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Economic Impact Analysis Of Foreign Fee-Paying Students

(Executive Summary)

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Methodology

1. The economic impact of foreign fee-paying students has three main components:
 - expenditure on tuition fees,
 - expenditure on living costs,
 - the flow-on effects of both areas of expenditure on the wider economy.
2. Building on previous estimates of tuition fees by the Education New Zealand Trust and the Ministry of Foreign Affairs and Trade, this study estimates expenditure on living costs and ascertains the flow-on effects on the rest of the economy. No new primary data sources have been developed; the analysis involved the comparison and reconciliation of a number of existing data sources.
3. The methodology used for this study is commonly accepted for economic impact analysis. It was reviewed by Trade New Zealand, Education New Zealand Trust, Tourism New Zealand, Statistics New Zealand, Ministry of Education, Ministry of Foreign Affairs and Trade and Treasury prior to undertaking the study.

Economic Impacts

1. Tertiary students are estimated to spend an average of \$11,600 on living costs. For secondary students the figure is marginally higher at \$11,800, whilst English language students and those attending other private training establishments are estimated to spend an average \$5000. The latter have a much shorter length of stay.
2. The main categories of living cost expenditure are food and drink, and accommodation, which together account for over 50% of the total. Other major expenses are transportation, books, appliances, communications and financial services such as insurance.
3. Expenditure on tuition costs by all students combined is estimated at \$181m. Expenditure on living costs by all students combined is estimated to be worth \$255m, thereby giving a total expenditure of \$436m, and enhancing the direct tuition spend by approximately 140%. Thus the ratio of total spending to tuition costs is 2.4.

	Fees (\$m)	Living Expenses (\$m)	Ratio	Multiplier Effect (\$m)	Total (\$m)
Tertiary	82.9	86.9	1.05	44.9	214.7
Secondary	43.4	73.3	1.69	25.0	141.7
English Language & PTE	55.1	94.1	1.71	39.6	188.8
Total	181.4	254.3	1.40	109.5	545.2

4. The flow-on economic impact of expenditure by foreign fee-paying students covers the additional contributions to output and employment generated by student expenditure on all goods and services, including tuition costs. Flow-on effects are estimated to more than double the direct expenditure, generating a total gross spending effect of \$984m.
5. Subtracting the value of sales between industries yields the overall contribution of international education to the country's Gross Domestic Product. This is estimated at \$545m, corresponding to about 0.5% of total GDP. In comparison the Fishing industry accounts for 0.3%, Oil and Gas Exploration for 0.7% and Horticulture 0.9%.
6. Employment directly attributable to foreign student expenditure is about 4,500 full time equivalent positions. The economic flow-on effects raise this to over 10,000.
7. Excluded from the analysis is foreign exchange earned from visits by the families of overseas students and foreign exchange earned directly by New Zealand tertiary institutions providing educational services in other countries. This exclusion is because of a lack of data.

Economic impact by region

The economic impacts for eight regions are summarised in the following table.

Region	Fees	Living Expenses	Ratio	Multiplier Effect	Total Value-Added (\$m)*
	(\$m)	(\$m)		(\$m)	
Auckland	68.3	108.8	1.59	20.6	197.8
Canterbury	36.6	48.1	1.31	6.7	91.4
Otago	19.1	25.9	1.36	0.7	45.7
Wellington	16.8	21.0	1.25	1.1	38.9
Manawatu-Wanganui	15.2	18.1	1.19	-1.3	32.0
Waikato	12.9	18.3	1.42	-1.5	29.7
Hawke's Bay	2.5	4.3	1.72	-0.3	6.5
Bay of Plenty	2.1	4.3	2.05	-0.2	6.2
Total	173.5	248.8	1.43	25.9	448.2
National Total	181.4	254.3	1.40	98.5	534.2

Of the eight regions surveyed, the four which earn most from foreign fee-paying students are Auckland, which contributed \$197.8m to national GDP; Canterbury, \$91.4 million; Otago, \$45.7 million; and Wellington \$38.9 million.

Auckland students paid \$68.3 million in fees and \$108.8 million in living expenses. For every \$1 spent on fees another \$1.59 was spent in the community on general living expenses.

The national totals are larger than the sum of the regional figures for three reasons:

- Some regions such as Northland and Tasman are excluded, although they account for only about 5% of international students.
- Value-added at the regional level excludes GST. From a regional perspective GST revenue does not accrue to the region. Some may implicitly be returned via the provision of health, education, superannuation payments and so on, but it is beyond the resources of this project to determine whether each region is a net contributor to, or recipient of government spending in relation to GST revenue..
- Inter-regional trade is excluded. We can estimate the economic benefit that each region generates for itself from international students, but we cannot reliably estimate the effect of each region on every other region.

The multiplier effect combines the flow-on effects on gross output and the subsequent adjustment for the ratio of value-added to gross output. The flow-on spending generated in a given regional economy will always be positive, but the conversion from gross output (analogous to gross sales or turnover) into value-added will always be negative. Value-added corresponds to Gross Domestic Product, being sales less purchases from other industries in the region, and less goods and services imported from other regions. Essentially therefore, it comprises the income earned by labour and capital.

Hence the net multiplier effect may be positive or negative, although in general larger and more diversified regions will tend to have a positive multiplier effect as they tend to be more economically self-sufficient. However, whilst the net multiplier effect may be negative, the right hand column in the table is always positive. That is, every region obtains a positive contribution to its value-added or GDP from foreign fee-paying students.