Privatization Of Higher Education In Malaysia

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Abstract

The study will trace the external factors influencing the liberalization, deregulation and privatization of higher education in Malaysia from 1970 to the present and to analyze the effects of liberalization, deregulation and privatization on the modes of privatization and the internal restructuring of institutions of higher learning to increase efficiency, reduce costs and improve quality. In the 1970s, higher education was a small sector and was monopolized by the public sector and there was considerable public resistance to the establishment of private universities. The received knowledge was that returns to primary schooling were higher than returns to higher education and hence the shift of the public budget away from higher education to primary education. The impetus for the privatization of higher education came after the 1985-1986 economic crisis, which placed limits on the expansion of the public provision of higher education. The privatization of higher education was to facilitate educational reform to produce quality graduates that could transform Malaysia from an agrarian economy to an industrialized and knowledge based economy by 2020 for the primary purpose of enhancing the competitiveness of the Malaysian economy. The 1996 Private Higher Educational Institutions Act, 1996 and 1997 East Asian economic crisis further opened the country to elite foreign universities to increase the supply of quality graduates to increase Malaysia's competitiveness. The liberalization of education therefore facilitated the process of globalization and Malaysia's deeper integration with the world economy as a regional center of academic excellence and as an exporter of educational services. At the same time the received wisdom was that increases in graduate education did not necessarily result in graduate unemployment and graduate unemployment did not reduce the social demand for higher education. The effect of the reforms in institutions of higher learning are improved corporate governance, new programs and more autonomy in finance.

I. Introduction

Higher education in Malaysia has since independence in 1957 been treated as a global public good because of the positive externalities associated with its provision. As a consequence the state has had monopoly over the provision of higher education in Malaysia until the middle of the 1990s when there was a policy shift to privatize higher education and encourage the growth of private institutions of higher education in Malaysia to meet the growing demand for higher education among the growing number in the population age cohort eligible for university education. Between 1957 and 1990 the growth of the institutions of higher education was slow because of budgetary constraints and the received wisdom then was that the returns to higher education were much lower than the returns to primary schooling. As a consequence a disproportionately large part of the public budget was spent on primary schooling (World Bank, 2000). The consequent excess demand for higher education was supplied by overseas institutions of higher learning especially in the United States of America, Great Britain and Australia. The high cost of overseas higher education was financed by government scholarships and private sources. Overseas education was preferred to the setting up of private universities in Malaysia. However, several factors created the conditions for a change of policy especially the ascendancy of the Reagan-Thatcher doctrine in the early 1980s; the external shock to the Malaysian economy in 1985-1986; the growth of multinational enterprises that created a demand for university graduates; the new Vision 2020 Policy; and the liberalizing effects of the World Trade Organization agreements on the Malaysian economy after 1995. It was, therefore, external forces that necessitated the introduction of the Private Higher Educational Institutions Act in 1996, which provided the legal and regulatory framework for the privatization of higher education in Malaysia and the establishment of branches of foreign universities and the formation of local private universities and university colleges. The liberalization of the educational sector was accelerated after the 1997 East Asian Financial crisis and the sharp devaluation of the Malaysian Ringgit because foreign education became not affordable. After the 1997 financial crisis Malaysia was also losing its comparative advantage in the production of labor intensive goods and had to move up the production ladder to produce more technology intensive goods to generate growth. It was therefore necessary to expand the higher education sector to create a knowledge economy to support the production of technology intensive goods.

II. Higher Education in Malaysia, 1957-1969

At the time of independence in 1957 there were no full fledged universities in Malaya. A University college of the University of Malaya in Singapore was set up in Kuala Lumpur in 1959 that took in a few hundred students. Between 1957 and 1969, Malaysia had all the characteristics of a colonial economy that was dependent on rubber and tin for its exports and import substituting manufacturing was still in its infant stage having received official support only in 1968 with the introduction of the Pioneer Industries Ordinance. Prices were stable but the rate of growth of output and employment was miniscule. The medium of instruction in the University of Malaya, which was established in 1962, was English and it produced graduates, who were mainly absorbed by the elite Malaysian Civil Service. The demand for higher education was limited as the Malayan economy was dominated by labor intensive activities and as a consequence the demand was for largely unskilled labor. University places were planned on the basis of anticipated demand and was not based on Say's Law that supply will create its own demand.

Higher education was not considered a necessity that should be financed from taxation as there was no policy to provide higher education to all those eligible, that is, those in the population cohort eligible for university education and who had the prerequisite qualifications. However, there was considerable concern and debate that all those of school going age should have several years of compulsory primary education. Until today, university education is not compulsory as the law (or policy) stipulates that all those born in Malaysia should receive at least eleven years of free education, which does not include university education.

At the time of independence in 1957, the medium of instruction in all government assisted schools was the English Language. However, because of strong nationalistic considerations a clause was introduced in the 1957 Constitution, which stipulated that Bahasa Malaysia or the National Language should be the medium of instruction in all institutions of learning including the universities. There was considerable frustration among the Malay elite and politicians that slow progress was made in implementing Bahasa Malaysia as the medium of instruction and this became an issue before and after the May 13, 1969 racial riots, which was perhaps the most significant event in post Independence Malaysia that changed the course of not only the education system but also the course of Malaysian society, economics and politics.

III. The New Economic Policy, 1970-1990

The May 13, 1969 racial riots was diagnosed as being due to the failure of market forces to redress economic inequality among the various races. The Malays or Bumiputeras (sons of the soil) were, it was argued by the ruling elite, discriminated in their own country in terms of employment and education. The New Economic Policy was introduced in 1971 to restructure society so that by 1990, it would not be obvious that Malaysia could be called a plural society as it was described by Furnival in 1948. This necessitated introducing entry quotas in tertiary education based on race to reflect not only the ethnic composition of the population but also "to make up for unequal opportunities in the other direction in the past" (Young et al. 1980, 55).

The period 1970 – 1990 saw an expansion of publicly funded higher education but the overriding concern was to ensure that entry into the universities and institutions of higher learning were guided by equity considerations. To ensure an equitable distribution of enrollment from the various races, ethnic quotas were introduced in 1971. According to the World Bank, the quotas were effective because "the Malay share of enrollment increased at every level. It increased most at the tertiary level, where the Malay share in domestic enrollment rose from 50 percent to 65 percent" from 1970 to 1975 (Young et al. 1980, 5). This was also made possible by the generous allocation of scholarships to Malay students by both the Federal and State Governments. Students with scholarships found it easier to gain admission into the local universities as long as they fulfilled the minimum entry qualifications. At the same time as the Malay enrollment ratio increased the percentage of non-Malays admitted to local universities declined from 50.4% in 1970 to 35.0% in 1975 (Government of Malaysia 1976, 401). Public policy was therefore effective in causing not only a dramatic shift in the ethnic composition of students enrolled in local universities but also in increasing the Malay share of enrollment to 65%, which was far in excess of the Malay proportion of 50% in the population, within a short period of five years. This was to become a bone of contention within the closed circle of the multi-ethnic leadership of the coalition party in power until the education sector was liberalized and entry by the private sector permitted by an act of Parliament in 1996.

As noted earlier, the World Bank did not consider the outcome of the ethnic quotas as inequitable because "many Malaysians are being educated abroad , especially at the tertiary level, and the racial composition of tertiary students abroad still is substantially weighed towards non-Malays. Consequently the total shares in tertiary enrollment – that is, the domestic and foreign shares combined are much closer to the composition of the population" (Young et al. 1980, 55). However, overseas education was relatively much more expensive and most of the overseas educational expenditure was a cost to the non-Malay families whereas most of the Malays were on government scholarships. The large number of Malaysians studying abroad also implied that Malaysia was investing more per student in overseas institutions than in local universities thus perpetuating a drain on the accumulated foreign reserves of the country.

The World Bank itself conceded that “it has gradually become more difficult for Malaysian students to study abroad, and this difficulty has primarily affected non-Malays. As a result, education has become a primary concern to many non-Malays” (Young et al. 1980, 56). The drain on foreign reserves as a result of financing overseas education was not felt until the 1985-1986 recession when all primary commodity prices collapsed causing a balance of payments crisis, which in turn had an adverse effect on the balance sheet of banks and also caused the economy to contract by 1% (Ministry of Finance, 1987). The recession forced the government to rethink its education policy in terms of the drain of foreign reserves and the role of the state in the provision of education. The terms of trade induced recession in 1985-86, reduced total foreign exchange earnings and the amount available for overseas education. The recession meant that overseas education was not only a cost to the non-Malay parents but also to the Government, who bore the cost of educating Malays overseas.

The government policy of funding the overseas education of Malays was driven by the concern to have an egalitarian stable society rather than a Darwinian society of the survival of the fittest. The government was responsible for the structure of society and society was not to be a product of only market forces but a combination of state and market forces. The emphasis was on stability, unity and peace as this was a prerequisite for growth although the New Economic Policy kept in check the unfettered operation of market forces and the formation of a large pool of skilled labor because it was felt that over production of university graduates would lead to graduate unemployment as was the case in India (Blaug et al. 1969). Graduate unemployment it was argued would destabilize society and disrupt the process of growth. The government did not adopt a “growth at all costs” strategy but a “growth with distribution strategy” as advocated by

Chenery et.al. (1974) in a study commissioned by the World Bank. The expansion of local institutions of higher learning to meet all the demand for university education in the 1970s and 1980s may have been considered a misallocation of resources because Malaysia was dependent on the export of labor intensive primary commodities, that did not require the employment of graduates. World Bank research at this time also indicated that resources should be allocated to primary schooling as opposed to university education because the returns to the latter were lower than the former (Psacharpoulos, 1972).

Under the monopoly of the state, the expansion of higher education was very slow. The first University, that is, the University of Malaya as pointed out earlier was only established in 1962, five years after independence. The second University, that is the Science University of Malaya or *Universiti Sains Malaysia* (USM), was set up in 1969, in which year a proposal to set up a private University, that is the *Merdeka University* was denied permission by the government. The third University that was set up in 1970, was known as the National University of Malaysia or the *Universiti Kebangsaan Malaysia (UKM).* This was followed by the setting up of the Agricultural University of Malaysia or *Universiti Pertanian Malaysia (UPM)* in 1971 and the Technology University of Malaysia or *Universiti Teknologi Malayisia (UTM)* in 1972. By 1975 there were only 5 universities in Malaysia. The five universities had their specific roles and functions in the economy and society. The University of Malaya was of colonial vintage and produced the elite of Malaysian society. This role was to be challenged by Universiti Kebangsaan Malaysia, which would be the centre of Malay intellectual discourse. The Universiti Sains Malaysia would produce the scientists and technologists as would the Universiti

Teknologi Malaysia. The Agricultural University of Malaysia would produce the skilled manpower to drive Malaysia's agricultural revolution especially the Green Revolution.

The enrollment in the public universities nearly doubled between 1970 and 1975 but this was not sufficient to meet the demand for university education and large numbers of Malaysians within the 19-24 years age group had to seek university education overseas. Although, the enrollment ratio was only 1% in 1975 (World Bank, 2000), it was government policy was not to expand the absorptive capacity of local public universities because its manpower forecasts indicated that the demand was for sub-professionals and not university graduates. Accordingly, the planners gave priority to the setting up of diploma level courses in line with the need to remedy existing imbalances in enrollments between diploma and degree courses and to meet the sizeable demand for manpower at the sub-professional level" (Third Malaysia Plan, 1976, pp. 398-399). Emphasis was to be given to industrial and vocational training for employment in commerce and industry. The intake of liberal Arts students was to be progressively reduced as the demand was for engineers, scientists, agriculturalists and business majors. The government was more concerned with developing a long term plan for the educational sector that will achieve the goals of the NEP and meet the manpower requirements of the economy within the budgetary constraints of the government (Government of Malaysia 1976, 398-399). At the same time the government provided a total of 6,050 scholarships to the Malays for overseas training (Government of Malaysia, 1976, 406).

It appears then that it was not government policy in the 1970s to solve the problem of excess demand for university education. The government was only committed to expanding the educational sector to meet domestic manpower requirements. In adopting this policy, the government continued with its policy of expanding the higher education sector and as a result, government expenditure on university education increased substantially and the number of students enrolled in degree courses in local public universities increased nearly three times from 7,677 in 1970 to 20,045 in 1980. However, this expansion was not sufficient to satisfy the demand for higher education. In 1980 about 19,515 Malaysian students were studying abroad for a degree, which was only slightly less than the 20,045 students studying in local public universities. The total number of students studying abroad for a degree or a diploma or a certificate was estimated at 29,721. This was 77.95% of those studying in local institutions of tertiary education for a certificate, diploma or a degree course.

The government policy in 1980 was to offer either scholarships or to subsidize overseas education by increasing the income tax allowance for children studying overseas from double to quadruple of the amount that is normally allowed as child relief under the income tax laws and regulations. Students departments were also established in all major educational centers overseas. Those studying overseas in 1980 included Chinese (60.5%), Bumiputeras (23%), Indians (15.9%) and other Malaysians (0.6%) (Government of Malaysia 1981, 350). The drain on the foreign reserves of Malaysia was substantial as it would cost about RM15,000 to educate a child overseas a year in 1980. This works out to be about 8.50% of the cumulative foreign exchange earnings of Malaysia between 1976 and 1980 (Government of Malaysia 1981, 27).

Further expansion of university education took place from 1980 to 1990 with the setting up of the International Islamic University (IIU) in 1983 and University Utara Malaysia (UUM) in

1984. The former was established to specialize in Islamic degree courses whereas the latter was to specialize in the provision of management degree courses. The number of students in degree courses increased nearly three times from 1980 to 1990 that is from 20,045 in 1980 to 60,030 in 1990. This vast expansion was justified on the grounds that there was a need to expand higher education to increase the "trained manpower required by the expanding commercial and industrial sectors" (Government of Malaysia 1986, 501) as a result of the vast inflows of foreign investment in Malaysia.

Realizing the growth potential of the vast inflows of foreign capital in the late 1980s and the resulting demand for skilled manpower, the government argued in favor of setting up private sector institutions to provide facilities for pre-university as well as certificate and diploma level courses, particularly in technical subjects. It was argued that the "overall expansion of higher education in the country will provide greater opportunities for students to pursue higher education locally and thus gradually reduce the number of students overseas. This will help reduce the outflow of foreign exchange" (Government of Malaysia, 1986, 502).

As a result of the vast expansion of tertiary education, government expenditure on tertiary education as a percentage of GDP increased from about 9% in 1970 to 13% in 1990. However, the gross enrollment ratio as a percentage of the relevant age group (19-24 years) only increased from about 1% to 3% between 1970 and 1990. These enrollment ratios are much lower than those achieved by other East Asian countries such as Korea, Indonesia, Philippines and Thailand (World Bank 2000, 56). Furthermore, Malaysia's Vision 2020 Policy calls for increasing the enrolment ratio for tertiary education to 40% of the population in the 19-24 age group by 2020.

To meet the huge demand for higher education and to stem the outflow of foreign exchange, the government during the Sixth Malaysia Plan, 1991-1995, adopted a policy of expanding the role of the private sector as a provider of higher education. This was within the wider policy framework of promoting the private sector as an engine of growth (Government of Malaysia 1991, 181).

The government encouraged the setting up of educational and training institutions by the private sector to organize twinning programs and preparatory courses. Private sector participation in twinning programs was effective because the number of students studying abroad in overseas tertiary educational institutions declined from about 60,000 in 1985 to 52,000 in 1990. This was probably due to “higher fees imposed by overseas institutions and the increasing number of local private institutions offering twinning programs” (Government of Malaysia 1991,163). However, the quality of services provided by the private institutions remained a matter of concern to the government and it planned to monitor these institutions to ensure acceptable standards and quality (Government of Malaysia, 1991, 181).

This reversal of policy, that is, the rolling back the role of the state came in the wake of the breaking down of the Berlin Wall in 1989 and the subsequent collapse of the Soviet Union. The concern was no longer in maintaining stability but to allow market forces to create change and increase the wealth of nations. The Mid-Term Review of the Sixth Malaysia Plan made it explicit that “the Government will continue to introduce and encourage competition in the economy” (Government of Malaysia 1991, 11). Malaysia also released its Privatization Master Plan in 1991 to outline its broad framework to strengthen the role of the private sector in creating new wealth.

The rationale for privatization was to (i) reduce the size of the public sector; (ii) reduce the public sector's borrowing requirements so as not to crowd out the private sector in the capital market; (iii) increase productivity by encouraging competition and (iv) to increase the innovative capacity of the economy.

It is obvious that from reading the Sixth Malaysia Plan, the government changed its philosophy from giving the state monopoly over the provision of higher education to encouraging the private sector to work with the state to satisfy the demand for higher education. The increased role for the private sector was not confined, as noted earlier, to the education sector but was economy wide and this shift in policy can be traced back to the Reagan-Thatcher doctrine of the early 1980s as will be seen in the discussion on the impact of neo-liberalism on the Malaysian economy in the next section.

IV. The Reagan-Thatcher Doctrine, Malaysia Incorporated and Privatization

The role of the State in providing goods and services was reexamined in the early 1980s with the ascendancy of Margaret Thatcher and Ronald Reagan and this was to affect the monopoly position of the Malaysian state in the provision of higher education in Malaysia. The Malaysian government quickly embraced the Reagan-Thatcher doctrine when it announced its own policy of Privatization and Malaysian Incorporated in 1983.

The Reagan-Thatcher Doctrine or Thatcherism or Reagonomics or what in academic circles is termed neo-liberalism or the "Washington Consensus" redefined the role of the state away from Keynesian Welfarism.

According to the "Keynesian model, economic growth is constrained by effective aggregate demand. State-sponsored redistribution policies thus may accelerate the pace of economic activity to the extent that they place additional income in the hands of families with relatively high marginal propensities to consume. In addition, human capital theory suggests that when oriented towards health and education, such redistribution programs contribute as well to the quality of the labor force, and hence the growth potential of the economy" (Gintis and Bowles 1982,341). It should be pointed out that Keynes not only advocated that the state be responsible for managing demand but also ensuring the social well being of the population by providing subsidies to the poor.

Instead the new focus on the role of the state as advocated by Reagan and Thatcher was on reducing public spending or smaller governments and lower taxes. Neo liberalists belief that markets are preferred for organizing economic activity because as Nobel Laureate Coase argued they would ensure that resources would flow to their most valued users. According to the Coase Theorem, if transaction costs are zero or near zero and there is an organized market to buy and sell well defined property rights that are protected by an independent judiciary then "negotiations between parties would lead to the arrangements being made which would maximize wealth and this irrespective of the initial arrangement of rights" (Coase 1991, 8).

The new ideology that was adopted by the Malaysian government resulted among other things in the introduction of the Promotion of Investment Act (PIA) 1986, which led to the liberalization of the manufacturing sector as a result of which foreign equity ownership was relaxed especially for firms that were export oriented. This was followed by the liberalization of the services sector including the educational sector, which saw the government granting permission for the setting up of twinning arrangements between local private and public educational establishments with foreign universities (Sixth Malaysia Plan 1991,181).

V. The Private Higher Educational Institutions Act, 1996

The watershed in the development of private higher education in Malaysia can be traced to the Private Higher Educational Institutions Act, 1996 which further liberalized the educational sector and provided the legal framework for the establishment of twinning arrangements between public and private institutions and foreign and local institutions and the establishment of private universities, branch campuses of foreign universities and other forms of private higher educational institutions. It also provided for the upgrading of existing colleges to universities. The liberalization was considered necessary to satisfy the increasing demand for higher education. At the same time that the Private Higher Educational Institutions Act was passed by Parliament, four other related pieces of legislation were also enacted by Parliament. These included the Education Act, 1996; the University and University Colleges (Amendment) Act, 1996, the National Accreditation Board Act, 1996 and the National Council on Higher Education Act, 1996.

Within a year of the passing of these Acts, the National Higher Education Fund Board Act was passed in 1997. The most significant immediate outcome of the implementation of these Acts of Parliament was the establishment by 2001 of six private universities and three branch campuses of foreign universities to offer full degree courses. The establishment of the six local private universities was intended to provide courses in engineering, business studies, medicine and multimedia (Government of Malaysia, 2001:109).

The local private universities are financed by large Malaysian corporations. For example, Universiti Multimedia is largely due to the investment by Telekom Malaysia, the largest telephone company. Universiti Tenaga Nasional is due to the investment by Tenaga Nasional, the national power company. The government has a Golden Share in these two privatized utilities and hence the formation of private universities is consistent with the Malaysia Incorporated concept introduced by the Malaysian Government in 1983. The branch campuses of the foreign universities are also due to partnership with large Malaysian conglomerates such as Sunway Berhad in the case of Monash University and Barlow-Boustead, the YTL Corporation and Lembaga Tabung Antara Tentera (LTAT) in the case of the University of Nottingham. The setting up of branch campuses was also to "develop education as a significant component of the service industry and eventually to internationalize education and develop it as an export industry" (Government of Malaysia 1993: 222).

The total number of private institutions of higher learning also showed a sharp increase from 1995 to 2005 in response to the government's new policy of relaxing rules in issuing permits and reducing the cost of business by providing fiscal and financial incentives in the 1995/1996 Federal Budget (Kanapathy, 2003). The tax incentives included tax exemption on import duties, sales taxes and excise duties on educational materials; a 100% Investment Tax Allowance for investments in technical and vocational institutions and tax deductions to corporations that make cash donations to government and semi-government institutions of higher learning. As a result of the conducive investment climate, the number of private and local public institutions of higher learning increased from 292 in 1995 to 630 in 2005. The number of public institutions of higher learning also increased from 12 to 17 from 1995 to 2005. However, there was a decline in the number of private institutions from 704 to 559 from 2000 to 2005 probably because of consolidation or they were not sustainable as cost recovery was difficult.

Unlike public universities, private institutions of higher learning are profit oriented and fees are charged for cost recovery. Unless quality is commensurate with cost, the long term sustainability of the institution may not be assured. However, in the case of public institutions, education is provided as a public good and fees charged are nominal.

The setting up of these private universities and institutions of higher education helped to satisfy some of the excess demand for local higher education. According to the Eighth Malaysia Plan, by the end of 2000, "private institutions provided a total of 32,480 places at the degree level, 116,265 at the diploma and 60,840 at certificate levels" (Government of Malaysia 2001, 109). This compares favorably with a total of only 47,200 students in 172 private institutions in 1993 (Government of Malaysia 1993, 215) and 15,000 students in private institutions of higher education in 1985 (Government of Malaysia 1991, 166-167).

The private institutions of higher education offered degree, diploma and certificate courses. Among the courses offered by the private institutions that attracted the largest number of students were the diploma courses followed by the certificate and degree courses. Private institutions of higher education have also have had a comparative advantage in providing diploma and certificate courses whereas the public institutions have a comparative advantage in offering degree courses (Government of Malaysia 2001, 105-109)

VI. The Quality Framework

The proliferation of institutions of higher education since the liberalization of the educational sector in 1996, has left a lot of questions unanswered as to the quality of the educational products offered by these institutions. There have been suggestions that licenses have been issued liberally and a lot of speculative capital has been invested in educational institutions to derive immediate financial returns. The government of Malaysia has addressed the issue of quality by setting up the National Accreditation Board (LAN). Both LAN and the Private Education Department in the Ministry of Higher Education, have "formulated 56 operational guidelines on the establishment of private institutions of higher learning. These guidelines set standards on equipment supporting facilities and teaching staff to ensure the provision of high quality education" (Government of Malaysia 2001, 110). LAN makes frequent inspections of the offices of these institutions of higher learning and gives approvals for the offering of courses by these institutions of higher education. LAN is vested with the authority to scrutinize curriculum that needs to be accredited but private institutions whose degrees are already recognized may not have to go through the LAN process. The law also stipulates that an institution that plans to recruit foreign students must get its courses accredited by LAN before it can recruit the foreign students. It is also advantageous for institutions to get LAN accreditation because once an institution is accredited its students become eligible to apply for loans administered by the National Higher Education Fund Corporation.

In 2002, the government also introduced the Malaysian Qualification Framework (MQF) to evaluate the products of the providers of education licensed under the Private Higher Educational

Institutions Act, 1996 or established under the University and University Colleges Act (Amendment) Act, 1996. All educational products and qualifications registered under the MQF will be evaluated on criteria and standards that are accepted internationally as best practices. According to the Ninth Malaysia Plan, "the Malaysian Qualification Framework (MQF) was developed for assessing the standards of qualification and quality of delivery. New programmes were developed in consultation with industry while institutions of higher education were required to review their curricula every three to five years" (Government of Malaysia 1986, 244).

The institutions are being benchmarked against international standards to enable these institutions to become globally competitive as Malaysia plans to become a regional center of academic excellence to facilitate the export of educational services. The motivation for the quality ranking is to develop local public and private institutions into world class universities. A rating system for universities will also be developed by the MQF. To support the MQF, the government hopes to set up the Malaysian Qualifications Agency. The academic programs and curricula will be based on market requirements and employability. The universities will be expected to work closely with industry to develop curriculum that is relevant to the market place. The universities are also encouraged to set up industrial training programs for their students up to a duration of four months. The universities are expected to increase their proficiency in English and encourage multilingualism in Mandarin, Tamil and Arabic (Government of Malaysia 2006, 21). To increase research output, four public universities have been designated as research universities, that is, University of Malaya, Universiti Sains Malaysia, Universiti Kebangsaan Malaysia and Universiti Pertanian Malaysia (Government of Malaysia 2006, 257-258.

The concern with quality has however a cost component and this is easily noticeable in the staff: student ratios of public and private universities. Private institutions of higher learning are cost conscious in relation to public universities and this may affect quality in terms of the staff: student ratio as they may decrease the ratio to save costs. The ratio of academic staff to students in private institutions of higher education have been consistently lower than in public institutions. For example in 1997, when the staff: student ratio in the public institutions was 1:9, it was 1:30 in the private institutions. This was obviously to save costs but it would reflect itself in the quality of teaching and supervision and has obvious implications for the research output or industry collaboration of the academic staff in the private institutions. It is not an exaggeration to state that staff in private institutions on the average teach more than twenty hours a week whereas their counterparts in the public institutions teach an average of less than ten hours a week. The wide difference in the staff:student ratio in the public and private institutions has persisted but narrowed over the period 1997 to 2001. In 2000, the student:staff ratio in private institutions was more than double that of the student:staff ratio in public institutions. This is an improvement over 1997, when the ratio of students to staff in the private institutions was more than three times the ratio of students to staff in the public institutions.

The qualifications of the academic staff in private institutions are also much lower on the average when compared to public institutions of higher education. In 2001, for which year data is available, of the total number of PhDs in the higher educational sector only about 10 percent were working in the private institutions. Within the private institutions less than 4% of the academic staff had a PhD. Nearly three quarters of the academic staff in the private institutions of higher education had only a first degree or a diploma. In sharp contrast about a third of the academic staff in public universities had a PhD and only about a fifth had a first degree. The public universities are planning to double the number of staff with a PhD by 2010. The public universities have been able to upgrade the quality of their academic staff by providing generous scholarships and study leave schemes. For the vast number of private institutions who are working hard under sometimes onerous conditions it may be a luxury to send academic staff on study leave to complete their higher degrees. The distribution of the skills level of academic staff has obvious implications for the quality of services provided and the capacity to undertake scholarly research and be involved in university-industry collaborative research or to supervise higher degree by research students. This is borne out by data for 2005, which shows that while 16.2% of the students enrolled in public universities were Masters or PhD students, only 3.8% of the students enrolled in private universities were Masters or PhD students (Government of Malaysia 2006, 243-244).

The government has encouraged private institutions to develop staff development programs and has relaxed regulations to facilitate the recruitment of foreign lecturers by private institutions. This is perhaps to increase the number of staff with PhDs in the private institutions. The private institutions have also been encouraged to offer courses relevant to industry and to undertake research and development activities with the private sector to increase the quality of the services they offer (Government of Malaysia 2001, 127).

VII. Restructuring Universities

The Universities and University Colleges (Amendment) Act 1996 was introduced to corporatize the management and administration of public universities. With corporatization, the universities were to be allowed more administrative and financial autonomy to chart the progress necessary for administrative excellence. The University of Malaya was the first university to be corporatized on January 1 1998. As a corporatized entity it was not fully independent of government as the government still owned most of the assets of the university and provided the development fund and was the main source of financing capital expenditure. However, it freed the university of cumbersome bureaucratic processes and corporatization allowed the university to borrow money; enter into business ventures; set up companies; hold investment shares. The university was also expected to raise funds to finance most of its operating costs. Various modes of raising funds were suggested including: raising fees, increasing student enrollment; engaging in consultancies with industry and government; offering short term courses and renting out existing facilities (Lee 1998,1). The academic staff and administrative staff were expected to be more entrepreneurial to make the university more self sufficient in terms of funding.

VIII. Financing of Higher Education

The demand for public education is strong in Malaysia probably because it is heavily subsidized as a public good and is provided in an environment that is conducive for learning in comparison to private institutions of higher education, which are unable to provide for space because of cost recovery. Comparative data on the cost of higher education in public institutions, private institutions and foreign universities is difficult to come by but there are some scattered pieces of indicative data that provide a magnitude of the relative fees charged by the various institutions of higher education in Malaysia and overseas. For example, the average fee per annum in a public university in Malaysia is RM1,400 whereas in the case of a private university in Malaysia it may range from RM7,500 to RM 13,000. In the case of an American University it may cost up to RM 135,000 per year.

It is quite clear that public education is much cheaper in Malaysia than is private education. Not all students that are qualified to enter the private institutions may afford it and at the same time private institutions may have limited funds to provide scholarships or fee waivers. As Nicholas Barr has noted, "higher education faces problems throughout the world: universities are under-funded; raising worries about quality; student support is inadequate; the proportion of students from disadvantaged backgrounds is lamentably small; and the financing of universities in many countries is regressive, since the money comes from general taxation but the major beneficiaries are from better-off backgrounds" (Barr 2005,1). To make the situation more equitable and efficient, Barr suggests that it may be fair that the students bear some of the costs as they derive significant or substantial private benefits from receiving higher education.

The government in Malaysia in an effort to increase enrollment in local institutions has introduced tax relief to make higher education more affordable and a loan scheme to make higher education more accessible to students from the most disadvantaged backgrounds, who may not have been successful in getting a scholarship. In the 1994 budget, for example, "a special relief from income tax for children receiving full-time education in universities and institutions of higher education" was introduced (Government of Malaysia 1993, 222).

The National Higher Education Fund was set up under the National Higher Education Board Act, 1997. The Fund was established to provide financial assistance in the form of educational loans to students studying in higher educational institutions in Malaysia. The loans are to be utilized for the payment of fees, educational equipment, educational aids and the cost of living expenses during the student's period of study. At the end of 2000, the total amount available under the National Higher Education Fund was increased "by RM1 billion to RM2.3 billion" and "with the additional fund, financial assistance was extended to students in private institutions of higher learning. A total of 29,000 students in private institutions benefited from the Fund in 2000" (Government of Malaysia, 2001, 103). At the end of 2005, a total of RM7.9 billion was disbursed by the Fund to 878,467 students. "In addition government linked companies, state governments as well as private organizations such as companies and banks also provided financial assistance" (Government of Malaysia 2006, 244). The Act also provides for the establishment of a savings scheme to encourage children to start saving, as early as year 1 in primary school, towards financing their higher education. The government has contributed RM100 million to the Education Savings Scheme to encourage parents to save for their children's education (Government of Malaysia 2001, 115). The objective is to ensure that no qualified student will be deprived of a higher education because of financial constraints.

IX. Exporting Education

The liberalization of the educational sector after 1996 has increased the capacity of Malaysia to be an exporter of education. Although Malaysian universities have been open to foreign students before 1996 the numbers have been few largely because of the language requirements and the narrow nationalistic focus of the universities. The degrees offered by the Malaysian universities were not always internationally recognized and it did not assure the graduates international mobility. Malaysian students did not always opt for a foreign university because they were rejected by the local public universities but because they sought a degree that would provide them with international mobility. Between 1990-1995, more than 50,000 Malaysians studied abroad and this represented a foreign exchange loss to Malaysia, whereas trade in education constituted a substantial gain in terms of foreign exchange earnings to countries such as Australia, England and the United States of America. The government in its Strategic Plan for Private Higher Education, 2001-2010, has encouraged the development of globally oriented local academics as it is keen to develop Malaysia as a "Regional Center of Educational Excellence," with the English Language as the medium of instruction. The establishment of branch campuses of foreign universities and twinning programs in the English Language also provides an opportunity to the government to promote education as a tradable commodity under the new General Agreement on Trade in Services (GATS) framework, which is an outcome of the World Trade Organizations (WTO) negotiations.

The GATS framework, which became operational in January 2000, provided an opportunity for governments to develop strategies to develop the services sector as an important sector in national economic development plan and as a future engine of growth. Malaysia has traditionally been dependent on the agricultural sector as an engine of growth but as a result of the agricultural sector's dismal performance in the mid 1980s the government liberalized the manufacturing sector in 1986 and provided incentives to promote it as an engine of growth. In a similar vein the big bang liberalization of the educational sector in 1996 is intended to promote the educational sector as an engine of growth. The services sector, which includes education, had hitherto lagged behind the manufacturing sector and services demanded by the manufacturing sector were outsourced thus contributing to a huge outflow of foreign exchange.

Treating education as a tradable commodity promises to generate huge foreign exchange savings and earnings for Malaysia.

The Government in the Eighth Malaysia Plan had stated that, "in line with the objective of developing education as an export industry and promoting the growth of local tertiary education, efforts will be aggressively undertaken to promote local institutions through educational fairs, seminars and conferences. Incentives will be provided to educational institutions for the promotion of education overseas. The number of foreign students is expected to increase from about 20,000 to 25,000 by 2005" (Government of Malaysia 2001, 127). However, the government got more than it planned for because as the Ninth Malaysia Plan reports, foreign students in educational institutions increased to 50,350 in 2005. This works out to be a total of RM3 billion in foreign exchange earnings. Of these total, 82% were enrolled in institutions of higher education. The big rise in the foreign student intake may be due to economic conditions in the country of origin of the students. Most of the foreign students are from the Asia Pacific countries followed by the ASEAN and Middle Eastern countries. The other pull factors were the relatively low cost of education in Malaysia and the implementation of a quality assurance system, promotional activities and the establishment of educational promotion offices in Beijing, Dubai, Ho Chi Minh City and Jakarta (Government of Malaysia 2006, 246).

X. Conclusion

Malaysia has developed from being an agrarian economy to an industrialized economy within a short period of three and a half decades since independence in 1957. It is now on the path of being a knowledge economy. As an agrarian economy, the emphasis was on the production of primary commodities, which did not require a large supply of skilled manpower. However, the supply constraints began to be felt in the late 1980s as Malaysia industrialized and large amounts of foreign capital flowed into the economy. The government's initial policy response was to introduce partial liberalization of the educational sector by facilitating twinning programs between foreign universities and local private institutions. However, as the demand for skilled labor grew and the prospect of exporting education opened up, the government liberalized the educational sector to foreign universities. Although the educational sector is more liberalized today than before, there are concerns about quality that the government is addressing. The prospects look good for the development of Malaysia as a "Regional Center for Educational Excellence".

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