

Conceptual Design in Building Internationalization in Higher Education Industry as a Form of Economic Upgrading

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Today labor and capital flows among countries and firms with an unprecedented pace and amount. Therefore capital flows, production and service activities, commercial and technological developments attain international character. In order to participate in this interconnectedness economies, economic agents expands its activities into international marketplace in which they move up to the international value chain to capture a greater share of the economic benefits of production. Within doing internationalization, they will expand their business to international market rapidly. Other than that, internationalization with diversification is important strategic option to achieve growth. Afterwards, it will open up opportunities of foreign market. This paper will identify the internationalization in higher education industries as a form of economic upgrading. Firstly, it will describe briefly the international trade theories from classical to firm internationalization theory. Second, the internationalization in the field of higher education will discussed history, strategy and process. Last, it will be explained the internationalization in the perspective of economic upgrading.

Keywords: International Trade, Firm Internationalization, Economic Upgrading, Higher Education Internationalization

1. INTRODUCTION

Today labor and capital flows among countries and firms with an unprecedented pace and amount. Therefore capital flows, production and service activities, commercial and technological developments attain international character. In this circumstances, the dimensions and the domain of the competition that enterprises face change inevitably, enterprises become international, production and service activities, and international horizontal integrations increase. Some institutions such as Multi-National Companies (MNC) and foreign direct investment (FDI) become more effective on individual economies. Now national frontiers disappear or at least lose its former rigidity and world head for an economic, political and cultural integrity.

Actually, economic exchange across national boundaries has taken place for several centuries. One of the most remarkable aspects of economic life nowadays is the manner in which all countries increasingly find themselves an intrinsic part of the global economy¹. Basically, the importance of international trade to a nation's economic welfare and development has been heavily documented in the economics literature since Adam Smith's in 1776 pioneering inquiry into the nature and causes of the wealth of nations known as the theories of absolute advantage and then followed by the theory of comparative advantage by David Ricardo in 1817. The rationale underlying this relationship suggests that economies need to export goods and services in order to generate revenue to finance imported

goods and services which cannot be produced indigenously^{2,3}.

In order to participate in this interconnectedness economies, firms should improve their performance and increase their competitiveness. Firm expands its activities into international marketplace in which they move up to the international value chain to capture a greater share of the economic benefits of production. Within doing internationalization, firm rapidly expand their business to international markets and use international diversification as an important strategic option to achieve growth. Afterwards, it will open up opportunities of foreign market⁴.

This article will endeavour to identified the internationalization of higher education industry as a form of economic upgrading. As the process of globalization of the economy and labour market pushed demand in internationally competent workers with knowing of foreign languages, social and intercultural skills force the universities participate in higher education network globally. Thus, a growing export of educational services has become one of the sources of revenue for higher education institutions (HEIs) and national economies in many countries put up universities develop strategies in all areas, including the international dimension to make their competitiveness appealing to both domestic and global markets.

This paper is organized into five additional sections following this introduction. First section will describe the background of the problem. The second section provides a brief theoretical evolution about internationalization theory. In this way, it describes the theory internationalization from classical theory

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to firm internationalization theory. Third section constitutes The Higher Education Internationalization (HEIs). It will summarize the journey of internationalization from history, strategy and process. Then four section will explain in detail how internationalization is related economic upgrading. Finally section five concludes the main conclusion of this article.

2. INTERNATIONALIZATION THEORY: FROM CLASSICAL INTERNATIONAL TRADE TO FIRM INTERNATIONALIZATION THEORIES

2.1 THE EVOLUTION OF INTERNATIONAL TRADE THEORIES

In order to understanding how the internationalization can be a form of economic upgrading. First, this section will describe briefly the international trade theories. The international trade theories is the forerunner for figuring out the process of internationalization. This is because the internationalization theory comes from the theory of international firm which it come from international trade theory. Further, the international trade theories divided over some thoughts. It starts from classical theories of international trade which is known as the theories of absolute advantage by Adam Smith and theories of comparative advantage (David Ricardo) and later by the theory of factor endowments.

Theory of absolute advantage starts with the idea that export is profitable if the country can import goods that could satisfy better the necessities of consumers instead of producing them on the internal market. Then it declared that every country would gain some benefit from international trade if doing specialization in goods and services that have more efficient than the other country. In vice versa, some of these would conduct international trade to a country who has specialization on goods and services that cannot produced efficiently in his country. In particular, a country would have absolute advantage from other countries if the countries produce goods or services that cannot be produced by other countries. This theory postulated that under free trade, each country should specialize in producing goods that could produce most efficiently.

David Ricardo proposed the Theory of Comparative Advantage. It exposed that specialization is possible and beneficial even when a country does not poses and absolute advantage in production of any good. In other words, the theory shows that countries can gain from trade even if one of them is less productive than the other to all goods that it produce. It is stated that an economic activity of a country should focus on the industries that most superior and competitive internationally.

Then, Ohlin and Hecksher proposed Ohlin-Hecksher Factor Proportion Theory. In their theory, they argue that the difference between countries is given by the production factors, and the products are different because of the production factors incorporated. They proposed two fundamental hypotheses in which the factors of production that are immobile between countries. Second hypotheses resumed that this factors of production are used in different combination to produce different goods. In this circumstances, a country will posses a comparative advantage in certain good if the country relatively well endowed with factors that are used intensively in the production of that goods. According to their model, a country holds a comparative advantage and thus will export the product that incorporates the abundant production factors in the respective country. Thus, the more abundant a production factor is, the cheaper it becomes. So, the difference in the production factors is given by the difference in their prices, generating the competitive advantage.

Then the product life cycle theory was first developed by Raymond Vernon⁵ and proved to be a good frame of reference for explaining and predicting patterns of international trade. The model suggests that many products go through a cycle during which high income, mass consumption countries are initially exporters, then lose their export markets, and finally become importers of the product. This can be also considered the theory that unifies the development of multinational companies, showing without a doubt that trade flows are linked to the international trade⁶. Specifically, the life cycle theory suggests that a trade cycle begins when a product is made by the mother company, then by its subsidiaries, and then by any other company anywhere in the world, where the production costs are the lowest possible. At the same time, the theory explains how a country that initially appears as an exporter of the products can end as an importer, when the product reaches the last stage of its life cycle. The essence of this theory is influenced by the technological innovations and market expansion.

Krugman developed The New theory of International Trade, which constitutes a critique brought to the classical theories of international trade based on free trade. This thought questioning the positive effects of free trade in the case of infantile industries. They argue that using protectionist measures to sustain certain industries for a given period of time, conditions for those industries to become leaders on national and international markets can be created.

2.2 FIRM INTERNATIONALIZATION THEORIES

In international trade theories, it was judging that the commercial performance of the country measure by the trade deficit. Hayes and Abernathy⁷ argued that macro-economic phenomena cannot sufficient in sizing the country performance in the field international trade. In this case, the distinction of the firm that perform in international activities does not exist. Therefore, the theory of firms internationalization is required in explaining how and why a firms engage in foreign activities and how the dynamic of the nature of this behaviour can be conceptualized.

Internationalization has been defined as the development of business operations processes, including strategy, structure and resources, within international environments⁸. At it most basic, internationalization can be described as movement of firm's operations beyond the borders of the home country. The theory of firm internationalization is divided into two thought, The Uppsala Model and Innovation-related Internationalization Taxonomies. The Uppsala Model or known as U-model developed by Johansson and Wiedersheim-Paul⁹. They stated that the internationalization process is an evolutionary and sequential one as the firm become more involved on the international market. The model was constructed based on empirical observation from four swedish manufacturers and influenced by the studies of Penrose¹⁰, ¹¹ (1963), Aharoni¹² and Vernon (1966) in which concluded that when firms internationalize, they move along in a series of incremental steps which they termed as "establishment chain" or "step by step". Furthermore, the theory recommended state and change aspect which include four aspect that firm should face while going abroad: market knowledge and commitment, and commitment decisions and current activities which are divided into stage and change aspects that interact with each other in what seems to be a cycle¹³.

The assumption under the Uppsala Model is that market knowledge and commitment influences the commitment decision and the way current decision are performed. Thus, the amount of knowledge in foreign markets and operations is

affected by the amount of commitment of resources in foreign markets, and vice versa¹³. In addition, they figure out that companies normally start their expansion in a physic nearby market. Then, they have enhanced knowledge of the market and more control of resources. After that, firm expand to the more distance market when they have become more experienced and acquired better resources.

Furthermore, the firms expansion can be done through export before establishment of foreign sales subsidiary or foreign production. In this case, the firm whose not applied exporting activity will start doing business in the field of international trade with exporting via an agent. In this activity sale subsidiaries can follow exporting. Moreover, firm can also use the other entry modes such as joint ventures, licensing or franchising in accordance with the nature of the firm. Finally the last step is firm wholly owned subsidiaries.

2.3 INNOVATION RELATED INTERNATIONALIZATION TAXONOMIES

The Innovation-Related Internationalization Models, focusing on internationalization as an innovation for the firm. The model came from Roger's stages of the adoption process¹⁴ and being used on the research by Johanson and Vahlne¹³ related to the internationalization process of individual firm. Then, their work have become the inspiration for the development of the Innovation-Related Internationalization Models¹⁵.

Innovation adoption concluded as the most acceptable alternative, among a series of options, at a given point in time¹⁶. The utilization of the innovation adoption framework in export decision making was first considered by Simmonds and Smith¹⁷ but significant advances were made by Bilkey and Tesar¹⁸. These authors described that the process of export development was depicted by several distinct stages and that various different factors affected decision making at each stage.

On progress, the subsequent studies has examined the way in which firms develop along the internationalization continuum and suggests that a sequence of discrete stages exists which proxy the "stop and go"¹⁹, stepwise process exemplifying the evolution of international involvement. Implicit between each set of stages is the notion that fairly stable periods exist in which firms consolidate and generate an appropriate resource base to respond to fortuitous environmental conditions which allow them to proceed to the next internationalization stage. Briefly, this innovation model examines the way in which firm progress in the process of internationalization and recommend that the process is a sequence of stages with stagnan periods indeed affected by the degree of involvement in the global economy. Then to overcome this static periods, firm accumulate the need resources to respond to the challenges launched by the international environment and to pass the next level⁶.

Innovation also allows firms to obtain new products with superior features and to decrease costs by developing new production processes and production technologies. In this circumstances, using innovation, firms obtain advantages that allow them to be competitive in international environments distinct from that of the home country. The higher the level of innovation absorption is, the competitive ability increases and firm expand on markets even more different than the origin market²⁰.

3. INTERNATIONALIZATION IN HIGHER EDUCATION: HISTORICAL PERSPECTIVE

Internationalization of higher education is the result of the transformation in globalization. In this matter, worldwide

interconnectedness is widening, deepening and speeding up the higher education system that leads policies and institution transformed²¹. Moreover, the expansion of globalization and the knowledge society has led to institutional changes in higher education system, such as changes in managerial attitudes and cultures²² either in strategy and in the role of the state. It can be said that internationalization of higher education is one of the way a country respond to the impact of globalization.

Altbach²³ emphasizes that the university categorize as the one institution that always been global. In this point of view, universities have always had some international dimension, either in the concept of universal knowledge and related research, or in the movement of students and scholar. In historical preferences, HEIs devided into 5 period, which are Mediaval root, national models, european model, shifting rationales and comprehensive internationalization. It started at the Middle Ages and the Renaissance period, when university students and professors travelling to a university city hoped to discover learning, friends and leisure²⁴.

The national model reveals the clear national orientation and function of university. It is originated applied at the 18th and 19th centuries²⁵. Then, this model note that 'with the emergence of the nation-state, universities became de-Europeanised and nationalised²⁴. At that time, study abroad was often prohibited, and Latin, as the universal language of instruction, was replaced by local languages. On progress, in the 20th century there was increased focus on international cooperation and exchange in higher education. In this period, emerged the institution that focus on the internationalization of higher education with strong focus on stimulating peace and mutual understanding under the umbrella of The League of Nations such as Institute of International Education (IIE) in 1919 in the United States, the Deutscher Akademischer Austauschdienst (DAAD) in Germany in 1925, and the British Council in the UK in 1934.

After the second war, the internationalization trend through the formed of related institution or program received further impetus. It is mainly in the United States through the Fulbright Programme while Europe was still recovering from the devastation of two wars and concentrating its efforts on reconstruction. It is important to note that, although peace and mutual understanding were the declared driving rationales, 'national security and foreign policy were the real forces behind its expansion, and with it came government funding and regulations²⁴ (deardoff, 2012).

Specifically, the main principle to measure the rational of internationalization of higher education lies on the Cold War time. In this case, the dominance of national security and foreign policy as the driving forces that fostered programmes in foreign language and area studies in the United States, and provided technical assistance and capacity building to developing countries in Europe and other parts of the industrialised world.

The third period represent the european model, which describing the dimension transformation from the incidental and individual into organised activities, projects, and programmes, based on political rationales and driven more by national governments than by higher education itself²⁴. Nation-states recognised the advantages in supporting 'the expansion of higher education and its internationalization within and beyond their borders²⁶. This period the HEIs developed the concept process and strategy. Previously, internationalization of higher education had not been recognised as such and the most commonly used term was 'international education'. Otherwise, terms related to specific activities were used, such as study abroad, exchange, academic mobility, multicultural education or area studies²⁷. The emerging of the concept of

strategy in HEIs become the driver for a stronger strategic approach to internationalization in higher education by the Erasmus programme in the second half of the 1980. The activities of the program based primarily on cooperation through student and staff exchanges, joint curriculum development and joint research projects.

By the second half of the 1990s onwards, there was a gradual shift from political to economic rationales for internationalization. In this matter, the principle in driving force for internationalization has now become economic. International student recruitment, preparing graduates for the global labour market, attracting global talent for the knowledge economy, cross-border delivery of education, and capacity building have become important pillars of the internationalization of higher education over the past decade. In this period, emerged a national and global for-profit higher education conglomerates, franchise operations, articulation programmes, branch campuses, educational hubs, and more recently, virtual learning and Massive Online Open Courseware (MOOCs).

Consequently, most of the current discourse now revolves around the concept of comprehensive internationalization, discussed and defined in detail by Hudzik^{28, 29} as 'a commitment, confirmed through action, to infuse international and comparative perspectives throughout the teaching, research and service missions of higher education. It shapes institutional ethos and values and touches the entire higher education enterprise. It is essential that it be embraced by institutional leadership, governance, faculty, students, and all academic service and support units. It is an institutional imperative, not just a desirable possibility.

Comprehensive internationalization puts the emphasis on the need to develop an institution-wide approach to internationalization if it is to make a key contribution to institutional purpose and provide responses to environmental challenges. However, internationalization in many universities that claim to be international or internationalised institutions does not always match this rhetoric and the reality is often more a collection of fragmented terms and activities, rather than a comprehensive process and concept. It takes time to develop strategic capacity.

The strategies of Higher Education Institution and the role of state covers several stage. **First**, most universities have become more entrepreneurial, and this attitude has pushed them to extend the scope of their activities beyond national borders. Thus, activities of HEIs become more developed in international (in terms of cooperation) and global (in terms of competition) frameworks³⁰. Cooperation and competition are intensifying simultaneously under the growing influence of market forces and the emergence of new players (OECD, 2009). **Second**, according to Knight³¹ and De Wit³², internationalization requires two complementary strategies to enhance and sustain the international dimensions of university functions, namely, programme strategies and organisational strategies. The former include various academic initiatives in education, research and university services, and the latter involve organisational initiatives to facilitate and institutionalise international dimensions at universities through management and operating systems. **Thirdly**, the role of the state also plays a crucial role, since in a global world of higher education, most national governments want to have international universities that compete and cooperate with other universities worldwide.

4. INTERNATIONALIZATION AND ECONOMIC UPGRADING IN HIGHER EDUCATION INDUSTRY

Previously, the concept of economic upgrading often referred to industrial upgrading or just upgrading. It is defined as the ability of producers to make a better products, more efficiently or to move into more skilled activities³³. The focus of most upgrading studies is on the degree of technological sophistication of production and especially on value added. In the field of global value chains (GVC), upgrading is defined as "the possibility for (developing country) producers to move up the value chain, either by shifting to more rewarding functional positions or by making products that have more value added invested in them and that can provide better returns to producers"³⁴ (Gibbon and Ponte, 2005). Base on previous description, it can be concluded that upgrading can be defined as the movement to activities that has more value added in production process in order to enhance the technology, knowledge and skill and increase the benefit of the firm participation in global production networks (GPNs)^{35, 36, 37}.

On progress, GPNs not limited to manufacture industry. In order to accommodate the other industries, the concept of upgrading become economic upgrading³⁸. Main consideration on most studies either in upgrading and economic upgrading emphasized on new technology, value added and global value chain. Humprey and Schmitz³⁹ divided economic upgrading into four forms, there are *process upgrading, product upgrading, functional upgrading and inter-chain upgrading*. In their research, they stated that process upgrading covers transforming inputs into outputs more efficiently by reorganizing the production system or introducing superior technology. This kind of upgrading is driven by the need to improve efficiency and reduce per-unit cost.

Product upgrading involves improving the quality of the product. It is allowing for increased revenue through the sale of higher-value added product. In this regard, this type of upgrading allowing for increased revenue through the sale of higher-value added product. The style and degree of this type of upgrading obtained from the types of relationship within a production network. Captive production networks demonstrate product upgrading, which is more strongly dictated by the lead buyer⁴⁰.

Functional upgrading related to the increasing the range of functions performed or changing the mix of activities towards higher value activities). It refers to changing the mix of functions performed by actors in the value chain by means of increasing (upgrading) or reducing (downgrading) the number of activities which performed by individuals and firms. Mostly, coordinated institutions in horizontal are best able to provide these value-adding activities (such as grading and packaging of produce). Farther, the inter-chain upgrading concern on capitalizing on capabilities acquired in one chain to enter another, technologically more advanced chain. It is generally use the developed skill and experience in one value chain to productively engage with another. The integration of new firms into a value chain can require but also support these forms of upgrading.

In analyzing the economic upgrading of Higher Education Internationalization, it should comprehend the central elements in the internationalization in higher education which covers the increasing number of internationally mobile students and scholars, moving to and from ever more diverse locations, the rapid growth in cross-border educational provision, the push to achieve world-class status, the interest in producing globally competent graduates capable of understanding and functioning in a complex and interconnected world, the increasing prevalence of the English language for teaching and research,

specifically on the significant emphasis on cooperative networking among higher education institutions and national higher education systems, the overt efforts by individual institutions and national higher education systems to compete internationally and finally the dramatic increase in the commercialization of international education, particularly in terms of the growing opportunities available to for-profit enterprises.

In order to understanding of economic upgrading in the field of internationalization of higher education, a new typology of upgrading strategies⁴¹ applied with the case of higher education. This typology exploring the internationalization of higher education can engage successfully in viable value chains in a different ways. This typology also proposing a menu of seven different upgrading strategies.

First of the typology is intervention. In particular, it is important to identify the primary aim of an intervention. Whatever choices are made concerning the aim of the intervention, it should be accepted that, the institution will necessarily gain from the intervention. In this typology, the internationalization divided in to two domain. First domain is market players which are include government, development organisations, private sector membership organisations, worker representative organizations through social dialogue. Governments' policy plays a key role as it can facilitate or hinder the internationalization of higher education. Within the internationalization, government enables to develop national university systems within a broader, global framework. It also enable for government to produce a skilled workforce with global awareness and multi-cultural competencies; use public higher education funds to promote national participation in the global knowledge economy and can gain benefit from trade in education services. The involvement of governments in internationalization is therefore twofold: supporting the expansion of internationalization and safeguarding its quality⁴². In sum, national higher education internationalizations strategies can influence national competitiveness through attracting international research initiatives, corporate partnership and facilitating the mobility of student and faculty talent. Then, governments can leverage the latent strengths dispersed across their own systems and local economies through facilitating international partnerships. Foreign students contribute financially, as often expected by governments, but are also likely to enrich the education provided by institutions. All partners to a national internationalization strategy are likely to benefit by the articulation of clear and measurable outcomes. Countries have taken different approaches to internationalization ranging from market reliance (higher education competition) to centralised intervention (binding government regulations). Countries often combine both approaches, gradually implicating governments in institutional strategies. Although internationalization-related issues and policies vary among countries, typical issues include visas, security, employment opportunities for international students following their studies, as well as career opportunities.

Second domain describes the networks of higher education institution to achieve internationalizations. In this case, institution are keen to participate in networks, which offer them the ability to focus on particular issues and gain various perspective on said issues. As higher education is becoming more internationalized and increasingly involves intensive networking among institutions, scholars, students and with other actors such as industry. International collaborative research has been strengthened by the dense networking between institutions and cross-border funding of research activities⁴³. Networks also provide exposure and interaction opportunities, especially with countries and institutions that

they might not otherwise encounter. They facilitate student exchange and research collaboration, and they enable institutions to tap into experts around the world; review and appoint colleagues as reviewers; benchmark; and recommend practices.

This networks in second domain will also reveal the upgrading strategy of the internationalization of higher education. A side from the four form of upgrading that Humprey and Schmidt proposed, the strategy also include horizontal and vertical coordination. Horizontal coordination is the process of greater intra-nodal organisation, often in the production and processing nodes, in some form of collective structure (typically a producer group). This form of upgrading is very important for institution because coordination with others allows producers to achieve economies of scale in internationalization and transaction costs. Often, horizontal coordination is the first step in a sequence of interventions that ultimately result in access to the market, and is a prerequisite for other forms of upgrading.

Vertical coordination is the move away from one-off spot transactions towards longer-term intermodal relations, for instance contract for dual and join program. This form of upgrading is important because it can result in greater certainty about future revenue flows for poor participants. The aim for this coordination is optimizing mobility flows, equal access to international education, protecting student and quality assurance. In practice, vertical coordination is usually been a slow and difficult process. It is because the process itself involves the building of trust relations between the parties.

5. CONCLUSION

Recently, the international activities of university expanded in volume, scope and complexity. The landscape of internationalized higher education is rapidly evolving. New countries and institutions are entering the global talent pool and challenging the established position of the traditional champions of international education. Institutions integrating internationalization issues into their fields of operation and administration are likely to contribute to country-wide growth and innovation. The studies concerning internationalization of higher education has been separated from the economic point of view. As a part of theory of firm internationalization, HEIs should not marginalized from the evolution of those theory. Within this theory, it should be noted that when institution move an activities that has more value added in production process in order to increase the technology, knowledge and skill and also increase the benefit of the institution participation in education networks or also known as economic upgrading. In order to achieve efficiency in the process of HEIs, the institution has to concern about the new typology of upgrading strategy

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Fig.1. The strategies of Higher Education Institution and the role of state

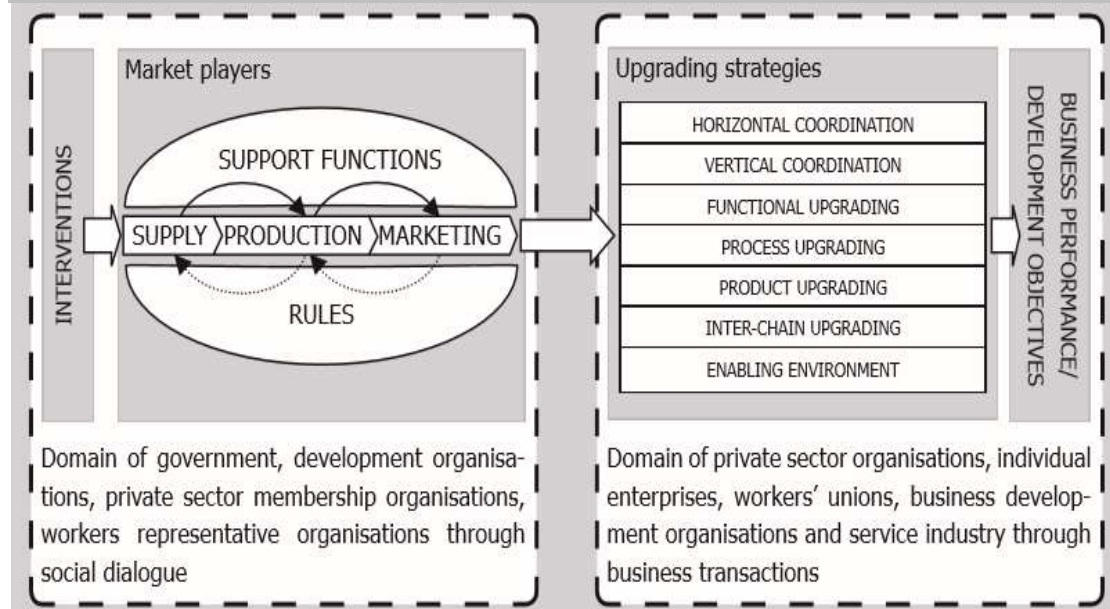


Fig.2. Typology of Upgrading Strategies (Herr, 2007)

Received: 15 December 2016. Accepted: 12 May-2017