

# **EXPORTING HIGHER EDUCATION SERVICES: AN ENGINE OF GROWTH FOR HONG KONG?**

**By Glenn Shive**

**January 2010**

In response to the financial crisis in 2008, Hong Kong Chief Executive Donald Tseng established a Task Force on Economic Challenges (TFEC) with himself as chair. Last June it selected “six new engines for economic growth for Hong Kong’s knowledge-based economy” to complement the traditional four pillars of financial services, producer and professional services, trading and logistics, and tourism. Education service was one of the six new engines selected to diversify the local economy in the wake of financial crisis and global recession and help power it toward recovery. The TFEC report said that higher and continuing education should play an expanding role in the region, along with medical services, cultural and creative industries, environmental industries, innovation and technology and testing and certification.

Leaders of Hong Kong’s universities here have advocated for years that the territory should become a regional hub for higher education, and that government needed to lead the way by establishing a broad policy framework to facilitate this internationalization. The government has taken several actions to encourage this trend, including (1) raising the allowed percentage of non-local students in these universities upward from 10% to 20%, (2) adjusting immigration rules to ease entry for non-local students and allowing them to stay after graduation to work, and (3) creating new scholarship funds to attract post-graduate students to Hong Kong for doctoral level studies. (See: [www.rgc.edu.hk/Hong\\_Kong/Hong\\_Kongphd](http://www.rgc.edu.hk/Hong_Kong/Hong_Kongphd)). The Department of Education has also (4) allowed non-local students to enroll in continuing and self-financed courses, sometimes in collaboration with off-shore providers. Universities also have expanded their international recruitment activities and on-campus services for non-local students. The new four-year undergraduate curriculum beginning in 2012 (replacing a three-year system) will coordinate Hong Kong universities with mainland and North American systems, and allow more

foreign study options for local undergraduates. Citing the export of higher education services as an engine of economic growth recognized a decade of groundwork by universities and government to internationalize their programs and create a regional hub for higher education.

A robust higher education hub in Hong Kong should surely be an engine for growth in a knowledge-intensive economy. Indeed, its foundation as a service economy depends heavily on the quality of its human resources and the higher education system to cultivate that talent. However, this economic engine will be best conceived not as a sports car in a fast race to financial recovery but as a long-haul, over-the-road endurance race to position Hong Kong as a smart Asian city capable of innovating and adapting its service economy to the region's changing needs. We need that engine, perhaps not to beat the recession of 2008-09, but surely to overcome the downturn after this, and again the one beyond that.

### **Students and Cash Go Different Ways**

Exporting education services has a linguistic irony. The exporter usually brings the student into its jurisdiction to reside on a campus and become a consumer of academic and other services. These include banking, telecommunications, air travel, housing, food and restaurants, entertainment and tourist services, etc. In addition to the revenue to related industries servicing students and their parents, the long-term benefit to the exporter is often the opportunity to attract highly talented people to work, live and contribute locally. An importer of higher education services sends its young people away to university. The money and the students go in opposite directions.

America, the United Kingdom, Australia and Canada are the world leaders in export of higher education services. For example, higher education is Australia's second largest export earner after raw materials. Hong Kong, with a small tertiary sector, has traditionally sent many of its young people abroad, as their parents know well from the checks they send to overseas universities. The benefits of these student movements have gone both ways, and Hong Kong is uniquely international for its high percentage of students who have studied abroad. As an economy, however, Hong Kong the importer is slowly restructuring itself to become a services exporter by bringing in more overseas students. Import substitution in

manufacturing has often been an early stage leading to export-driven growth in Asian economies. It works for service economies as well.

Only in the past 20 years has the city built the capacity to educate about 100,000 students in its eight public universities. Perhaps an equal number have been able to enroll more recently in expanded self-financed programs, mainly at the sub-degree level and often linked to the universities. The participation rate of school leavers in post-secondary education within Hong Kong is now well over 60% (which was former Chief Executive C. H. Tung's target in 2001), with another 10% going abroad.

The Hong Kong government spends about one fourth of its annual budget on education, and about one fourth of that amount on higher education. The continuing and self-financed programs have in effect created a vibrant private higher education sector with additional capacity that could be used, with adaptation, to service substantial numbers of non-local students residing here.

This expansion fits the global trend toward mass high education in general, as well as the explosive growth in international student mobility. In 2000, the number of students studying outside their own country was about 1.8 million. By now that number is likely to be about four million. One estimate claims this will exceed seven million by 2025, with 70% (or nearly five million) of these students coming from Asia.

A major question is whether a substantial proportion of this growth in student mobility will follow the well-trodden pathways to universities in the traditional exporter countries of the US, the UK, Australia, Canada and Western Europe, or whether Asian countries and regions, strengthened by expansion of their own universities, will attract many of these newly mobile students to attend universities within Asia. This is the regional and macro-context in which Hong Kong plans its distinctive role as an Asian regional hub for higher education.

Another linguistic irony for Hong Kong as an education exporter is the difference between international and non-local students. More than 90% of the total non-local student population is from the Chinese mainland, with high concentrations in post-graduate, research-based science, engineering and technology programs.

Business and management studies are also popular. Students from elsewhere are few indeed, and are mainly on exchange programs with universities in North America and Europe.

If mainlanders are counted as international students, (which they officially cannot be in what is now part of China) then Hong Kong universities are becoming international at a rapid rate. If they are not, then the city has not yet moved far in establishing itself as a destination in the broader Asian region, much less the world, for higher education services. Even its ability to attract top students from the mainland depends to some degree on the international character of its universities. Having the best and brightest from the mainland should in turn help attract international students who might want to mix with China's future leaders.

Hong Kong universities enrolled about 9,200 non-local students last year, double the number for 2005-06. In addition, about 3,000 international students arrived for study on semester or year-long exchange programs, with an equal number of local students going abroad. Both categories are likely to expand in the years ahead.

### **Working to Create a Brand Name**

“Brand HONG KONG” for higher education already has become reasonably well established in the huge and growing China market. Its attraction as a destination for degree study has not been made as well in other Asian markets or farther afield. While its universities have capitalized on their positional advantages—being both linked to and separate from the mainland—this successful branding did not happen by itself. Hong Kong university staffs have been busily recruiting students in major mainland cities and hosting many delegations of mainland educators. The mainland and overseas offices of the government's Trade Development Council (TDC) have assisted universities in this outreach effort to some extent, but marketing higher education is quite unlike others products and services. There is limited coordination among universities while abroad, as the competitive instincts among them are sometimes projected outside of Hong Kong as well. Meanwhile, the first question asked by a prospective non-local student is not about which Hong Kong university to attend, but why study there in the first place?

The consensus among local universities looking to the mainland market rightly has

been to preserve quality rather than chase after quantity. The Chinese mainland has expanded its own university sector so rapidly in the past decade that it is near the point of imperiling its own quality standards. Thus many mainland students appear willing to pay for a place in a Hong Kong university over attending even a relatively well-regarded local university, mainly on grounds of quality. Five of Hong Kong's public universities are ranked in the top 200 worldwide of the recent Times Higher Education Supplement league tables.

Hong Kong universities have integrated themselves into the admissions process of the mainland even while differentiating themselves as best picks for smart, ambitious, internationally-minded high performers in the mainland school system. Local universities have targeted the top tier of institutions nationally for research and program partnerships, rather than confining themselves to expanding only into its backyard of the Pearl River Delta with the risk of being seen in China only as regional players.

Even so, Hong Kong universities need to develop a Pearl River Delta strategy for its regional hub, possibly incorporated into an agreement for delivering its education services on the mainland through joint ventures, branch campuses and distance learning partnerships. The fundamental barrier to developing such arrangements has been a requirement of China's national higher education law that foreign institutions must link up as junior members with local institutions as the senior partner. For this purpose, Hong Kong universities are viewed as foreign entities.

Apart from the joint delivery of certain degree programs in the mainland, the only major campus-creating partnership between a local and a mainland university to date is the United International College (UIC), a venture in Zhuhai of Hong Kong Baptist University and Beijing Normal University. With 4,000 undergraduates now enrolled in a liberal arts, English-medium bachelors degree program, the UIC is an important experiment in offering Hong Kong-style university instruction and Hong Kong-accredited undergraduate degrees to a mainland student body in the mainland.

### **Where to Put the Students?**

Meantime, discussions are underway between Hong Kong and Shenzhen about creating joint academic and research institutions that would straddle their common boundary. The Open University of Hong Kong has offered distance learning services on the mainland, but always through partnerships that limit their discretion. Unless a new agreement can be reached between governments that would give Hong Kong universities the legal status needed to offer their own degrees in the mainland, it appears that the Hong Kong higher education hub concept will remain physically located here, with mainland students coming to it. This in turn creates the challenge of space, of where to put the additional students in this highly concentrated population center.

Back in the 1990s, generous scholarships offered by the Jockey Club and other donors enabled Hong Kong universities to “cherry pick” the best and brightest of undergraduates from the mainland, regardless of need. Now with their reputation to attract (and do well by) top mainland students well established, these universities have begun to shift to a broader mix of students who have both academic merit and resources to pay. It is one thing to induce a few excellent students from top-tier institutions to attend local universities on full scholarships, but quite another to attract a broader population of good students from across the nation who will pay a substantial amount of their parents’ savings to come here for their degrees.

Scholarships have allowed local universities to prime the pump of student interest and establish a strong brand for themselves in the mainland. That brand includes internationally trained faculty as instructors, high research productivity linked to a dynamic commercial economy and access for further study internationally, as well as globally competitive employment in multinational firms. Given the flow from the mainland, local universities are reaching the point where they can no longer educate these students at marginal cost to the overall infrastructure. They are therefore gradually and appropriately raising tuition for non-local students to reduce the subsidy factor. Eventually they may reach something near full-cost recovery for providing education services to mainland students. Ivy League universities in America have learned that once the university brand for the highest quality is established, demand will be strong almost regardless of price. Given the abstract nature of the products of higher education, brand management becomes highly important in shaping perceptions of quality.

The mainland component of Hong Kong's higher education hub has been significant. If a future hub is generally conceived of as a round shape, too much dependence on mainland student flows—whatever their quality—may create an unbalanced wheel. In this pursuit, the shift away from subsidies toward market forces, or toward full cost recovery, must be done carefully and gradually. The main infrastructure for local universities has been financed by Hong Kong taxpayers with a view first of all of educating their own sons and daughters, not outsiders. Also important is the task of integrating non-local and local students on campuses, as the informal curriculum of campus life lies at the heart of any concept of a higher education hub. Concerns about the language of instruction and other cultural issues also have kept administrators on their toes.

Hong Kong students can benefit from competing academically with mainland students. As their first jobs after university may be on the mainland rather than locally, it behooves them to learn the ways and mentality of these fellow students. At the same time, it is vital that Hong Kong universities retain their distinct international academic culture even as they cater for more mainland students and seek to attract students from elsewhere in Asia and beyond.

Finally, a major barrier to growth as a higher education hub lies with the omnipresent issue of where to house more students. This will require more land and building for hostels in student-intensive areas of the city, and/or dispersing non-local students throughout the city and having them commute to campuses. New building can be seen on all local campuses in preparation for 2012, when enrollment already is scheduled for expansion. Accommodating this cohort of local students is already major challenge.

### **Public or Private Good?**

Underlying the many issues in creating a regional hub for higher education is the question of to what extent is higher education a public or a private good. A public good deserves government support and will benefit the whole community over time. A private good mainly benefits the individual, and thus should pay for itself. Higher education can be both. Hong Kong built its public university system mainly on the assumption that education is a public good for its own people, once a colony of Britain and now a special administrative region of China. But the globalization

of higher education has complicated this picture. We tend to consider undergraduate study as a public good that should be subsidized by the state, while graduate and professional programs are more for private benefit and thus paid by private tuition.

We also view research activities, which may become as critical to any higher education hub for the sake of student mobility, as a public good. For example, research results are published in the public realm, open to benefit all societies. A non-local student of talent may pay to study in Hong Kong and after graduating stay on to work and contribute locally. A Hong Kong student may take his publically funded undergraduate degree and emigrate to another country. But he may serve Hong Kong in some way in his new society and he may return later in life, as many have. In many ways, past concerns about “brain drain” and “brain gain” have become a global “brain game” of competition and collaboration among the higher education hubs of the world.

We all have a stake in having a Hong Kong—Asia’s World City—that makes important contributions and sells important services to the broader Asian region and to the world. An education hub that attracts and nurtures young, creative talent is critical to the broader concept of what Hong Kong is, and to the role it wishes to play as a knowledge-based society with respect to China, the Asian region and the world.

As a form of soft power, higher education exports can complement and stimulate economic power. Ironically, they also may benefit other aspects of Hong Kong’s service economy more directly than can be captured in the balance sheets. But no higher education hub lives on the market alone; there are always significant public resources and political leadership involved. Hong Kong may not look like the self-proclaimed hubs of Singapore, Shanghai, Seoul, Boston or London, all of which take on the character of their host’s learning culture and economic imperatives. Hong Kong seeks to become a hub within China, reinforced as a hub within Asia, and gradually enriched by a hub that attracts international talent in a global system of student mobility and talent flow.

This higher education service export may not be an engine that can knock the Hong Kong economy out of recession, as the TFEC may have hoped. Other parts

of its economic system are more nimble and better suited to this task. But it does have the potential to create the stock of human talent upon which Hong Kong will depend and thrive through the ups and downs of its economic future.

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