimately students or parents/caregivers of those of school going age are looking for a good educational experience, covering academic, cultural and social aspects, which will enhance their employability and help them achieve career goals.

Migration and employment are still key drivers of student mobility but lifelong learning is also an emerging trend.

Whether to study abroad?

The quality of home country education is the key factor that drives demand for study abroad. Students and/or their caregivers are more interested in going overseas for their education when there are significant concerns about either the quality of or access to a particular field of study in their home country. The importance of a desired course or field of study being available is reflected in the way students research different international study options on the internet. The vast majority of students do not have a particular institution in mind when they begin their search process. Rather, they search based on course type or subject area, often in combination with a potential host country.

What host country to select?

There are a number of factors that determine the choice of host country. Primary considerations include the openness of the host country to international students, the reputation of its education system, the standard of living it might offer and the quality of life that is possible. Other factors that weigh heavily include its social-economic status, its cultural characteristics, whether or not it is English speaking and its proximity to the source country.

With respect to openness, the host country's policy on entry for the purposes of study is paramount. Other considerations include the potential to earn an income when studying and possible employment opportunities once study has been completed.

In terms of the reputation of a host country's education system, the quality of its institutions as well as its teaching and research capabilities are key factors influencing decision making. English, as the medium of tuition, is highly prized.

Another key element is the standard of living on offer and associated costs. From the perspective of an international student, a stronger exchange rate in favour of the host country increases the cost of living there.

With respect to quality of life, personal safety and security are at the top of the list. A welcoming and open attitude to foreigners in general and students in particular is important, as is the existence of a diaspora from the student's home country, both of which increase the chances of fitting in. An already established presence of family or friends also helps in this regard. Lifestyle considerations have a part to play, as do other factors relating to the physical environment, including the climate.

Having easy access to information on these factors is critical when making this decision. Referrals from parents, relatives, friends and recruitment agents are also important. An industry source has suggested that as much as 30% to 40% of enrolments at their institution could be attributed to word-of-mouth recommendations, supported in large measure by social media and endorsements from alumni.

Aspects of each of these factors are captured in Table 2, which summarises the results of a survey undertaken by Hobsons in 2017. The table identifies the most important factors influencing the choice of a country. It shows the relative importance respondents to the survey attach to each factor rated on a 1 to 5 scale (where 1 is the most important) in percentage terms. Although Table 2 summarises the perceptions of university students, it clear from discussions with industry sources that most of the factors listed above would apply to other education providers.

The table shows that when students are choosing a country to settle in, quality of life considerations (rating 2, 4, and 6), the quality of education (1, 5, and 8) and having the necessary entry permits into New Zealand (3) are the most important factors they consider. Cost of living considerations (7, 9, 11), which relate to the affordability of living in New Zealand, are important, but not as much as those that relate to the quality of education.

At first glance, New Zealand seems to do quite well on these factors.

The country is open to international students. A student visa (or a limited visa granted for the purpose of study) is required for all people coming to New Zealand to study for more than three months. At present, most students are able to work for up to 20 hours a week while they study in New Zealand, but conditions do apply.

However, moves are afoot to tighten up on student visas, with restrictions likely to be placed on international students attending low value courses in New Zealand. Industry sources have suggested that any tightening of migration sends a message that New Zealand is no longer a migration friendly country. It may also have indirect effects. For example, it may dissuade potential students from embarking on postgraduate study in New Zealand, especially if the weighting given to that level of study when considering migration applications is lowered.

Table 2: Factors important when choosing a country

Rating	Survey Statement	Rating of Importance				
		1	2	3	4	5
1	High quality teaching	25.8%	22.0%	19.6%	17.9%	14.8%
2	Welcoming to international students	23.1%	20.1%	19.8%	19.3%	17.8%
3	Visa to study is possible	21.5%	21.1%	19.7%	18.9%	18.9%
4	Friend or family live there	20.3%	17.4%	17.6%	19.6%	25.1%
5	Rated educational institutions	19.8%	20.6%	20.2%	20.1%	19.3%
6	Appealing lifestyle	19.6%	17.9%	18.3%	20.2%	24.1%
7	Cost of living	19.5%	20.7%	20.8%	20.2%	18.7%
8	Good reputation as a place to study	18.5%	20.8%	21.2%	19.9%	19.6%
9	Visa to work after graduating	17.1%	19.7%	19.6%	20.8%	22.8%
10	Recommendations from others	14.8%	15.5%	17.1%	20.6%	32.1%
11	Good graduate employment options	12.4%	17.4%	20.1%	23.7%	26.4%

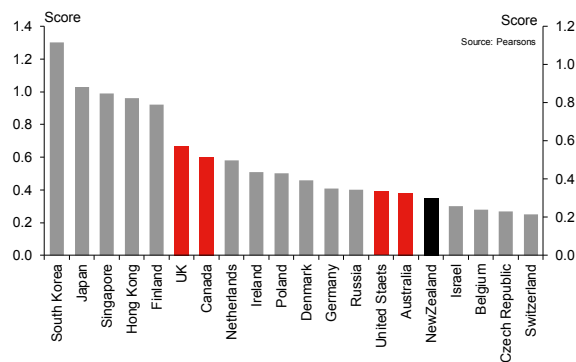
Source: Global International Student Survey 2017

Limits placed on students embarking on low value courses is likely to reduce international student enrolments at PTEs. Some ITPs have expressed concern about what this might mean for some of the trade related courses they offer, while a university source has suggested that this might increase recruitment possibilities for them.

The quality of New Zealand’s education system is also highly rated, consistently ranking among the top countries in the world, irrespective of which ranking methodology is employed. English is an official language and the primary medium for tuition.

When comparisons are made on the basis of international test scores, graduation rates and the prevalence of higher education seekers, New Zealand’s education system is rated 16th best in the world and a little bit behind other MESD countries with whom it competes. Put slightly differently the quality of the education system is perceived not to be as good as those of our major competitors. The 2017 Hobsons International Student Survey reflects a very similar picture.

Figure 26: Quality of education scores by country



New Zealand also struggles when the cost of living is thrown into the mix. Included under cost of living are the costs of accommodation, transport, electricity, gas and water and groceries, most of which, education providers have little influence over.

Of the top 23 providers of quality education worldwide, New Zealand is rated the 12th most expensive to live in. Furthermore, the cost of living in New Zealand is estimated to be higher than most of its MESD competitors, although still lower than in Australia.

Of course, the cost of living in New Zealand, as experienced by an average student, is a direct function of the exchange rate. The comparatively high cost of living referred to above was calculated at a time when New Zealand’s exchange rate was widely regarded as being overvalued. The exchange rate has subsequently fallen and it is expected to average even lower over the coming five years. Over time, this will reduce the perceived high cost of living in New Zealand for many international students.

Figure 27: Average living expenses – international students in New Zealand

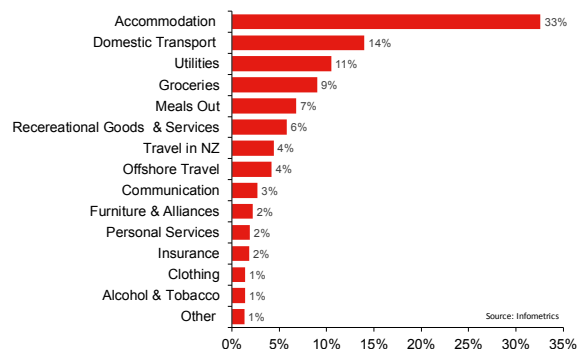
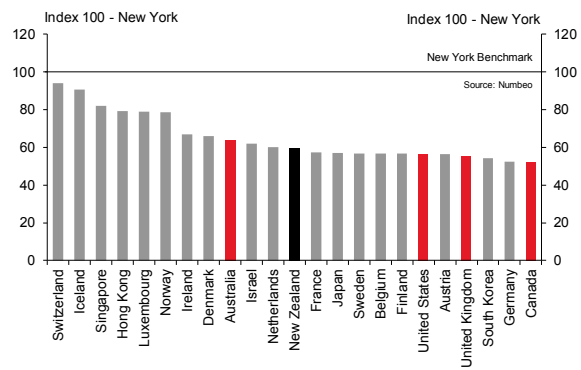


Figure 28: Comparative cost of living index



What education provider to study at?

Once the decision to select a country has been made, the next step is to identify an institution. In a survey of 879 students studying at Australian colleges and universities, respondents were asked to rate the importance of seventeen factors on a seven point scale. Differences between international and domestic students were then identified, with “positive” scores reflecting that a particular variable was more important to international students. The opposite was true for “negative” scores,

The results of the survey showed that both international and domestic students in Australia felt that having their qualifications recognised by future employers was the most important factor to be considered when selecting an education provider. However, international students were more influenced than their domestic counterparts by an institution’s reputation for quality, the expertise of its staff and whether or not an institution was willing to

recognise previous qualifications. Most qualifications that have been earned offshore are checked by the NZQA using the New Zealand Qualification Framework (NZQF) – a comprehensive list of all assessed qualifications in New Zealand. In addition, all education providers in New Zealand have their own admission criteria.

International rankings count when selecting an institution. It is not uncommon for governments and firms in source countries to only employ students that have attended world-ranked institutions.

Although rated relatively lowly, international students were more likely than their domestic counterparts to favour institutions that were familiar to them, where a large number of students were enrolled and/or had a strong alumni.

Aspects of each of these factors are captured in Table 3 below, which summarises the results of the 2017 Hobsons survey into the factors considered most important when choosing which university to study at. It applies the same scoring methodology employed for Table 2, which covered country choice.

The table clearly shows that students consider the quality of education (rating 1, 3, and 5) as the most important factor when choosing a university. Not surprisingly, rankings are a more important factor influencing choice of institution than when choosing a country. An industry source suggest that this is especially so for undergraduate students. For PHD students, rankings are still important, but their selection of

an education provider reflects other considerations, not least of which is to find a suitable supervisor for their studies.

Quality of life considerations, which were picked up when selecting a country, are less important, although having a welcoming environment still ranks highly. Standard of living considerations are also notable with the availability of financial support through scholarships regarded as being important.

Quality considerations are more important than the affordability dimensions when selecting an institution. This is likely to result in competition around quality, and an ongoing improvement in the quality of education provided.

With respect to the quality of education provided in New Zealand, there are no statistics that allow prospective students to compare the quality of education of a particular school in New Zealand with one in another country.

However, it is possible to compare New Zealand universities with those overseas. Prominent global rankings are provided by Quacquarelli Symonds (QS), which ranks the best 1,000 universities in the world, with all eight universities in New Zealand ranked in the top half. Not only that, but despite complaints about funding, all universities in New Zealand have continued to improve their rankings in recent years. Similarly, the Academic Ranking of World Universities (ARWU) ranks seven of eight universities in New Zealand in

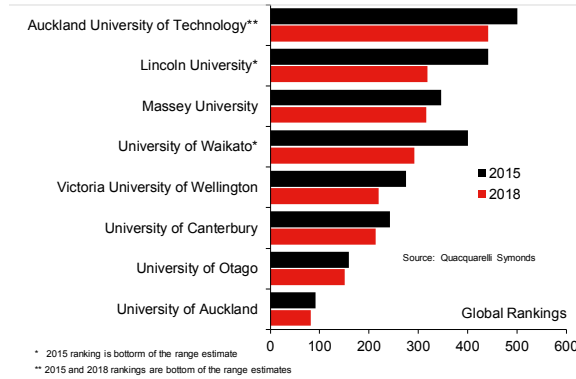
Table 3: Factors important when choosing an educational provider

Rating	Survey Statement	Rating of Importance				
		1	2	3	4	5
1	Offers high quality teaching	29.2%	22.5%	19.5%	16.1%	12.7%
2	Offers scholarships	28.9%	22.5%	18.7%	15.9%	14.0%
3	Well ranked	23.2%	20.6%	18.7%	18.3%	19.2%
4	Welcoming to International Students	20.2%	21.8%	21.0%	19.5%	17.4%
5	Prestigious brand	16.1%	18.8%	18.4%	20.8%	25.9%
6	Friends or family have been to that institution	15.2%	18.4%	18.4%	21.2%	26.9%
7	Recommendations	13.9%	16.9%	18.3%	20.9%	30.0%
8	High graduate employment rate	13.5%	18.3%	21.3%	23.0%	23.9%
9	Good careers services with links to employers	12.7%	18.2%	21.1%	23.8%	24.2%
10	Affordable university-owned accommodation	12.5%	18.5%	20.2%	23.5%	25.4%
11	Make friends from different countries	11.3%	15.3%	18.9%	23.7%	30.8%

Source: Global International Student Survey 2017

the top 800, the exception being the relatively new Auckland University of Technology. Four of these are ranked in the top 500. The Times Higher Education (THE) also ranks the best top 1,000 universities in the world, with all eight in New Zealand ranked in the top 600.

Figure 29: QS university rankings



Higher ranked universities tend to attract more skilled researchers, which increases the quantity and quality of research produced and this feeds back into the rankings. The research produced generates an income (mostly in the form of external research grants, as well as from sources such as the TEC’s Performance Based Research Fund) which enables these universities to attract even more skilled researchers, setting in motion a virtuous cycle of improved rankings. In 2015, universities generated \$815m from research – over 40% was generated by the University of Auckland, which is New Zealand’s most highly ranked university. This improvement in rankings reinforces a

reputation for quality which attracts international students looking for a high quality education. This dynamic is clearly evident at New Zealand’s universities, where rankings continue to rise in line with increases in income generated from research and international student enrolments.

However, this system can have unintended consequences, especially for universities that do not produce as much research as others. Because of how the rankings work, they are always going to be ranked lower than those universities that produce high quality research, which limits the range of income streams available to them. This impacts their ability to attract skilled staff which can affect their reputation. This in turn, impacts their ability to attract international students. Over time, this can exacerbate inequalities, driving a wedge between well-resourced and under-resourced universities.

What course to select?

The final decision for a prospective student to consider is what course to take. This is different from deciding what to study, which is typically the first thing to consider before deciding on whether to study overseas or not. Deciding what course to take is determined by a number of factors. Primary considerations include the quality of the course, relative tuition costs and whether or not it will help to gain employment. Other factors that weigh heavily include entry requirements and whether or not it will be easy to fit in.

Aspects of each of these factors are captured in Table 4 below, which summarises the results of the 2017 Hobsons survey into the factors considered most important when choosing a course to study. The table applies the same scoring methodology employed previously.

Figure 30: Amended business model of New Zealand universities

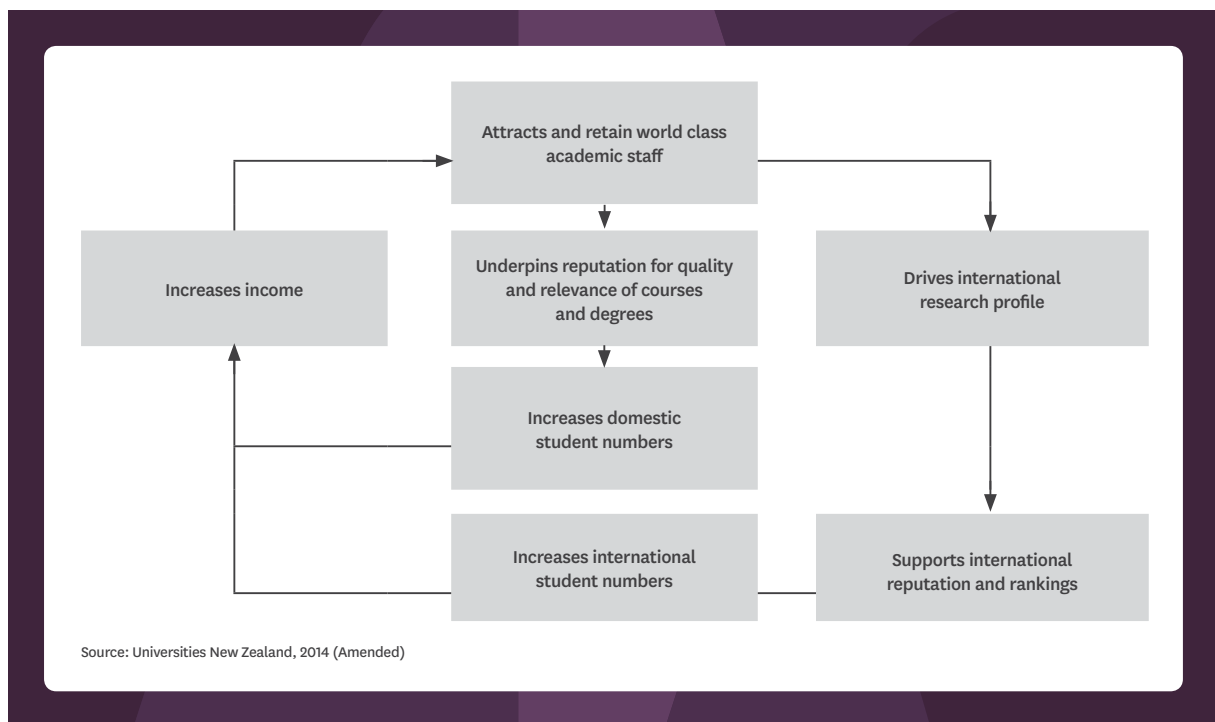


Table 4: Factors important when choosing a course

Rating	Survey Statement	Rating of Importance				
		1	2	3	4	5
1	Offers high quality teaching	31.6%	22.0%	18.9%	15.4%	12.1%
2	Affordable tuition fee options	24.0%	22.3%	19.5%	17.1%	17.0%
3	Well ranked	19.7%	21.1%	20.3%	19.7%	19.3%
4	High graduate employment rate	19.5%	20.9%	20.3%	20.4%	18.9%
5	Studying with like-minded people	18.4%	18.7%	18.9%	20.9%	23.1%
6	Entry requirements	18.0%	18.4%	19.4%	20.3%	23.9%
7	Recommendations	17.6%	17.3%	17.6%	20.1%	27.4%
8	Good reputation	17.2%	21.4%	21.1%	21.1%	19.3%
9	Work placement possibilities	15.3%	18.5%	20.3%	22.2%	23.9%
10	Student satisfaction ratings	11.9%	17.3%	20.5%	23.7%	26.6%
11	Flexible hours and delivery	10.0%	14.7%	19.5%	25.5%	30.2%

Source: Global International Student Survey 2017

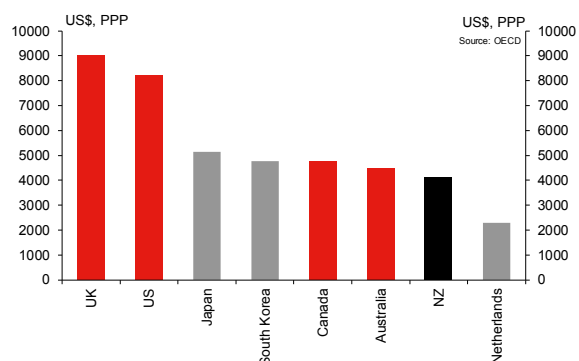
Most of the factors shown in Table 4 relate to the quality of the course provided (ratings 1, 3, 5, 6, 7 – 10), and the extent to which it can be used to gain employment (ratings 4 and 9). The only exceptions are the cost of tuition (rating 2) and, to a lesser extent, course flexibility (rating 11).

Quality of course considerations largely relate to the quality of education dimensions referred to when selecting a country and an education provider. There are some additional considerations, such as studying with people of similar outlook, but the key elements, such as the quality of teaching and rankings, are the same.

Also important are tuition fees and it is here where New Zealand does pretty well. Indeed, tuition fees in New Zealand compare favourably with those found in other countries that provide a high quality education and have well developed student support systems. These include other MESD countries. It also compares well with countries, such as Japan and South Korea, that have high tuition fees but not particularly well developed support systems.

New Zealand provides an education that is comparable to that found in other MESD countries, but at lower cost. However, this competitive advantage has been eroded in recent years by relatively higher living costs, which have been inflated by the strength of the New Zealand dollar.

Figure 31: Comparative tuition fees



Basis for competition

As demand for international education increases, countries are looking much more closely at their competitive offerings, recognising that international students and their contributions are closely linked to skilled migration and economic competitiveness.

In the future, it is likely that providers in these countries will look to deliver education packages that are more tailored to the needs of individual students than at present. In other words, they will shift from providing a largely generic product/service offering. To do this, they will look to leverage off the expertise of other education providers and employers within and across borders, through joint ventures, alliances and accreditations. This is likely to create more possibilities for the provision of offshore education, which is perhaps the international education industry's biggest opportunity for growth.

At an international level, countries looking to attract international fee paying students typically focus on the quality and reputation of their education systems, safety, tuition and living costs, educational and cultural experiences on offer, and to a lesser extent, pathways to future study, employment and migration. These are same factors that students rate as being important.

Education providers in New Zealand do not compete with each other on country specific factors. But they don't really co-operate either – something industry sources have suggested must be addressed. Most operate in isolation when encouraging international students to look at New Zealand as a possible place for study, leveraging off promotional work done by Ministry of Foreign Affairs and Trade, Immigration New Zealand, Tourism New Zealand and New Zealand Trade and Enterprise.

New Zealand has, for years, been promoted as a safe, responsible, environmentally aware country, with a rural laid back lifestyle and world-class scenery that offers opportunities for adventure. Other selling points include its status as an English speaking first world country with proximity to major markets in Asia, a relatively high standard of living/quality of life, and a world-class education system.

A recent survey showed that 49% of international students in New Zealand felt that the institution was more important when deciding where to study compared to 44% for the country. This is far closer than the international norm (58% institution/36% country) which suggests that New Zealand has a stronger “country” than “institutional” brand.

All education providers in New Zealand seek to maximise their revenues while minimising their operating costs, irrespective of whether they are privately or publicly funded. Maximising revenues in this regard means competing for student volumes generally, and more specifically, international student volumes. The more students that an education provider is able to enrol, the lower the marginal costs of teaching an additional student.

The more the marginal cost of teaching an additional student falls below the average cost of teaching all students for given a level of revenue, the lower the unit costs of delivery, and the more “profitable” education becomes. Revenues generated from fee paying international students reinforce this business model, improving operating surpluses for publicly funded institutions, and profits in the case of privately funded PTEs.

A Universities NZ report suggests that universities in New Zealand educate students for 23% less than what it costs in Australia, 39% less than Canada and almost 10% less than the OECD.

As a general rule, education providers do not compete on price to attract volumes. Educational offerings differ so markedly between education providers that it is difficult to differentiate on this basis. That said, industry sources have suggested that some newer schools have lowered prices in an attempt to buy market share.

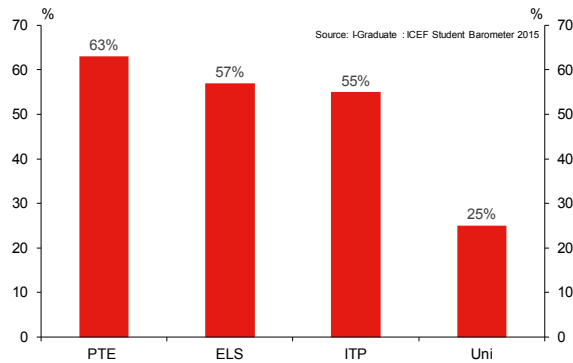
Industry rivalry is benign. It is not unusual for education providers to refer students to other institutions should they not be able to address their study requirements. However, an industry source has indicated this happens within rather than across types of education providers.

Education providers looking to attract international fee paying students compete on the experience that they can offer to prospective students. Marketing and promotion are key activities to raise awareness with the use of websites, social media and glossy pamphlets being obligatory. Attendance at recruitment fairs, maintaining recruitment agent networks (in source countries), participating at alumni events and forming partnerships and alliances with other education providers are also commonplace. Most education providers that pursue international students have staff, and in some cases, departments dedicated to this function.

Education recruitment agents, who work on commission (typically ranging 10% to 30% of first year tuition fees, but there have been cases where this has been as much as 70% depending on the type of education provider), are critical to the successful recruitment of international students. They

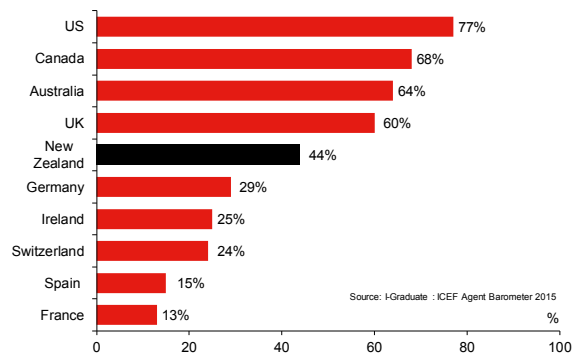
provide a range of counselling, advisory and administrative support services to students, from programme and course selection to visa processing and career counselling.

Figure 32: Proportion of students who applied via an education agent – 2014/15



A 2015 survey study of recruitment agents suggested that there was still work to be done in New Zealand when it comes to using agents as an effective marketing channel. Agents were asked their views on the best study destination for secondary and high school. Although New Zealand was identified as a key destination it was only ranked fifth behind Australia, Canada, UK and the USA. This supports the idea that its key selling points are not being communicated as effectively by New Zealand when compared to other MESD countries. Building a more comprehensive sector specific agent strategy would provide a channel for New Zealand to gain further segmented market intelligence.

Figure 33: Perceived attractiveness of study destinations by agents



Not all education providers have the same resource/structures to support international students, which may impact on the reputation of the industry as a whole.

Education providers in New Zealand actively promote the quality of pastoral care that they are able to provide to prospective students. The Education Code of Practice referred to earlier, sets out minimum standards of advice and care expected of New Zealand education providers to ensure the wellbeing of international students. Most education providers in New Zealand go beyond these minimum standards. Typically, education providers promote the accommodation that they are able to provide (directly or indirectly), opportunities for social interaction with other students (domestic and international), extra-mural activities (which are often location/region dependent), and a range of support services, such as scholarships, budgeting services, and advice on issues such as transport, career planning, dress, security (victim support), counselling and drug addiction.

They also promote the quality of education they provide as well as pathways to future study and/or employment.

Some use external assessments to promote the quality of the education that they provide. Secondary schools, for example, will emphasize the number of academic scholarships that their students are awarded each year. Some might even use their decile rating to draw attention to themselves. Universities often cite their global rankings – QS, ARWU and Times Higher Education – and any accreditations and/or affiliations they might have to respected organisations abroad. They also leverage off partnerships that they have with offshore universities. ITPs and PTEs (including ELSs) will often promote the quality of education they provide by highlighting how they have been assessed by the NZQA, while some ELSs will leverage off their membership of English New Zealand to set themselves apart.

A Universities New Zealand survey indicated that 93% of international students study in New Zealand because of the strong reputation of our universities.

Education providers also promote the type of qualifications that they offer as a way of standing out. Secondary schools, for example, will highlight that they offer Cambridge Assessment International and/or International Baccalaureate qualifications as an alternative to the NCEA qualifications. These qualifications are recognized by top ranked universities in the USA and the UK, as well as Australia and Canada. According to an industry source, most international students that have gained a qualification at a New Zealand school will opt to go abroad to pursue tertiary education. This is seen as a lost opportunity for local universities and ITPs.

Pathways to further employment is another area where education providers seek to differentiate themselves.

ITPs and PTEs, for example, typically focus on developing programmes and course content that aligns closely to the needs of employers. This has led to a proliferation of different types of courses and qualifications, including micro-credentials (targeted short term certificate programmes), as well as different forms of learning, ranging from internships, apprenticeships and cadetships to sponsored employment with training. Increasingly, course development is undertaken in partnership with employees, although it is clear from industry interviews that much greater employer involvement is required. Key reasons cited why employers are not more involved include a lack of certainty over what skills they might need in the future, the time and effort taken to implement course changes, the possibility of competitors free-riding off the investment made to alter courses, and the relative ease with which needed skills can be procured through other means.

Universities too, have responded to the changing needs of employers, by actively looking to niche areas for programme content, delivering shorter courses (which are cheaper) and including more applied elements to their mainstream qualifications. Universities have an added advantage in that qualifications earned, particularly at post-graduate level, offer the greater promise of migration and employment opportunities in New Zealand.

Some education providers differentiate themselves by providing pathways to further study. Normal practice is to establish formal links to other types of education providers. Industry sources have suggested that while there is some evidence of this in New Zealand, there doesn't seem to be the level of network building seen in other countries. Having said that, there are examples where ELSs have managed to establish formal links with universities, ITPs and/or secondary schools, providing English language tuition to students wishing to study at these institutions, but who do not meet their minimum English requirements. Secondary schools also emphasise pathways to employment or future study, with some differentiating themselves on the basis of a particular theme or niche; e.g. art, sport, music, etc. Schools might also work directly with tertiary education providers to co-develop programmes so their students can make the jump to tertiary education.

Greater competition, both domestically and internationally, has prompted some education providers in New Zealand to focus more on delivering education to students located in other countries - currently about 3% of international students study offshore, which is a lot less than for other countries, such as Australia (about a third of students) and the UK (in excess of 500k students). Activities range from the delivery of online course content (including reputation and brand building massive open online courses (MOOCs) which are free of charge but do not lead to a qualification, virtual classes, apps and cloud based learning systems), delivery of content by correspondence, on-site delivery (either directly or in partnership with in situ providers), sales of curricula and other forms of intellectual property, consulting, quality control work and research. The Ministry of Education reported that in 2014 six out of eight universities were involved in offshore delivery. However,

offshore delivery is not restricted to higher learning. An industry source suggested that this is also a growth area for schools because it allows them to access students who may not be able to afford a traditional international education.

The top five nationalities for offshore higher education are Asian: Singapore, China, Malaysia, Hong Kong and Vietnam.

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