Chapter 2

Literature Review

2.1 General Overview

The rapid economic growth is an important factor in the growth of private higher education in Malaysia. In the first twenty-three years of independence (1957 - 1970), the Malaysian economy grew at the rapid rate of 5.8 percent (Rao 1976, cited in Jomo 1990), and averaged at 7.8 percent from 1971 to 1980 (4th Malaysian Plan, cited in Jomo 1990). Between the years 1992 to 1997, the real GDP oscillated between 7.8 percent (1992) and 9.5 percent (1995). Currently the private higher education sector in Malaysia is at a more advance stage compared to other developing countries. Malaysia has gone through major education reforms and the government has acknowledged the contributions of the private higher education.

In this chapter, the researcher will present a review of literature, which is relevant to this study. This chapter will focus on the previous researchers that have been conducted on this topic. Some of those researches may not be directly related to this study.

5 Ahmad Mahdzan Ayob(PhD) & Noran Fauziah Yaakub(PhD), paper, “Business of Higher Education in Malaysia: Development and Prospects in the New Millennium”, University Utara Malaysia.
Nevertheless, they do provide valuable insight into the field of private higher education, which in turn is closely linked to this study. Before going into more details on private higher education, it is important to understand the meaning of education itself. Thus, this part of the research will reflect upon a few definitions on education. Besides that, an overview of Malaysia's economic growth will also be presented in this part of the research. This will be followed by a brief explanation on the background of Malaysia's education and its open doors concept towards the development of private higher education in the country. In addition to that, the researcher will also look at the relationship between poverty and private higher education in Malaysia.

2.2 Economic Growth in Malaysia

Before the economic crisis in mid-1997, Malaysia had been recording an average real Gross Domestic Product (GDP) growth of 8.9 percent per year from 1988 to 1996. During this period there was full employment and a low inflation rate. The unemployment rate averaged about 2.7 percent per year and inflation was at 2.8 percent per year. In 1997, the real GDP was at 7.5 percent and the real GDP decreased to a negative 7.5 percent due to the financial crisis. However, the real GDP increased to 5.4 percent in 1999 indicating a growth in the economy. The Malaysian economy remained

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robust with a GDP growth rate of 9.3 percent in 2000. The Malaysian economy went on to achieve a GDP of 5.2 percent in 2002 and 2003 respectively. The Real GDP is shown in the figure below:

![Figure 2.1: The Real GDP in Malaysia between 1990 - 2003](image)

*Note: A GDP rate for 2000 has been taken from "Malaysia: Economic Performance and Prospects".*  
*GDP rates for 2002 and 2003 have been taken from "Data Pemeg- Key Statistics Malaysia"."

The high economic growth showed improvements in private household and social income. By 1995, 88 percent of urban household and 72 percent of rural household had access to electricity and 92 percent and 65 percent respectively of safe drinking water. Besides that, the private household income had also increased steadily over the past 25 years. Households living below the poverty line of RM 425 per month fell from 49.3 percent in 1970 to 8.9 percent in 1995 whereas the hardcore poor accounted for only 2 percent.

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In the year 2000, the poverty rate decreased further to 5.5 percent\(^9\). The increase in income growth and the substantial decline in absolute poverty were followed by an improvement in income distribution. The poverty rate in Malaysia is shown in figure 2.3.

![Figure 2.2: Incidence of Poverty (% of population): Malaysia 1970-2000](image)

Source: Jeffery Henderson, David Hulme, Richard Philips, Noorul Ainur, "Economic Governance and Poverty Reduction in Malaysia".

Initially the substantial economic and social growth was based on the public sector expansion. However, after the recession in 1985, the economic and social growth was based on the private sector expansion. Increase in household income caused an expansion in the economy. In addition to that, the measures taken to eradicate poverty under the New Economic policy had an impact on the income redistribution and social development in the country.

Nevertheless, the economic downturn in 1997 had a negative effect on government efforts to reduce the incidence of poverty. The contraction in the economy caused unemployment to increase and income earning opportunities to decline. The

\(^9\) Jeffery Henderson, David Hulme, Richard Philips, Noorul Ainur, "Economic Governance and Poverty Reduction in Malaysia".

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reduction in salary and the increase in product price reduced the capacity of wage earners to transfer remittance to the rural areas. Besides, the increase in cost of tertiary education and healthcare affected the supply and demand services. In 1998 the unemployment rate increased to 3.9 percent causing the poverty rate to increase as well\textsuperscript{10}.

Thus, the government reallocated the budget to support the social sectors and set up targeted programmes as a measure of minimising the effects of the crisis on the poor and lower income groups. This was done to retain the Development Programme for the Hardcore Poor (PPRT) and to limit cuts to the 1998 budget, which provided social, rural development and agricultural programmes\textsuperscript{11}.

Providing subsidies was another measure taken by the government to reduce the impact of crisis in the primary and secondary school levels. As for the higher education, the government increased the allocation for the National Higher Education Loan fund to cater to more students. This enabled more students to access higher education in public and private institutions. This scheme enabled students from lower income groups to obtain maximum loan, which covered tuition fees, books, subsistence and other allowances. These measures reduced the impact of the economic crisis.

\textsuperscript{10} Article on, "Country Assistance Plans – Malaysia: Sector Strategies"
\textsuperscript{11} Article on, "Country Assistance Plans – Malaysia: Sector Strategies"
2.3 New Economic Policy (NEP)

The New Economic Policy, which was announced in 1970, was to be implemented during a span of 20 years; that is from 1970 to 1990. The aim of this implementation was to overcome the perceived socio-economic imbalances in society. This was to be done by providing more opportunities for the Bumiputera.

The objective of this policy was to unite the multiethnic population because Malaysia is a multiracial country. Thus, it is important to have unity among the multiethnic communities that exist in Malaysia. This was done via government's intervention. These circumstances brought about responsibilities, which eventually became added objectives of NEP. These objectives would be;

(a) to eradicate poverty by raising income levels and increasing employment opportunities for all Malaysians irrespective of race.

(b) to restructure the society so that the identification of ethnic groups with economic function was eliminated (Malaysia, 1991)\(^{12}\)

In order to eradicate poverty, it was necessary to improve the quality of life of the poor. This was done by improving the provision of social services to the poor such as

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\(^{12}\) A.H Roslan, "Income Inequality, Poverty and Development Policy in Malaysia", School of Economics, Universiti Utara Malaysia.
housing, health, education and public utilities. In addition to that, basic education, training, financial and technical skills was provided to increase employment opportunities among the people. All this points towards education and its role in eradicating poverty.

Under the NEP, the restructuring of society was done in three levels that is:

(a) to increase the share of Bumiputera employment in the modern industrial sectors.

(b) to increase the Bumiputera share in corporate ownership.

(c) To increase the number of Bumiputera entrepreneurs and Bumiputera managerial control\textsuperscript{13}.

To sum up, NEP stressed on the use of education and training as a measure of eradicating poverty and restructuring the society. Thus, it is necessary to look at the New Economic Policy.

2.4 Definition of Education

Before going further into this research, it is important to understand the meaning of education. Education is defined as:

\textsuperscript{13} A.H. Roslan, "Income Inequality, Poverty and Development Policy in Malaysia", School of Economics, Universiti Utara Malaysia.
“Activities which aim at developing the knowledge skills, moral values and understanding required in all aspects of life rather than a knowledge and skill relating to only a limited field of activity. The purpose of education is to provide the conditions essential to young people and adults to develop an understanding of traditions and ideas influencing the society in which they live and to enable them to make a contribution to it. It involves the study of their own cultures and of the laws of nature, as well as the acquisition of linguistic and other skills which are basic to learning, personal development, creativity and communication.”\(^{14}\)

(Manpower services commission, 1981:17)

From a historical perspective, education was closely linked to the church in western countries and the number of people receiving education was very limited, as was the case with the guilds. Much of the emphasis was on classics, i.e. Latin, and Greek and there was minimal consideration of political applications. However the educated person was often more highly regarded and thus oversaw the craftsman, a trend which may still be seen today and which influences recruitment to some disciplines. In addition to that, education refers to the area of public policy concerned with programmes of learning in a particular jurisdiction taken altogether\(^{15}\).

According to another source, education has been defined as:


"Activities aimed at developing the knowledge, skills, moral values and understanding required in all aspects of life rather than knowledge and skill relating to only a limited field of activity. The purpose of education is to provide the conditions essential for young persons and adults to develop an understanding of the traditions and ideas influencing the society, in which they live and enable them to make a contribution to it. It involves the study of their own and the acquisition of linguistic and other skills which are basic to learning, personal development, activity and communication."\textsuperscript{16}

(UC) (CEDEFP, 1996:48)

2.5 Educational Background in Malaysia

Private higher educational institutions include non-government-aided institutions and government aided institutions. It can be classified into four categories that are private colleges, private universities, university colleges and branch campus of foreign universities. Before the 1980s, the Malaysian government was the sole provider higher education. The government had provided complete funding to all public institutions of higher education. This was done through budget allocations. However after the 1980's,

Malaysia had gone through major educational reforms. The Malaysian government had finally acknowledged the contributions of the private higher education sector. There has been a sharp increase in the number of tertiary students especially in private sector. The total number of students enrolled at the tertiary level in private sector had increased from 35 000 in 1990 to about 203 000 in 2000. This has also caused the number of private higher educational institutions to increase from 156 institutions in 1992 to 707 in 2002\(^\text{17}\). The privatisation of higher education is due to the shortfall of seats in public institutions of higher learning.

In Malaysia to initiate major educational reforms, five new legislation was tabled in 1996. They are Educational Act 1996, Private Higher Education Act 1996, National Council on Higher Education Act 1996, National Accreditation Board Act 1996 and Universities and University Colleges (Amendment) Act 1996\(^\text{18}\). The passing of these Acts in 1996 by the Parliament was evidence of the acknowledgement of the government's contribution towards private higher education. This also provided the necessary framework for the liberalisation and privatisation of higher education on a larger scale to meet the social and economic needs of the country. The private higher Educational Act 1996 allows the establishment of private universities and branch campuses of foreign universities.

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\(^{17}\) Molly N.N. Lee, research paper, "Restructuring Higher Education in Malaysia", University Sains Malaysia.

Since education comes closely under the supervision of the government, the department of private education under the Ministry of Education regulates the operations of all private higher educational institutions in the nation. This is done based on the Private Higher Educational Institutional Act 1996. Moreover, the National Accreditation Board was established under National Accreditation Board Act 1996 as a statutory body. It is responsible for formulating policies on monitoring and determining the standards and quality of courses offered by the private higher educational institutions.

The expansion of private higher education has brought about a diversification in the education institutions as well as the programmes of study. The private institutions are divided into profit-oriented enterprises and non-profit-oriented enterprises whereby individual proprietors and private companies set up the profit-oriented enterprises, public listed companies and government-based corporations. On the other hand, non-profit-oriented institutions were set up through foundations and community financing. As for the programmes of study, some of the private higher education institutions offer a wide range of programmes. The programmes offered range from pre-university to post graduate studies. Besides that, there are private colleges that specialise in certain areas such as medical, art and design, music, information technology and many more. The reason for this diversification is to cater to the changing needs of the labour market.

The growth of higher education in Malaysia has been shaped by internal social demands as well as external forces of the international arena (Lee, 1994). The rapid development of higher education is due to internal demands like income redistribution,
rising social demand and the need for skilled human resources. However a study on higher education and employment recorded a fair degree of mismatch between high level scientific personnel and the needs of the labour market (Fatimah et.al, 1985). 19

2.6 Privatisation and Higher Education

To certain countries in Asia and Latin America, privatisation generally refers to the delivery of higher education by the private sector (Tilak, 1996; Levy, 1991). According to Smart (1996), Tilak (1996) and Buchbinder (1993), privatisation in higher education displays four major feature: budget cuts, user pays, competition and resort to the private sector for funds. Levy (1993) has suggested that privatisation is one of the fastest and easiest ways to expand places in higher education 20.

The privatisation of higher education has caused the number of Malaysian private higher education institution to supersede the number of public universities. There has been a rapid increase in the number of private higher institutions in Malaysia that is from 280 in 1995 to 611 in 1999. This is due to the increase in the total number of student enrolments in higher education institutions. In 1987 the total number of students enrolled were only 15 000. However, in 1995 the number of enrolments increased to 127, 596 in

1995 and further increased to 195,000 in 1999\textsuperscript{21}. The table below shows the number of private colleges, and local and international student enrolment in the Malaysian private colleges from 1985 to 1999.

\textit{Table 2.1: Number of Private Colleges, and Local and International Student Enrolment in Malaysian Private Colleges (1985 - 1999)}

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Local student enrolment in private colleges</td>
<td>5 000</td>
<td>35 600</td>
<td>127 596</td>
<td>195 000</td>
</tr>
<tr>
<td>Number of private colleges</td>
<td>N/A</td>
<td>25*</td>
<td>280</td>
<td>611</td>
</tr>
<tr>
<td>Overseas student enrolment</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>10 283</td>
</tr>
</tbody>
</table>

Source: Student Enrolment: Lee, 1999b, p.7; other statistics: Department of Private Education.\textsuperscript{22}
Note: * figure derived from Zainal Ghani, 1990, on number of colleges engaged with the delivery of twinning programmes.

\textit{Figure 2.3: Number of Local Student Enrolled in Private Colleges in Malaysia}

\textsuperscript{21} Molly N. N. Lee, "Private Higher Education in Malaysia", (1999), Sinaran Bros. Sdn. Bhd
\textsuperscript{22} Tan Ai Mei, "Malaysian Private Higher Education: Globalisation, Privatisation, Transformation and Marketplaces", 2002, Asean Academic Press Ltd. (Pg 39)
Table 2.2: Malaysian Student Enrolment in Local Public, Private and Overseas Higher Educational Institutions (1985 - 2000)

<table>
<thead>
<tr>
<th>Types of institutions</th>
<th>1985</th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public institutions</td>
<td>86,330 (51.1%)</td>
<td>122,340 (53.0%)</td>
<td>189,020 (51.5%)</td>
<td>167,507</td>
</tr>
<tr>
<td>Private institutions</td>
<td>15,000 (8.9%)</td>
<td>35,600 (15.4%)</td>
<td>127,594 (34.7%)</td>
<td>203,391</td>
</tr>
<tr>
<td>Overseas institutions</td>
<td>68,000 (40.0%)</td>
<td>73,000 (31.6%)</td>
<td>50,600 (13.8%)</td>
<td>More than 12,794*</td>
</tr>
<tr>
<td>Total</td>
<td>169,330 (100%)</td>
<td>230,940 (100%)</td>
<td>367,214 (100%)</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Note: *Number of Malaysian students studying in overseas higher education institutions should be more than 12,794 in 2000 as statistics provided by the Ministry of education, Malaysia for the year 1998 was already 12794.

The table above shows that the number of student enrolment in public and private institutions increased between the years 1985 to 2000. However, the number of student enrolment in overseas institutions showed a decline between the years 1985 - 2000. This indicates that students were more inclined to pursue their tertiary education in a public or private institution within the country rather than studying abroad. This had also caused a rapid increase in the number of private higher institutions, as the number of students that were accepted into public institutions was limited.

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Figure 2.4: Malaysian Student Enrolment in Public, Private and Overseas Higher Educational Institutions (1985 - 1995)

2.7 Programmes Offered by Private Institutions

The 1990's witnessed a rapid growth of private institutions in terms of numbers and the variety of courses offered. The Malaysian government also encourages the setting up of private institutions, particularly those offering tertiary education through twinning programmes. This is to reduce the outflow of foreign exchange caused by the large number of Malaysian students pursuing higher education abroad. A wide range of post SPM programmes are conducted by private institutions for SPM holders such as:

- Overseas Pre-University Programme
  - Students doing this course will be preparing for the 'A' level examination, South Australian Matriculation Examination or the American Associated Degree (AAD) programme.

- Professional Programmes
  - Courses offered include accountancy, marketing, management, banking and others.

- Credit Transfer Programmes
  - These programmes are conducted as follows:

(a) The American Associate Degree or Community programme.
(b) The Diploma Programme - local institutions prepare students to obtain an internal diploma or one awarded by a foreign institution.

- **Twinning Programme**
  - This is a popular programme in the country whereby a local institution establishes direct affiliation with a foreign university in offering degree courses to students.

- **External Degree Programmes**
  - Under this programme, students are required to register themselves as external students with a foreign university. They will then pursue the course by attending private institutions in Malaysia, by self-study or by correspondence courses.

- **Distance Learning**
  - This programme is aimed at providing an opportunity for students, especially working adults to enhance their knowledge and academic qualifications without giving up their careers or leaving their families behind to study overseas.
Table 2.3: Types of Programmes Offered in a Sample of 122 Private Institutions

<table>
<thead>
<tr>
<th>Programmes</th>
<th>Number of programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overseas Pre-University Programmes</td>
<td>55</td>
</tr>
<tr>
<td>Technical, Trade &amp; Craft Programmes</td>
<td>122</td>
</tr>
<tr>
<td>Professional &amp; Semi-Professional Programmes</td>
<td>165</td>
</tr>
<tr>
<td>Twinning or Split Degree Programmes</td>
<td>80</td>
</tr>
<tr>
<td>Credit Transfer Programmes</td>
<td>18</td>
</tr>
<tr>
<td>External Degree Programmes</td>
<td>57</td>
</tr>
</tbody>
</table>


2.8 Services Offered by Private Higher Institutions

Malaysia's education system aims to pursue the goals of educational excellence. Its higher education sets out to provide academic opportunities for its own people. Thus, both the public and private sector plays a vital role in achieving this goal. The increase in demand for education has caused an increase in the number of private higher institutions in Malaysia. These institutions not only provide education to the students but also various other services such as:
bol Library and research services
❖ Accommodation
❖ Sporting and recreational facilities such as swimming pools, gymnasiums, and others.
❖ Counseling and career development units.
❖ Computer services
❖ Medical and health services
❖ Student clubs and associations
❖ Others such as cafeterias, bookshops, transportation and more.

2.9 The Relationship between Poverty and Education

Poverty has been an ongoing phenomenon amongst the world community. The issues on poverty have attracted the attention of various groups such as economists, sociologists and politicians. According to Martin Rein (1970), there are three approaches in determining poverty\(^24\). They are:

(a) The subsistence approach

➤ This approach identifies the poor as those whose earnings are insufficient to obtain the minimum necessities for maintaining physical efficiency.

\(^{24}\) Jamilah Affifi, “Poverty Amidst Plenty – Poverty: Conceptual Underpinnings Trends and Patterns in Malaysia and a Little Review”, (1994), Faculty of Economics, University Malaya, Pelanduk Publication (pg2)
(b) The inequality approach

- This approach focuses on the nature and the size of the difference, the bottom 40 percent of households and the rest of the society in question.

(c) The externality approach

- This approach looks at the social consequences of poverty for the rest of the society rather than in terms of the needs of the poor.

Besides this, there are other definitions of poverty such as:

"A man is poor when he has less than enough income or less than enough nutrition and shelter and clothing to maintain himself in normal health and strength."²⁵

(Henry Hazlitt; 1973)

According to La Thanh Ng Liep: 1990, the international comparison of poverty should be based on income level, average life span, rate of the population growth, birth rate, mortality rate, present level of medical services, present situation of choleric supply and educational level.

²⁵ Jamilah Afiffin, "Poverty Amidst Plenty – Poverty: Conceptual Underpinnings Trends and Patterns in Malaysia and a Little Review", (1994), Faculty of Economics, University Malaya, Pelanduk Publication (pg2)
Basically poverty is a syndrome-affecting people in situations characterised by malnutrition and poor health standards, low income, unemployment, unsafe housing, lack of education, inability to acquire modern necessities, insecure jobs and a very negative outlook of life. (Based on translation of Chamhuri Siwar: 1988).\textsuperscript{26}

There are two methods used to measure poverty that is absolute poverty and relative poverty. Absolute poverty refers to the concept of a minimum standard of living that is the poverty Line income (PLI) whereas the relative poverty refers to the per capita household income level that cuts off the bottom 40 percent of the population. The Poverty line income is defined as an income sufficient to purchase a minimum basket of food to maintain household members in good nutritional health and other basic needs such as clothing, rent, power, health care, education and recreation.

One of the most important determinants of poverty is inadequate education, which is caused by income inequality. The efforts to reduce poverty will fail if the country cannot provide basic education to its people. Through education, a society will be able to reduce deprivation and vulnerability. This is because education can help a society lift earning potential, increase mobility in labour, reduce fertility and also child mortality. Education will increase workers' productivity, provide better resource management and increase innovation.

\textsuperscript{26} Jamilah Afiffin, "Poverty Amidst Plenty – Poverty: Conceptual Underpinnings Trends and Patterns in Malaysia and a Little Review", (1994), Faculty of Economics, University Malaya, Pelanduk Publication (pg2)
2.10 Privatisation and Restructuring of Society

The privatisation policy by the government was announced in 1983. This policy represents a new approach in the National Development Policy and complemented other national policies such as the Malaysian Incorporated policy. Privatisation is defined as the transfer of activities and functions, which were traditionally the responsibility of the public sector to the private sector. The government introduced the Malaysian Privatisation Masterplan (PMP) as a guideline to the implementation of the policy.

Privatisation and economic growth are closely related. It has led to corporate expansion and greater utilisation of growth opportunities. Besides that, privatisation has succeeded in reducing the administrative burden of the government especially in terms of personnel and finance. The privatisation policy has played an important role in increasing the participation of domestic investors in the development of the nation. Since 1983, a total of 179 projects have been privatised. This has increased efficiency and productivity in all sectors that contribute to the economic growth through enhancement of competition. The increase in efficiency and profits enables the government to gain additional revenue particularly in the form of corporate taxes in order to finance for its socioeconomic development plan.

The privatisation policy has managed to contribute towards the restructuring of the society, which is one of the objectives in the National Economic Policy (NEP). The privatisation programme has managed to increase the Bumiputera participation in the
corporate sector. These privatisation projects witnessed at least 30 percent Bumiputera participation while Bumiputera promoters have played an active role in the privatisation of new projects\(^{27}\). This policy has managed to reduce the government's financial burden. The government has been able to channel their funds to other areas where urgent poverty relief measures are needed.

In terms of higher education the privatisation programme has proven to be beneficial for the local as well as foreign students. The number of non-bumiputeras enrolled in private higher institutions has made up to 95 percent. The number of bumiputera students enrolled in the private institutions is about 5 percent. According to Tilak (1996) and Gonzalez (1997), in developing countries such as India and the Philippines, private higher education is a very significant means for one to secure an upwards mobility in the society\(^{28}\). This statement also applies to the Malaysian scenario, as private higher education in Malaysia is also an important means in restructuring society. It indicates that Malaysia is in sync with the trends of other developing nations.

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\(^{27}\) Article on, "Policy Implementation", pmasterplan3.htm

2.11 Responsibilities of Private Higher Institutions

Private higher education is one of the fastest growing industries of the 21st century. Private higher institutions are expanding in scope and number. It is increasingly important in parts of the world that have relied on the public sector. The idea of an academic degree as a "private good" that benefits the individual rather than a "public good" for society is now widely accepted. Private higher education delivers "product" knowledge and the credentials to apply that knowledge in modern society. It provides skills that individuals could use to raise their incomes and to achieve more prestigious careers. Besides that, it also improves the human resources that is needed for societal growth and the development of the economy.

Basically, higher education ensures a higher income and greater opportunities for graduates. Private higher education is also responsible for providing information to the public concerning program quality, the usefulness of degrees and certification and other details of their services. There is accreditation systems imposed, which is responsible for the quality of the educational programme. In conclusion, private higher education has a responsibility of maintaining its quality and at the same time encouraging social mobility.

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29 Philip G. Altbach, Professor of Education and Director, "Private Higher Education: The Public Responsibilities and Relationships of Private Post-Secondary Institutions," Boston College, Center of International Higher Education. (Pg 68)
2.12 Conclusion

In conclusion, the number of private higher education has increased tremendously. This is because of the rise in demand for higher education. The government has not been able to cater to the increase in the demand for higher education which has brought to the growth of private higher education. The private higher educational institutions have received a good response from the students not just locally but also from abroad.