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Trade and Investment Linkages in Higher Education Services in Malaysia

By

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Executive Summary

In the Third Industrial Master Plan, several service sub-sectors were identified as new sources of growth for the country, including education services. Apart from this sector's contribution towards growth, private higher education institutions (PHEIs) can also contribute towards increasing access to education and equity. Malaysia aims to be a global education hub by 2010. In view of the above, this study aims to explore the trade and investment links in private higher education in Malaysia. Specifically, the study assesses whether, and if so, how trade and investment policies in general, and in the education sector in particular, are coordinated at the national level. Barriers towards trade and investment in private higher education are also examined in order to provide policy input for the liberalization of trade and investment in private higher education, focusing in particular on the need for trade and investment policy coordination at the national and regional level.

The shortage of supply and the emergence of both program and institutional mobility in private higher education have encouraged PHEIs to grow in Malaysia. Since various ministries and agencies in the country govern the service sector, the development of the different sub-sectors in services is under the jurisdiction of the respective ministries or agencies. Consequently, the trade and investment policies in private higher education are formulated, facilitated, regulated and enforced by the Ministry of Higher Education (MOHE) in Malaysia. These policies are formulated in consultation with the relevant stakeholders and also in view of international best practices, thus reducing the problem of policy coordination within the Ministry and its affiliated agencies.

In Mode 1 (cross-border trade in services), it was found that the main barrier to trade is not related to regulations but to the preference of the students for the more traditional mode of learning. Policy coordination problems emerge as distance and e-learning is dependent on policy decisions from other ministries such as the Ministry of Energy, Water and Communication to improve the country's infrastructure support.

Nevertheless, the implementation of PHEI policies may also encounter several problems related to inter-agency coordination despite the consultative process that took place during the formulation of policies. As shown by the results of a survey of PHEIs conducted as part of this study, the main problem encountered in Mode 2 (consumption abroad) is the students' visas, which requires coordination between MOHE and the immigration department.

In the case of Mode 3 (commercial presence), the study found that unlike the case of goods, investment in education services is less dependent on foreign equity. Instead, the mobility of programs has led to the emergence of a large variety of foreign-linked programs in the country that have no links with foreign equity investment. Foreign equity thus plays a less important role in trade in education services. The accreditation problems identified in the survey may be attributed to the large number of players as well as the variety of programs and institutional capabilities of different players as not all PHEIs are equally equipped to meet the demands of LAN. As of 2006, 839 programs have been fully accredited and 5,865 have been awarded provisional accreditation. However, another 1,600 programs are

still unaccredited. Although the reasons for the large number of unaccredited programs are not known, the system of accreditation may need further improvements.

The main problem associated with Mode 4 (natural persons) appears similar to that of students' visas, namely processing time to obtain visas and work permits. Shortening the entry time will facilitate the entry of foreign lecturers although cost considerations may be a more natural barrier to trade in this mode. Ultimately, the potential of Malaysia to be an educational hub will depend on the development of the PHEIs in the country from mere teaching institutions into world-class universities that have high caliber faculty members who are also researchers.

It should be noted that the study faces some limitations as the survey was restricted to the 27 PHEIs allowed to confer degrees in 2005. Out of these 27 PHEIs, only eight responded. Nevertheless, the interviews and in-depth semi-structured interviews with some of the PHEIs, trade association members and officials from the Ministry of Higher Education provide some insights on the trade and investment issues in this sector.

I. Introduction

In Malaysia, the service sector has grown considerably over time. In 1980, it contributed 44.7% towards the Gross Domestic Product (GDP) and 46.0% of total employment of the country. By 2005, its contribution has grown to 60.8% of GDP and 58.0% of total employment in the country (Malaysia 2006, 523). Its importance for the country in terms of complimenting the growth in manufacturing was recognized in the Second Industrial Master Plan (IMP2: 1996-2005) that first introduced the idea of developing supporting services under its Manufacturing ++, or the cluster-based development strategy. However, no specific service sectors were targeted for development.

In contrast, the Third Industrial Master Plan (IMP3: 2006-2020) not only reiterates the importance of the service sector as an important intermediary for supporting the development of businesses and trade in all sectors, it further targeted eight service sub-sectors for development. These are business and professional services, distributive trade, construction, education and training, healthcare services, tourism services, ICT services and logistics. The contribution of these sub-sectors as new sources of growth for the country includes their potential to provide linkages and spillovers between sectors. Nevertheless, given the limited size of the domestic market and the importance of trade to the Malaysian economy, the potential of these sectors to be new sources of growth for the country is inevitably dependent on their export potential.

Although Malaysia has not offered to open up education services under its current commitment in the General Agreement on Trade in Services (GATS), the government has progressively opened up the sector for private and foreign participation. As noted in the IMP3, there are currently 16 private universities in the country, of which 11 are Malaysian-owned and five, branch campuses of foreign countries (Malaysia 2006, 552). At the same time, Malaysian higher education institutions are also establishing campuses abroad. The number of foreign students enrolled in HEIs in Malaysia is also increasing. In 2005, a total of 40,525 foreign students were reported enrolled in these institutions, with 84% in private higher education institutions (PHEIs) (MOHE 2006a, 2-22 and 3-25). This has contributed towards export revenue and also towards reducing the perennial services deficit in the country.

Malaysia has also recognized the potential contribution of PHEIs towards economic growth. This is evident from the report from the Ministry of Higher Education (MOHE 2006b, 77) that recommended PHEIs as a sector that can generate economic growth besides increasing access and equity. In fact, Malaysia has aimed not only to be a regional center for higher education but also to be a global education hub by 2010.

In view of the above developments, this study aims to explore the trade and investment links in private higher education in Malaysia. Specifically, the study assesses whether, and if so, how trade and investment policies in general, and in the education sector in particular, are coordinated at the national level. Barriers towards

trade and investment in private higher education are also examined in order to provide policy input for the liberalization of trade and investment in private higher education, focusing in particular on the need for trade and investment policy coordination at the national and regional level.

II. Evolution of Private Higher Education in Malaysia

2.1 Historical Overview

Private higher education is not a new phenomenon in Malaysia; rather this sector has been in existence since the 1980s (Tan 2002, 142). Affirmative action undertaken under the New Economic Policy (NEP) that was promulgated in 1970 after the politicized racial riots in 1969 led to the use of a quota system that restricted the admission of non-Bumiputeras¹ in public institutions of higher learning in the country. Consequently, private higher educational institutions (PHEIs) emerged to meet this excess demand, especially during the economic recession in 1985 as the alternative; an overseas education became too expensive. In particular, the imposition of full fees on overseas students by the British universities led to an increase in the demand for private higher education in the country.

Economic recovery and the subsequent buoyant growth of the economy in the second half of the 1980s intensified corporate presence in this sector, thereby facilitating the rapid growth of private higher education. Malaysian companies, be it individually, or as a consortium of companies or public listed companies or government corporations viewed private higher education as an alternative source of revenue as well as a means to enhance the property values of corporations that are involved in the development of new townships (Tan 2002, 120). The rapid development of this sector did not just serve to reduce foreign exchange losses by providing an alternative pathway to an overseas education for domestic students. Rather, the government envisioned that the development of this sector into a regional education hub would also enable Malaysia to shift from being a net importer to become a net exporter of higher education by 2020 (McBurnie & Ziguras 2001, 93). At the same time, it would also complement the government in meeting the human resource needs of the country.

By 1995, 34.7% (or 127,423) of the students enrolled in higher education were enrolled in private institutions while 51.5% were enrolled in local public institutions of higher learning (Lee, 1999, 37). The rest were studying overseas. The number of PHEIs grew from 156 to 354 in 1996. In response to the rapid growth in private higher education, the Private Higher Educational Institutions (PHEI) Act and the National Accreditation Board Act were passed in 1996 to enhance the development of PHEIs by enabling the private sector, for the first time, to establish degree-granting institutions as well as foreign universities to set up branch campuses in the country. The Act also defines the government's regulatory control over all PHEIs while the National Accreditation Board (commonly referred to as LAN), was established to ensure that minimum standards as determined by the Board are met by the PHEIs. In addition, LAN also awards certificates of accreditation to the certificates, diplomas and degrees conferred by the PHEIs. Subsequently, the recession in 1998 due to the

¹ Bumiputeras refers to the Malays and indigenous ethnic groups in Malaysia.

advent of the Asian Financial Crisis (AFC) contributed toward an accelerated implementation of these Acts and a further push to develop the PHEIs.

In 2004, the Ministry of Higher Education was established to oversee the development of both public and private higher education in the country. By 2005, there were 258,825 students enrolled in PHEIs or 45% of the total number of students enrolled in the institutes of higher education in the country (Ministry of Higher Education 2006a, 3-25). The number of foreign students enrolled has also increased from 13,472 in 2001 to 33,903 in 2005. In 2005, these foreign students comprised 13% of the total number of students enrolled in PHEIs.

2.2 Nature of Private Education Activity: Major Players and Types of Provisions

Based on Table 1, it can be seen that there are five types of PHEIs that are currently operating in Malaysia. As at 2005, there are 10 PHEIs that have university status. Out of these 11, three are universities that were set up by the three public corporations in telecommunications, electricity and petroleum (Tan 2002, 129). Of the three, Universiti Multimedia (or the Multimedia University) was the first to be established in 1999 (see Appendix 1). The public corporations were privatized first before they expanded their operations to the education sector. Although they were initially set up to produce engineers, the programs offered have expanded beyond engineering over time.

TABLE 1. Number of Private University/Colleges, 2005

| No. | Category of Private Institutions | Number of Private Institutions |
|-----|------------------------------------|--------------------------------|
| 1 | Private Universities | 11 |
| 2 | University Colleges | 11 |
| 3 | Foreign University Branch Campuses | 5 |
| 4 | Colleges | 532 |
| 5 | Total | 559 |

SOURCE: Ministry of Higher Education (MOHE) 2006

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