

Bankruptcy Crisis of Private HEIS in China: A Discussion Based Upon the Policy Environment

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Abstract: The Chinese private higher education institutions (HEIs), with the feature of different types, played an important role in the process of mass higher education in China. However, many private HEIs are facing the bankruptcy crisis, because of the change of environment, such as fewer enrollments, more severe competition and so on. This study mainly examines the bankruptcy crisis of private HEIs in China in the context of policy environment. This is undertaken through an investigation into the underlying limitations in the current policy environment. As a conclusion, recommendations are offered on the key issues aimed at overcoming the policy blocks encountered by the private HEIs.

Keywords: China; private higher education; bankruptcy crisis; policy environment

1 Introduction

With the rapid development of higher education massification, the growth and expansion of private higher education has occurred and been experienced in many parts around the world. Especially since 1990s, the private higher education has played a significant role in many countries.

A rich body of literature has emerged about the phenomena of private higher education and the majority of prior studies show an optimistic attitude. As Altbach argues that private higher education is the most dynamic and fastest growing segment of post-secondary education at the turn of the twenty-first century, the role played by private higher education-- which is able to adapt quickly to changing market conditions, student interests and the needs of the economy--is bound to grow(Altbach, 1999). Unfortunately, little is known about the severe environment for private higher education institutes (HEIs) in developing countries like China where public HEIs are in the leading position and private ones as a supplement (Chen, 2008). In recent years, closing down private HEIs has become a serious problem in China. So it is critical to examine the bankruptcy crisis of private HEIs in China.

In this study, we aim to examine the bankruptcy crisis of private HEIs in China in the context of policy environment. It begins with an overview of China's private higher education development since the open-door policy onwards. Then, the bankruptcy crisis of private HEIs in China is examined. In which we dig more into the influence of China's education policy. As a conclusion, we profound some ideas on what countermeasures Chinese government should take to the private higher education development.

In analyzing policies, policy documents and speeches of top officials were selected and presented according to their perceived importance and the time sequence. The China Education Daily was the main source of voices of educational bureaucrats and higher education institution administrators. Numeric data were mainly collected from the websites of the Ministry of Education of China. And relative research literature and some secondary sources were also used.

2 The Development of Private HEIs

Recovery and Organization

The Chinese private higher education revived in the early 1980s with the economic system reform and open-door policy. The 1982 Constitution stipulates, “The state encourages collective economic organizations, governmental enterprises and other social groups to initiate and administer various kinds of legal educational activities.” And the “other social groups” includes private school operators as Peng zhen, Deputy chairman of the fifth National People’s Congress in 1982, explained in the Report on the Draft Amendment of the Constitution of the People’s Republic. In this sense, the private HEIs in China gained opportunities to recover.

However, the private HEIs in China are officially labeled with “minban” instead of “private”. Minban, is hard to define explicitly as a concept, it is more like a euphemism under the Chinese background. The Chinese expression minban literally means “people-run”. As observed by Cai and Yan (2011), the private sector is an integrated part of the Chinese higher education system to supplement the shortage of education supply by the public HEIs. Tried every way to survive and develop, diversification and differentiation of institutions are shaped step by step with the different stages of private higher education development (See Table 1).

Table 1 The variety of private higher education institutions in China

Institution types	Emerging time	Names	Functions	Notes
Type 1	In early 1980s	Colleges/Universities Self titled, without own properties.	Providing utilitarian short-cycle programs, or the study aids to self-taught students	
Type 2	In early 1990s	Colleges/Universities Self titled, with own properties.	(1)Rights to award diplomas in 3-year-college level; (2)Attending the Higher Education Diploma Examination.	The Higher Education diploma Examination was canceled by the Ministry of Education in 2004.
Type 3	In mid 1990s	Colleges/Universities Self titled, with own properties and better infrastructure.	Granted rights for both associate degrees of 3-year-study and bachelor degrees of 4-year-study.	
Type 4	In late 1990s	Independent colleges Affiliated with the public-funded regular universities.	Granted rights for bachelor degrees of 4-year-study.	Once very popular, but also criticized as fake private ones.
Type 5	In late 1990s	Sino-foreign colleges/universities Cooperated with famous universities in developed countries.	Granted rights for bachelor degrees of 4-year-study. Providing both domestic and abroad studies.	Continuously popular

It can be seen from the above that private HEIs are becoming more diversified with all categories while they are expanding. Namely, except the private HEIs implementing the Higher Education Diploma Examination which was canceled by the Ministry of Education in 2004, there are now four patterns of private HEIs as the follows: institutions offering short-cycled training programs, degree-granting colleges and universities, independent colleges and co-operated Sino-foreign colleges.

3 Great Leap Benefiting from Expansion in 1999

During the twentieth century, higher education expanded on a large scale throughout the world, keeping pace with expansion in industrialization, rapid developments in science and technology and radical changes in society. China has also witnessed unprecedented expansion in its higher education ever since the radical growth of gross enrollment started in 1999.

The most striking growth in 1999 put an end to the long debate over what pace to keep up with, and further fire-started the sprint towards mass higher education in just a few years. The then Minister of Education Chen Zhili is quoted as saying at the Annual Work Meeting of the Ministry of Education in 2000: “The Ministry of Education was required to amend its annual recruitment plan for the fall of 1999 as 1.3 million to admit more students as 1.53 million, and the actual recruitment was 1.678 million. The total recruitment of all institutions was 2.85 million in 1999, which was a 32% increase over 1998. Then expansion went on in 2000, and the total recruitment of all institutions was 3.8961 million, which was a 35.5% increase over 1999. The total recruitment of all institutions was 4.8091 million in 2001, which was a 23% increase over 2000” (China Education Daily, January18, 2000). So only in 4 years, China entered the phase of mass higher education in 2002, with the gross enrollment rate breaking through 15% (Yang, 2005). See Figure 1.

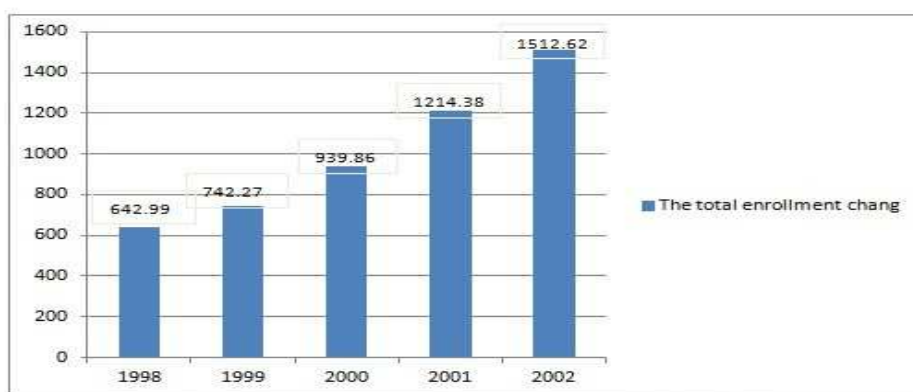


Fig1. The total enrollment change by year (Unit: in ten thousand)

Source: The ministry of education statistics data (1998-2002), with author's modifications

The expansion since 1999 was a typical case of government intervention in higher education in China, reflecting the government's social and economic development strategy (Wan 2006). Furthermore, research shows that enlarged higher education since 1999 are mainly provided at local public and private HEIs. The enrollment in local public colleges and universities was 14.578 million in 2008, 6.5 times that in 1998. Over the same period, the enrollment in national universities only increased slightly from 1.541 million to 1.705 million. Private institutions and independent colleges together enrolled 3.927 million students, which accounted for 19.4% of total enrollment in 2008 (Liu 2012; Wang and Liu 2011). See Figure 2.

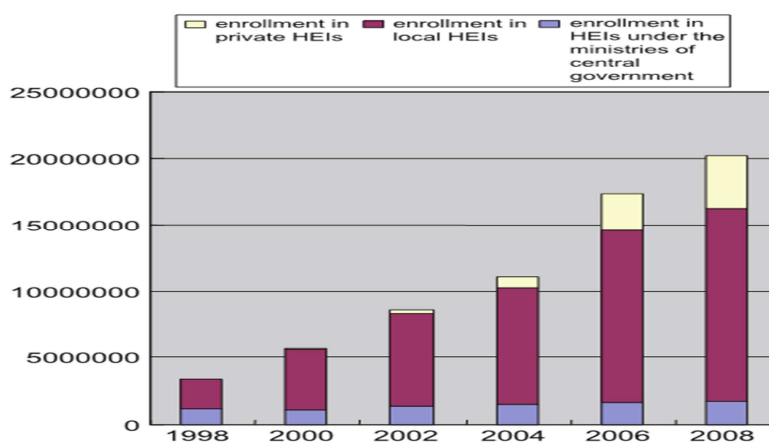


Figure 2 The enrollment in national, local and private HEIs by year

Source: (Wang & Liu 2011)

The reason why the enrollment of national universities increased little is due to another policy of

"building world-class universities". Highly-skilled human resources and knowledge innovation are viewed as the two major strategies for the development of a "knowledge economy". And the Chinese government also promoted the building of world class universities to enhance research capacity, believing that world-class universities increasingly reflect a nation's overall power. With the goal of developing a network of comprehensive research universities able to produce world-class research, the Chinese government initiated Project 211, then Project 985. These projects are both priority-funding policy that channels extra money to the nation's top universities. These special policy designs greatly attract national universities to chase publications and rankings rather than the growth of enrollment.

Chen describes the above policy making as "Two-Legged Policy" and argues that China's higher education has been principally dominated by the public institutions for many years, but since the launch of mass higher education, private higher education has appeared on the high agenda. (Chen 2004). Only in five years from 1997 to 2001, numbers of private HEIs and their enrollments increased several times. According to Ministry of Education statistics, the number of private HEIs got qualification to award diplomas increased from 21 in 1997 to 89 in 2001 as an increase of 323%, with their enrollment from 12,000 in 1996 to 140,000 in 2001 as an increase of 1,066% ; and the number of private HEIs implementing the Higher Education Diploma Examination increased from 89 in 1996 to 436 in 2001 as an increase of 389%, with their enrollment from 51,400 in 1996 to 321,000 in 2001 as an increase of 514% (Green Book of China Minban Education, 2002).

4 Great Leap Benefiting from Expansion in 1999 Bankruptcy Crisis of Private HEIS

The Striking Recession of Higher Education Scale

The private HEIs got flourished with the higher education expansion in 1999, but soon after that, they have encountered the striking recession of higher education scale since 2009. As higher education expansion in China started by some specific causes and mainly launched by the state government with education policies. Thus the expansion cannot be stable and sustainable. Compared to the 1999 expansion, in 2009 , there was a clear inflection point, showing the recession of higher education scale. According to the college entrance examination enrollment figures, in 2009, college entrance examination enrollment declined the first time after ten years of continuous growth. The decline went on both in 2010 and 2011, showing the further trend of clear inflection point (gaokao.eol.cn, 2012) . See Figure 3.

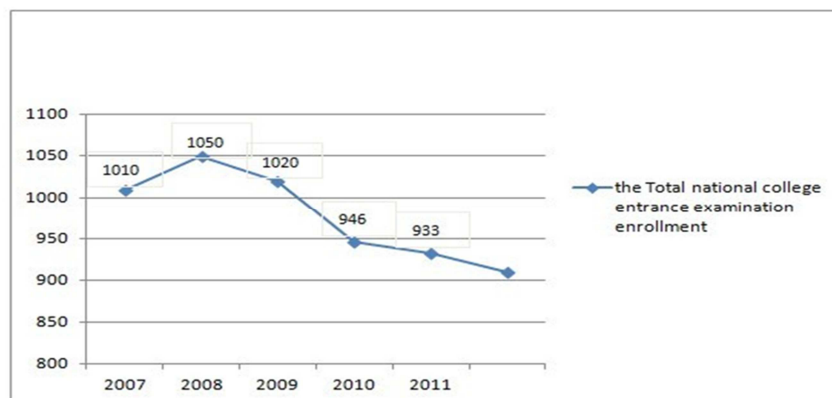


Figure 3 The total national college entrance examination enrollment by year (Unit: in ten thousand)

Source: Investigation Report on College Entrance Examination Enrollment in 2012.

<http://www.eol.cn/html/g/report/2012/report1.shtml>, with author's modifications. Accessed on August 20, 2012.

Virtually, ever Virtually, ever since 2009, private HEIs have encountered more difficulties of

recruitment. As some research shows, from 2009 to 2010, enrollment in private HEIs were obviously lower than that in previous years and enrollment rate in some private HEIs were even 70% less than that in previous years. And this has caused large number of private HEIs on the edge of bankruptcy. The famous Oriental University City in Langfang, Hebei province, which can hold 60,000 students, only recruited 30,000 students in 2009. Meanwhile two thirds of the private HEIs there went bankrupt (Huang 2012). And in recent years, bankruptcies of private HEIs have been reported from time to time by many media. According to the recent report on admission status of the national college entrance examination in 2012, many private HEIs did not complete their recruitment plan though their admission scores were very low, which caused them serious survival crisis (www.cnr.cn, accessed on August 27, 2012)

Further Deterioration of the Situation

To deal with the student enrollment shrink, acceptance rates increased yearly with the college entrance examination enrollment kept in declining. Relatively, the minimum passing scores of the college entrance examination terribly dropped. In 2011, even though the minimum entry points dropped in higher vocational colleges in some provinces to 150 (full marks are 750), their annual recruitment plan still could not be completed (www.21cbh.com, June 5, 2012). Here we take Shandong Province, generally with the largest scale of college entrance examination enrollments, as an example. Shandong also met the problem of decline of the college entrance examination enrollment as well as the increase of acceptance rates as Table 2 shows. Meanwhile, the minimum passing scores of the college entrance examination dropped year by year. And in 2011, the minimum passing scores were dropped to 180, which was 350 scores in 2002. Even so, there were 967 HEIs meeting the vacancy of student enrollment (www.21cbh.com, June 5, 2012).

Table 2 Status on the national college entrance examination in Shandong (2007-2011)

year	2007	2008	2009	2010	2011
number*	77.7	80	70.1	65.6	58.7
acceptance rates	61.6%	72.5%	74.27%	79.72%	87%

*means the number of the national examination enrollment (in ten thousand)

Source: Based on the data from the Investigation Report on the National College Entrance examination, http://www.eol.cn/baogao_11480/20110428/t20110428_608023.html, with author's modifications. Accessed on August 20, 2012

Moreover, the above problems of student enrollment crisis cannot be eased in the next few years due to the following reasons.

First of all, higher education school-age population in China will continue to reduce due to the low birth rate. China's one-child policy has led to substantial drops of population birth rate (See Figure 5). According to the forecast of the Research Report on National Education and Human Resources in 2003, China's higher education school-age population base peaks in 2008 as 124.88 million, then it will decrease year by year to 82.08 million by 2020 (Jia 2010). And research also shows that in China's case, as well as for other countries in Asia, demography has become a key factor in higher education planning. By 2020, the number of students in primary and junior secondary education will drop by 18 million. With a rising aging population and a decline in the school-age population, a shift of resources toward basic education and away from higher education could have unfavorable long-term implications (Postiglione 2011).

The even more serious problem is that students' desire and financial support to accept higher education has been weakening. The educational expenditure is very huge. As a result, students from poor rural areas and urban poor families cannot afford the higher education services due to the increasing financial difficulties. The situation have been deteriorated further due to the downturn of the job markets. Research shows that graduates' initial employment rate has reduced year by year since the higher education expansion in 1999. The graduates' initial employment rate was 70% in 2001, 64.7% in 2002 and 50% in 2003 (Min 2006). Meanwhile, graduates' initial emolument has reduced year by

year. And a survey shows that some graduates' average monthly salary is even lower than that of those rural-to-urban peasants currently (Beijing Morning Post, September 9, 2009).

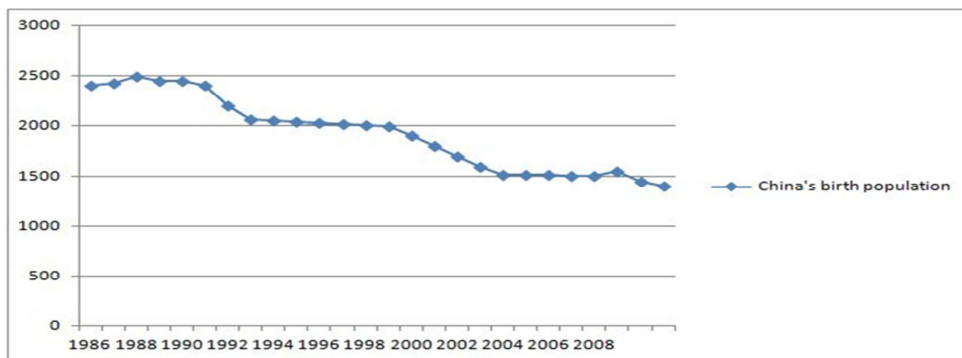


Figure 4 China's birth population from 1986 to 2008 (Unit: in ten thousand)

Source: *China Population Statistics Yearbook, 2006*. With author's modifications

Another impact comes from the HEIs in Hong Kong and some developed countries. Masses of students in the mainland of China have started their outbound study. Ever since the late 20th century, each year, a thousand more top students in the mainland have been recruited to the universities in Hong Kong. And the number of students in the mainland who study in universities of Europe and the United States is increasing, which has maintained a 20% annual growth rate in recent years (Bin and Li 2011).

5 Main Causes Leading to Bankruptcy Crisis of Private HEIs

The bankruptcy crisis of private HEIs in China was caused by many factors. Levy's observation, from a global perspective, indicates that there is a mix of technical and institutional logic operating simultaneously within the private higher education system. The technical logic works mainly in a market or technical environment, while the institutional logic is subject to the environment with strong traditions and norms (Cai and Yan 2011). A unique history with strong tradition and norms has caused the difference.

First and for most, conflicts between "private characters" and "public-oriented norms" run through the whole process of the development of Chinese private HEIs. The Chinese private higher education used to be one of the most important parts before 1949. Owing to the public-oriented norms, especially hierarchical collectivism in the Mao era, the term "private" was portrayed as the root of evil and individual and private economy underwent an arduous and tortuous process. As a result, all private HEIs vanished quickly with the great integration of HEIs in 1952 (Qin and Yang 1993). Nevertheless, the reform of the economic system provides opportunities for the rapid development of private HEIs while the private sector and the market have become incredibly prominent. On the other hand, the operation of market economy has deeply embedded all the way in the process of the private higher education development and has been fully consolidated with the movement of Chinese mass higher education.

Most of the private HEIs in China have basically depended on tuition fees to exist and develop ever since initiated. This kind of development mode of private HEIs lasted until the mid 1990s. From then on, some big private enterprises and large listed companies entered private higher education by the disposable investment for finding out the huge market space brought about by the higher education development. Meanwhile, those early private HEIs relying on little investment began to largely increase investment by various financial means as loans and capital raising, etc (Pan et al 2012). So it

is clear that most Chinese private HEIs have been established and developed for economic benefits. The Report on Chinese Minban HEIs Evaluation in 2008 shows that private HEIs charge tuition fees around 2 times higher than those of public institutions as more than 10 thousand yuan per student. (Li 2008). Some other studies have also confirmed the opinion that running school by investment is indeed connected tightly with seeking profits. And running school by investment is the basic characteristic of private education after the reform and open-door policy in China (Wu 2007; Pan 2012).

The for-profit behavior of private HEIs is obviously against collectivism and the public-oriented norms, which have deeply rooted in the Chinese society. Thus, the state government shows great ambivalence in the policy making. And the state government's attitude has been acquiescence but not accepting to the for-profit behavior of private HEIs. For example, private higher education is defined as "public welfare" by laws and regulations with the clear restriction of not pursuing profits as the goal of running school. Though the Law on the Promotion of Privately-run Education, in 2002, grants income rights to individuals and/or social organizations making capital contributions to the establishment and/or operation of private schools, specifying that such income should represent "reasonable returns" taken from any residual realized surplus, net of all operating expenses, reserves for future development and fees to the state, such clauses cannot be implemented due to the absence of other supporting mechanisms to ensure a level of fairness in the returns. Besides, the formulation of laws and regulations lags behind the private higher education practice. And many different arrangements seem to be in place, but actually far from transparent. It should be noted here that the legal property ownership rights of private HEIs have not been clarified. Private college fund providers do not possess full property ownership, but instead, only usufruct rights on their assets. Thus, regardless of whether the school remains in operation, such rights are neither permanent nor transferable (Su 2012). Theoretically, running school by investment is inherently consistent with property ownership rights. The investors might in expediently extract short-term profits instead of expanding assets in teaching and learning due to ambiguity of property ownership rights. It is, therefore, quite disastrous in the long run.

All in all, the operation mode of marketization of Chinese private higher education is basically in conflict with the traditional higher education management system. The Chinese higher education system has long been highly centralized, with education provided by the central and local governments, respectively, under their direct administration (Yang 2005). In this regard, the reemerged Chinese private higher education is allowed but not really accepted, which is somewhat taken as an instrument to supplement the shortage of education supply. The policy making about private higher education is thus intended to a pragmatic resolution, lacking coherence and systemization. There is no basic legal framework to guide private higher education in a healthy and continuous development. Many of the implementation of the policy is even discriminatory against private HEIs. Recruiting students, degrees and certificates awarded, and job opportunities, are all of systemic inequality between private and public HEIs. The government has not intended to promote the development of private higher education by financial aids. On the contrary, some local governments charge management fee to private universities (Li and Hou 2008). Furthermore, the launch of "211 project" and "985 project" further strengthened the Matthew effect in resource allocation, intensified competition among colleges and universities and in the end put private higher education institution into a more vulnerable position.

The state government's attitude and its policy making directly lead the Chinese people's choice for education. The public have doubts and even discrimination thinking that private HEIs are not traditional, of poor quality, seeking for profit and so on. Instead, they adopt an unshakable confidence in state-run universities and colleges. As a result, private HEIs in China are actually located at the bottom of the hierarchical higher education system in terms of prestige. And students opt for private HEIs as an alternative if they fail to be selected into the state-operated universities. These relatively lead to the shortages of student recruitment and enrollment. More and more private HEIs are spending lots of manpower and financial resources in fishing for freshmen. More seriously, most students

admitted have much lower scores on the college entrance examination because of the recruitment competition. The poor enrollment inevitably brings side effect for private HEIs to build up an academic reputation and status. The vicious circle will further drive some private HEIs into more difficult position in student recruitment. Student enrollment shortages will inevitably bring serious financial crisis for tuition payments are the financial basis of the most private HEIs in China. And without enough tuition payments, survival would be impossible. As domino effect shows, private HEIs turned to be the first to meet the bankruptcy crisis due to their disadvantaged position in the whole higher education system.

6 Concluding Remarks

After experiencing a rapid development benefiting from the most striking expansion in 1999, the Chinese private HEIs began to encounter bankruptcy crisis with the recession in higher education, which has been more and more serious ever since 2009.

There are overall many causes to the bankruptcy of private HEIs in China. However, the root cause can be traced back to the conflicts between private economic benefits and public-oriented norms. The basic characteristic or the hallmark of the Chinese private HEIs—and one of their serious problems—is seeking profits, which originated from running school by investment. This is obviously against the public-oriented norms solidly established ever since the Mao era. Besides, operating mode of marketization adopted by the Chinese private HEIs cannot match with the highly centralized education management system. The Chinese government has shown a deep ambivalence in the formulation of policies and regulations, whose side effects have driven the Chinese private HEIs to the lowest rank of the whole system struggling in a very adverse situation.

There is a requirement for the government to gain a clear understanding of the need to maintain an appropriate balance between the expansions of private higher education as a whole, and continuing governmental control over the country's entire educational system (Mok 1997). It deserves attention here that the development of private higher education in China is likely to hinge on educational policy environment which represents government attitude and action.

In facing pressing issue of bankruptcy crisis of private HEIs, policy makers need to seriously reflect upon their foundational philosophy regarding the purpose and practice of private higher education so as to provide a positive environment for its sustainable and healthy development. This is particularly important in the Chinese context.

From the perspective of the specificity of private higher education in China, it needs to maintain a legal clarity in property ownership rights. Therefore, the government should take into consideration a number of policy options for possible implementation. Meanwhile, since funding is the basic premise closely related to the existence of private HEIs, it is therefore recommended that financial support from government should be included into the policy framework as soon as possible. Taking the bankruptcy events into account, it is also suggested to establish the prediction system, exit mechanism and accompanying policies for relevant issues of private HEIs.

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