Changing Financial Relations Between Government and Higher Education in China: A New View

A paper presented at
the Australian Association for Research in Education
1997 Annual Conference, 30 November - 4 December 1997,
Brisbane, Australia
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Introduction

In late 1978, the Chinese Government announced a program to reshape the Chinese economy. The economic reform involved relaxation of direct central-planning controls, decentralisation of economic decision making, a shift towards a market-oriented economy and an opening of China’s economy to the outside world. The radical and dramatic changes in Government economic policies have exerted a significant influence upon the governance and financing of Chinese higher education.

This paper examines changes in financial relations between Government and higher education caused mainly by devolution for mobilisation of financial resources for higher education. These changes include devolution of some authority and financial responsibility from the Government to higher education institutions, and diversification of funding sources through stimulating institutional income generation, and increasing fee charges. This paper determines the impact of the changes in government policies upon broader issues of institutional priorities, equity, efficiency and quality of higher education in China.

Data were mainly collected through undertaking content analysis of key Chinese newspapers over a ten-year period, interviewing different groups of people concerned, and conducting questionnaire surveys over a sample of universities and faculties or departments. The findings led to a new view of China’s higher education funding reform, its strengths and problems, and its implications for the relation between higher education and the society. The current research is also constructive for future comparative and empirical research of similar issues in international perspectives.
Policy Context

Government policy changes in financing higher education were closely related to the wide-ranging economic reform started in China in 1978. The principal aim of the economic reform was to enhance economic growth and efficiency by fostering competition and flexibility in implementation, reducing costs of production, and developing a more efficient system of resource allocation through a stated commitment to financial autonomy and self-responsibility.

The changes in economic policies resulted in significant and sweeping reforms in financial relations between Government and higher education, that were represented by a dramatic shift from complete state financing to diversification of the funding base through mobilising non-state and private financing and boosting income-generating activities of institutions. Other main causes of the shift were a severe decline in state revenue resulting mainly from taxation reform and the unprecedentedly rapid expansions of higher education enrolments since 1978.

China’s tax system is in transition from a revenue system to a true tax system. The taxation reform as a part of the economic reform, enables state-owned enterprises to sustain their profits subject to taxation rather than to remit them fully to the government. Revenues from state-owned enterprises have long been a main source of state revenues. However, with an introduction of the market economy in recent years, a growing number of state-owned enterprises failed to compete and were in dire straits. It was officially reported that 49 percent (but 70 percent, according to some Western analysts’ estimate) (Asia 1997, 1997) of the state enterprises were suffering losses. As a result of the heavy losses of the state enterprises and the taxation reform, total state revenues as a ratio of GNP were sharply and continuously in decline, from 32 percent in 1978 to 22 percent in 1985 and to 17 percent in 1992 (Zhang, 1994). The shrinking state share of revenue in GDP made it harder for the government to continue to take full responsibility for the financing of higher education.

Table 1 Government Investment in Education: 1980-1992

<table>
<thead>
<tr>
<th>Year</th>
<th>Total education expenditure amount (m. yuan)</th>
<th>As % of GNP</th>
<th>As % of total government expenditure</th>
<th>Current expenditure on higher education as % of total education expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>11,319</td>
<td>1.9</td>
<td>9.3</td>
<td>20.0</td>
</tr>
<tr>
<td>1985</td>
<td>22,489</td>
<td>2.0</td>
<td>12.2</td>
<td>21.8</td>
</tr>
<tr>
<td>1989</td>
<td>37,299</td>
<td>1.7</td>
<td>12.4</td>
<td>18.6</td>
</tr>
<tr>
<td>1990</td>
<td>43,386</td>
<td>1.8</td>
<td>12.8</td>
<td>Not available</td>
</tr>
<tr>
<td>1991</td>
<td>48,218</td>
<td>1.8</td>
<td>12.7</td>
<td>Not available</td>
</tr>
<tr>
<td>1992</td>
<td>53,874</td>
<td>1.7</td>
<td>12.2</td>
<td>19.1</td>
</tr>
<tr>
<td></td>
<td>Mean=1.8%</td>
<td></td>
<td>Mean = 19.9%</td>
<td></td>
</tr>
</tbody>
</table>
Table 2 Growth in Enrolments and Institutions: 1977-1996

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of institutions</th>
<th>Increase rate %</th>
<th>New enrolments</th>
<th>Increase rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>404</td>
<td>-</td>
<td>272,971</td>
<td>-</td>
</tr>
<tr>
<td>1980</td>
<td>675</td>
<td>67.0</td>
<td>281,230</td>
<td>3.0</td>
</tr>
<tr>
<td>1983</td>
<td>805</td>
<td>19.2</td>
<td>390,800</td>
<td>38.9</td>
</tr>
<tr>
<td>1986</td>
<td>1,054</td>
<td>30.9</td>
<td>572,055</td>
<td>46.4</td>
</tr>
<tr>
<td>1989</td>
<td>1,075</td>
<td>2.0</td>
<td>597,113</td>
<td>4.4</td>
</tr>
<tr>
<td>1992</td>
<td>1,053</td>
<td>-2.0</td>
<td>787,600</td>
<td>32.0</td>
</tr>
<tr>
<td>1996</td>
<td>1,032</td>
<td>-2.0</td>
<td>966,000</td>
<td>22.7</td>
</tr>
</tbody>
</table>


The statistical information given by Tables 1 and 2 demonstrates that although government investment in education increased considerably, education expenditure in proportion to GNP and total government expenditure devoted to education decline. Moreover, current expenditure of higher education also declined in terms of the rapid growth of enrolments. Given the shrinking state funds flowing into higher education since the 1980s, the financial stringency of higher education was severe and obvious.

Reform Package in Financing Higher Education

To alleviate the severe shortfall in funding and incapacity of government finance for higher education expansion, the Central Government started a new funding strategy: enhancing revenue for higher education through devolution for mobilisation of local resources and promoting a diversified funding base. The main reform policies are listed as follows:

• devolution of autonomy (including financial autonomy) and responsibility to higher education institutions;
• increasing government grants for education at a rate faster than the increase in the state’s regular revenues;
• introducing and then increasing fee charges;
• promoting joint-running and financing educational institutions by Central and local governments, enterprises and private sectors;
• prioritising educational programs; and
• diversifying the funding base of higher education (CCP, 1985; CCP & State Council, 1993).

In terms of the 1993 Government policy statement, the measures to promote a diversified funding base included improvement of the education levy system by local government; expanding or setting up school-run industry and business to sell academic services through taking advantage of tax concessions and other preferential policies granted by government; increasing tuition fees; and enlarging enrolments for employer-sponsored students and full fee-paying students while developing student financial assistance programs such as tuition exemption and student loans for low-income family students (CCP & State Council, 1993). These policies emphasised an initiative of mobilisation of all social entities and all potential resources, private and local, to provide financial support for higher education.

Changing Patterns

Devolution and Institutional Autonomy

Following the 1985 reform package, the momentum of reform was shifting gradually toward devolution and emphasis on institutional autonomy. The government press reported that a number of specialised institutions formerly administered directly by the central authorities were passed to provincial governments. Another similar step taken by the Central Government was the practice of state-province joint management of the institutions administered directly by the State Education Commission (SEC), by devolution of partial administrative power to the provincial level (Kui, 1995; Zhao, 1994).

The Government's call for institutional autonomy was also responded to by some local governments. The governments of Guangzhou Province, Fujian Province and Yunnan Province, for instance, announced their plans for devolution to institutions. In terms of the plans, institutions now had the right to their own internal management, staff promotion and rewards, enrolment of fee-paying students, course offering, building external links and resource allocation (Further Extending, 1993; Yunnan Government, 1993). There were also reports on lessening of control of the SEC and other Central authorities over institutions. For instance, the details of expenditures by institutions were no longer monitored by the SEC. The auditing red tape was cut and institutions were required to take responsibility for their revenue and expenditure (Du, 1992).

Diversified Funding Sources

Table 3 Funds for Education by Sources (1994)

<table>
<thead>
<tr>
<th>Sources</th>
<th>Amount (billion yuan)</th>
<th>Frequency %</th>
</tr>
</thead>
<tbody>
<tr>
<td>National budget</td>
<td>88.40</td>
<td>59.38</td>
</tr>
<tr>
<td>Other Govt. outlays</td>
<td>0.82</td>
<td>0.01</td>
</tr>
<tr>
<td>Education levy</td>
<td>13.28</td>
<td>8.91</td>
</tr>
<tr>
<td>Enterprise contribution</td>
<td>8.91</td>
<td>5.98</td>
</tr>
<tr>
<td>Institution-run enterprises</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 3 indicates that in 1994, state grants to education at all levels accounted for about 60 percent only of all educational funding. It was also officially reported that in all 36 higher education institutions funded and administered by the SEC, revenues from non-state sources nearly equalled government recurrent grants to these institutions in 1987 and remained so in 1995 (He Dong-chang, 1988; Zhou, 1995). The national data indicate that the funding base for higher education is diversified.

Table 4 Comparative Funding Patterns at Four Universities (1985-1995), Percent

<table>
<thead>
<tr>
<th>Year</th>
<th>1985</th>
<th>1990</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source of income</td>
<td>Mean</td>
<td>Mean</td>
<td>Mean</td>
</tr>
<tr>
<td>Government</td>
<td>9.0</td>
<td>8.5</td>
<td>8.8</td>
</tr>
<tr>
<td>Tuition</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Institution-run enterprises</td>
<td>2.3</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Paid services</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Other</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>
Table 4 presents longitudinal survey data about income sources in a sample of four Chinese universities. The funding patterns of the four universities altered dramatically between 1985 and 1995. There was a clearly perceived trend of change that was represented by a general decline in government funding and an increase in non-state proportions of funding in the sample, although the extent of changes varied within the four universities.

Table 5 Survey on Income of Sampled Universities by Source: 1995 (N = 16)

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Mean (%)</th>
<th>s. d. (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government (central or provincial or local)</td>
<td>78.1</td>
<td>15.0</td>
</tr>
<tr>
<td>Tuition and fees</td>
<td>9.5</td>
<td>7.9</td>
</tr>
<tr>
<td>Institution-run enterprises</td>
<td>4.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Paid services</td>
<td>5.8</td>
<td>5.2</td>
</tr>
<tr>
<td>Other</td>
<td>2.5</td>
<td>5.2</td>
</tr>
<tr>
<td>Total income</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

Table 5 provides a relatively wider picture of sources of income of 16 universities surveyed in 1995. The result of the extended survey indicates a similar trend of funding diversification to that in the four universities.

**Boost in Income-Generating Activities**

As shown in the above surveys, higher education institutions have two significantly extrabudgetary (non-state) sources of income: income generated from the sale of educational and research services, and tuition fees (around 10 percent of institutional income respectively).

**Institutional Spin-Off Enterprises**

Early in the 1950s, most educational institutions set up factories and/or farms for their students and staff to do fieldwork and some manual labour in the light of the CCP’s mandate of combining education with productive labour. However, with the enforcement of higher education as an economic instrument of government policy since 1980, institution-run industry has been turned mainly into profit-making enterprises.
Institution-run industry has been enthusiastically encouraged by the government under tax exemption and concession policies (SEC, 1989; CCP & the State Council, 1992, 1993). Chinese Premier Li Peng, and He Dong-chang, the then Vice-Chairman of the SEC, urged higher education institutions to perform all kinds of “paid service for society” (Sa, 1988).

In 1990, the total output value of institution-run industry in China reached 4 billion yuan according to a report by the Research Office under the General Office of the Chinese Communist Party (ROGOCCP) (1992). By the end of 1992, 335 higher education institutions had established 850 high-tech enterprises, according to national statistical data (Gao, 1994). In 1993, there were over 700 institution-run enterprises in Shanghai alone where more than 40 institutions were located. Those enterprises employed about 20 thousand staff and had 1 billion yuan annual output value with 0.16 billion yuan net profits. Some of the larger enterprises had obtained licenses to import and export commodities on their own, which helped to expand their business overseas (Jin, 1993).

Collaboration with Industry/Business

Like the origin of institutional industry, the links between higher education institutions and industry were first seen long before the 1978 economic reform, when university and college staff and students were required to go to factories on a regular basis, either to do fieldwork or to receive re-education. But after the 1980s, the nature and the content of the links were fundamentally changed in the context of the nation-wide economic reform. Like institution-run industry, cooperation between higher education institutions and industry has been highly recommended and highlighted by the government to promote higher education to be more responsive to economic construction in China (CCP, 1985; SEC, 1995b). But most importantly (although not officially claimed), the cause of promotion of the links was that the cooperation with industry might bring in significant additional funds to institutions and alleviate the shortage of government funding.

The current partnerships between institutions and industry involve mainly such programs as joint management of higher education institutions through taking in enterprise directors in institutional and departmental Boards of Trustees; undertaking contract research projects; transferring and trading technology and products to industry; and training fee-paying industry employees (ROGOCCP, 1992; Zhang, 1993).

Student Fees and Charges

Since the Chinese Communist Party took over Chinese higher education institutions in 1949, students at the higher education level enjoyed not only a free education but free accommodation. Things began to change with the 1978 nation-wide economic reform. In the early 1980s, higher education institutions were officially allowed, for the first time in history, to charge training fees from prospective employers who sponsored some students to study in institutions (Enrolment Reform, 1983).

Driven by the 1985 and 1993 reform policies, there was a dramatic increase in fee-paying students. In 1993, employer-sponsored and self-supporting students accounted for 39 percent of new entrants in institutions (SEC, 1994). Moreover, the 1993 Government policy maintained that all higher education students should, in principle, pay for their higher education costs as higher education is not compulsory in China, and that the fee-charging system should gradually apply to all higher education students (CCP & State Council, 1993). This government document signalled that the former two-track enrolment system (enrolment of full state-funded students and fee-paying students) would be replaced by a single enrolment system under which all students would have to pay for their higher education. Under the new policy, over 40 higher education institutions were reported to charge all new entrants tuition fees in 1994, and all the 1,032 regular higher education institutions in China implemented fees for all in 1997 (Ba, 1994; Interview, 1997).
Tuition fees increased dramatically when the fee policy was extended to all new entrants in all higher education institutions in 1997. According to the latest news report, Beijing University and Qinghua University doubled their tuition charges from 1,000 yuan to 2,000 yuan in 1997 while Fudan University increased tuition to 3,000 yuan. The tuition fees at the South China Science and Engineering University reached 4,000 yuan in 1997 (Wei, 1997). In spite of the dramatic increase in fees, the official accounting showed that tuition fees charged were about 20 to 40 percent of full higher education costs, if 10,000 yuan was set at an average cost for a student per academic year (Chen, 1995).

**Outstanding Issues**

**New Financial State-Institution Relationships**

Government policy change in funding mechanisms was well embodied by a new funding principle, asking institutions to “use funds on a contract base, take responsibility for overexpenditure and surplus, and seek balance” (SEC, 1992, p105).

The above change represents a shift from a financial mechanism by which budgets for institutions were detailed, line by line, by government, to a quasi-block and contract funding model in China. Also, as in the case of the state-province joint management of institutions, the provincial governments provided institutions with the so-called “joint-management funds” to obtain services from institutions in terms of a supply of graduates and other educational and research products. This funding mode indicated another new approach to allocating resources to higher education institutions. So, in reality, the government bought the services from the institutions. Another novel way of funding emerging over the past few years in China has been a market-oriented funding. That funding mechanism prompted institutions to gain an increasing proportion of non-state and greater private resources by competing for grants and selling their services.

All these changes in funding mechanisms, namely, the quasi-block funding, contracting, and market-oriented approaches to funding, herald an important change in the relationships between Government and institutions. Evidence shown above demonstrates that the government’s roles have multiplied. Its roles of a sole provider and direct regulator of higher education resources have changed. Consequently, the Government, particularly the local governments, acted more as a contractor with institutions than a provider in allocating resources. The dramatic changes in the state-institution relationships have considerable implications for efficiency, equity and quality of higher education provision in China.

Firstly, less government detailed regulation and direct intervention in institutional operations permitted institutions to be flexible and innovative in responding to diverse and changing demands of local communities, particularly in a fermented, complex and new economic environment. The financial autonomy of institutions placed responsibility for decision making in the hands of institutional managers. It also empowered institutions that were close to the action to make the most effective decisions and reacted quickly in the interest of institutions.

Secondly, there was evidence indicating that the new funding mechanisms that allowed institutions to keep unused funds provided by the government encouraged institutions to manage resources efficiently without the necessity to exhaust the budget within a certain year. Overall, the financial autonomy developed incentives for institutional performance. A number of reform procedures were undertaken to improve the efficiency and effectiveness of every cost centre within institutions, such as, introduction of the economic responsibility contract system in resource allocation within institutions, that has been well and widely assumed in Chinese enterprises since the economic reform. Other reform procedures are concerned with performance of individual staff, such as, implementation of an appointment contract system and bonus system for staff’s better commitment and greater contribution.
These flexible and dynamic measures replaced the former system of remuneration, and provided both pressure and incentive for more and better productivity of staff members.

Finally, as far as equity - fairness in the collection and distribution of resources for higher education - is concerned, the changes in the government devolution strategies provided fair opportunities for active competition among institutions for resources, although some institutions reaped the benefits from it while others paid the price. Under the new funding mechanisms, institutions were confronting growing pressures for competing for students, government general and special grants, local government contract funds (the "joint-management funds", for example), enterprises' investment, etc. However, the competition itself encouraged greater managerial efficiency within the institutions, as well as diversity and innovation in higher education provision and development as shown above.

The changed allocative mechanisms had much to recommend them but they also had some adversities. The most vulnerable aspect of higher education to the funding changes was quality. There was some evidence to support this view. To obtain local contract funds and financial rewards, institutions tended to give greater priorities to teaching activities and research projects which indicated clear evidence of immediate value for money. Consequently, more fundamental and less commercial activities of teaching and research suffered a lot (Chen, 1995). In this way, quality of higher education as a whole, was inevitably affected and damaged to some degree.

Another side effect exerted by the quasi-block funding to institutions was over-enrolment and dummy upgrading of institutional status in many institutions. In terms of the new funding model, "comprehensive fixed fund quota and special subsidy", government operational grants for institutions were based mainly upon the size of enrolment and institutional status (rank). So, more students meant more money. This funding model partially contributed to over-enrolments of institutions through which institutions gained more funds from the government, ignoring their actual insufficient capacities in providing essential educational and other services for the over-enrolled students. Some institutions changed their names from "colleges" to "universities" to attract students and meet a certain rank requirement for a funding status, because universities were traditionally better funded than colleges (Strengthen Macro-management, 1993; Sun, 1996). This adversity further deteriorated the quality of higher education provision in China.

**Collaboration and Institutional Priorities**

Institutional priorities are another vulnerable area to change under the new funding approach. Evidence showed that enterprises' investment or finance for institutions was often provided with contracts to ensure that institutions conducted the research projects designated by those industries and supplied graduates meeting their needs (ROGOCCP, 1992; Zhang, 1993). That designation of enterprises had a clear influence on institutional priorities in curriculum design and development, and research orientation and agenda.

Industries/businesses usually take economic returns as their chief concern, particularly under the current market economy in China. By comparison, they favour vocation-oriented teaching and training over general education. From that point of view, most of the enterprises are reluctant to invest in basic disciplines and basic research, which contributes to an imbalance of disciplines and yields detrimental results to applied science in the long run. Some Chinese press already showed that it was getting harder for institutions to retain funds for basic research and teaching that were not geared to the needs of the market (Tan, 1993; Lin, 1992).

Dissenters including members of the Standing Committee of the National People’s Congress of China appealed for deletion from the first Education Law of the People’s Republic of China (1995) of the item - “initiating school-run industry”, because educational institutions are believed to be places where knowledge is disseminated to students (Xia, 1994). Some
university presidents and a number of distinguished professors expressed their strong opposition to the boom in institution-run industry/business (Tan, 1993; Bao, 1993; Gu, 1993; Market Economy, 1993) The persistent controversy over institution-run industry reflected general concern about the influence of industry/business on institutional academic operations and institutions' real mission.

Perhaps one of the greatest dilemmas that Chinese higher education is confronting today is how to respond to immediate, short-term economic needs without jeopardising its long-term cultural, intellectual and creative roles in the whole society. This dilemma resulted not only from the increasing non-state and greater private financing but also from the government economic policies which take higher education principally as an economic tool. But international experience such as Japan's indicates that large corporations that drive and finance research efforts are increasingly emphasising high quality basic science. The worldwide so-called strategic research blurs the difference between basic and applied research (Blackman & Segal, 1992). From that point of view, Chinese higher education institutions are likely to straddle the dilemma with great endeavour and balance influences from a variety of funding sources upon the development of their institutions' teaching and research profiles.

**Staff External Commitment and Academic Quality**

Under the overall pressures for seeking additional funding and income, institutions and their staff developed a hot pursuit of commercial activities. On university campuses, staff were keen on talking about how to make money out of their jobs. Taking a second job became a fashion among university staff. More and more academics got involved in external businesses, namely, taking a concurrent job in the industry or business sector, public or private; or doing a part-time job in their institution-run industry; or taking outside contracts, etc. It was reported that in Jiamusi Technology Institute, about 80 percent of its staff took a second job which included jobs in its own industry or businesses. The extra income from the second job exceeded that of staff's first job (Zheng, 1992). This raised a question of how much time and energy of the staff were used for their first jobs. President of the Central Industrial Art College and a member of the National People's Congress, Ms Chang told other Congress members that she now often heard mobile phones ringing in classrooms and lecture halls at her College. She expressed her profound concern about consequences of the distraction of lecturers from teaching and students from studying (Kou, 1993).

As income-generation through the sale of educational and research services involved a significant number of staff, particularly academic staff, the internal commitment of those staff to regular teaching and research on campus was inevitably affected by their external commitments to contract research, consultancy, training and other income-generating activities. University presidents, deans and other line managers had to devote considerable time and effort to income generation rather than concentrate on managing educational affairs, as revealed by some Chinese official press and the questionnaire survey for this research (Market Economy, 1993; Kou, 1993; Gu, 1993; Yang, 1992). This suggests a serious distraction from, and distortion of, the initial mission and the most crucial activity of higher education institutions - transmission, conservation and extension of knowledge. As a consequence, academic quality of higher education is inextricably at risk.

The problem of academic quality is an inevitable result from the change in perceptions of the relationship between higher education and society. Chinese higher education used to be politicised and a tool of ideological education of the government in the pre-reform period (prior to 1978), and has become entrepreneurial and principally a tool of economic policies rather than politics after the reform. In 1992, the Chinese central government, for the first time, explicitly classified education as a tertiary industry (CCP, & State Council, 1992). The current boom in income generation demonstrates that some Chinese higher education institutions are moving towards knowledge industries given the range and scale of their sale of academic services and the upsurge of staff's involvement in it.
The change in perceptions and in the role and function of higher education has affected the value of assessing academic quality in China. To the incumbent government and the industry, academic quality of higher education is expected to be more responsive, provide prompt and vocational delivery, and comply with economic priorities, which is different from the traditional conception of universities when higher education was completely funded by the state and provided by the state. Current higher education institutions are not likely to achieve consensus on what today’s academic quality really is, as institutions vary vastly in funding sources, management systems, rank (local or national), size, etc. If an institution is a local one and mainly funded by enterprise groups and the local government, its valuing of academic quality is likely to be different from that of a national and prestigious university largely funded by the state. From that point of view, the problem of academic quality can not be addressed at a generalised level.

However, there is some consensus at least officially that income-generating activities of institutions should be undertaken “provided that they do not interfere with the normal activities of education and instruction” (SEC, 1995 p25). By this standard, the distraction of many university staff and managers resulted in a clash between income-generating activities and the normal teaching and research activities of institutions and affected their capability to maintain academic quality. Institutional strategies are therefore needed in terms of individual institutional situations, to resolve the conflict between staff external commitment and maintenance of academic quality of institutions. Otherwise, a decline in quality is inevitable in the Chinese higher education sector.

**Fee-Charging on Equity and Efficiency**

It was found from official statistics that imposing cost recovery through charging tuition fees and reducing student allowances did not affect overall enrolment in the Chinese higher education sector over the past few years. Instead, higher education enrolment increased from 788,000 in 1992 to 1,010,000 in 1997, a 28 percent increase over the past five years (SEC, 1993-1996; News Report, 1997).

The rapid increase in enrolment, particularly in 1995, 1996 and 1997 when fees for all applied to many institutions and later to all institutions, indicates that fee charges help to create more study places and enhance institutional capacity and efficiency to produce more graduates without much increase in government investment. It was reported that under the fee system, parents and students showed a greater demand for quality of teaching and particularly, the relevance of courses to labour markets (Tang, 1995). In this case, the positive impact of fee charges is seen to be incentive and pressure for institutions to rationalise course offerings and improve the quality of teaching and other institutional services so as to attract students in competition with other institutions. As a result, internal efficiency was improved. Moreover, surveys conducted by some institutions such as Southeast University and Wuhan University, showed that fee-paying students worked harder in their courses since they had to pay for them (Zhao, 1995; Tang, 1995). From this point of view, fee charges help to generate well-qualified graduates, thus enhancing higher education efficiency.

However, the steady and strong growth in enrolment also suggests that there existed excess demand for higher education as the enrolment did not fall but rose considerably instead, although the size and amount of tuition increased. The excess demand was also evident in a high ratio of applicants for higher education places, about 2:1 ratio (that is, two applicants competing for one study place) in 1995 (Jiang, 1995).

Although the introduction and increase in fee charges had virtually no effect on overall enrolment partially due to the excess demand for higher education, many potential students and their families from rural areas simply could not afford the costs of higher education, given their lower household income. The tuition fee-paying system also affected middle-income families. As shown before, the range of tuition for higher education was between
2,000 and 4,000 yuan for an academic year. According to the latest statistical report by the State Statistical Bureau of China (SSB), the annual per capita income of urban residents was 4,377 yuan and that of rural residents was 1,926 yuan in 1996 (SSB, 1997). If taking also into account an average charge of 600-800 yuan for yearly accommodation on campus and a certain amount of basic living and study costs such as food and textbooks, it is clear that for students from urban lower income families and most rural students, the biggest barrier to access to higher education is not merit and performance but financial difficulty.

The latest official data available show that poor students (in the terms of official definition) accounted for 20 to 30 percent of students enrolled in key universities in Beijing and 50 percent in local colleges (Yang, 1995). In 1996, students from rural areas enrolled in agricultural universities and teachers’ (colleges) universities (which did not charge or charge minimum fees) accounted for over 60 to 80 percent of students respectively (Lao, 1996). This indicates the change in students’ composition accompanying the fee charges. In other words, students from lower-income and rural families were moving to local colleges and some special state-subsidised institutions. Moreover, there were some reports scattered in the official press about effects of the fee-paying policy on individual students. For example, some students who had been offered study places in some universities did not turn up for enrolment because they could not afford the costs of their higher education. Some students who were well qualified for entering top-ranked and key institutions had to go to lower-ranked or non-key institutions where tuition was cheaper (Lao, 1996; Xin, 1994). All these inevitably affected open access and equity of entrants for higher education and also risked the quality of enrolments in those top-ranking and higher fee-charging institutions. It is evident that tuition charges restricted some students’, particularly rural students’, access to higher education institutions that charged fees and increased the potential for the less well off to drop out.

A survey was conducted for this research over the views of higher education fee-charges from different groups of people concerned. The summarised data from the survey show that government officials, university managers and academic staff surveyed generally agreed with the fee policy although they had different concerns and interests. While students’ survey demonstrates more negative attitude towards fee charges and did not see a fee system as improving equity in access, the students also displayed that fee charges stimulated them to work hard and to be more cost-conscious of cost differences between institutions. These could be seen as positive effects because efficiency in the system would be likely to improve as a result of the incentives caused by the fee charges. Although the small number of interest groups surveyed could by no means represent views of all, the survey provided qualitative and comparative data for assessing the current fee system in China from the point of view of different groups involved.

**Conclusions**

This paper has identified some outstanding issues in the process of Government’s deliberate policy change in the funding of Chinese higher education, and discussed both the positive and negative impacts of devolution and promotion of market-oriented funding, which changed the relationship between the Government and institutions. The changed scenario of the relationship tends to be flexible, contractual and less state and more market regulation. This tendency obviously has significant implications for the relationship between higher education and the society. The current diverse missions and responsibilities of higher education require high correspondence with the society and quick response to the concerns of the society. The current overall situation prompts institutions to be more responsive and flexible, and to enhance efficiency in raising and utilising resources. To be good or bad, under the newly-forged relationship, Chinese higher education institutions become more accessible, entrepreneurial, utilitarian and business-like in terms of expanding enrolment, charging fees for all, prioritising popular disciplines, actively engaging in income-generating activities and collaboration with industry. The series of changes have exerted a fundamental
impact upon quality and nature of higher education provision in China as revealed and highlighted by this paper.

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