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# **Hong Kong's Future – Dark and Bright Views**

*(Hong Kong? China's Boston!)*

*Prepared for Legco Education Panel by Professor Gary C. Biddle  
1 December 2003*

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## **The Dark View**

- ❑ **Government is in Deficit upwards of \$70 billion**
- ❑ **Budget Realities call for shared sacrifices across all sectors**
- ❑ **Education Spending is generous in Hong Kong**
- ❑ **Hong Kong university costs are high, and should be cut**
- ❑ **Hong Kong has too many universities**
- ❑ **Mergers would save money**

## **But Actually ...**

- ❑ **Hong Kong is under-educating its young people – Attachment 1**
  - Only 18% attended college locally / 22% including overseas
  - Low by international and even regional standards
  - S. Korea (68%), NZ (63%), Taiwan (56%), Singapore/Japan (44%), US (77%)
  - Hong Kong is in company of Mexico, Mongolia, Philippines, S. Africa
- ❑ **Hong Kong education spending is low by global standards – Attachments 2a/b/c/d**
  - Some confusion as in recent SCMP Editorial – Attachments 2a/b
  - Alleged that Hong Kong spends 4.8% of GDP on education versus Australia (4.7%), Netherlands (4.8%), UK (4.5%), Japan (3.5%), Singapore (3.7%), S. Korea (3.8%)
  - But figures aren't comparable / HK scaled by recession GDP vs others' booms
  - Hong Kong actually spent 3.9% of GDP on education during the same years, and only 3.4% excluding capital improvements

- Hong Kong's spending is much lower than many countries like Denmark (8.2%), Sweden (7.8%), Israel (7.3%), Finland (6.1%) and New Zealand (6.1%), all robust economic competitors – Appendix 2c
  - Hong Kong includes R&D in education spending / many others don't
  - University funds from non-public sources are often significant, for example, Korea, US, Australia, Japan – Appendix 2d
  - World Bank Development Indicators (2001) reveal R & D expenditures to average 2.2% of GDI globally, with much higher levels for developed countries, and with a substantial portion going to universities
  - Hong Kong spends only 0.4 per cent on R & D compared with the US (2.63%), Sweden (3.76%), Korea (2.82%) and Finland (2.78%)
  - Harvard receives more per student from NIH alone than HK's entire student cost
- **Higher ed spending is not high, and much lower than perceived – Attachments 3a/b**
- SCMP alleged that higher education comprises 32% of total education spending, but this includes the large vocational training budget
  - Actually, only 26% for universities, and only 25% excluding capital spending according to the UGC web site – Attachment 3a
  - SCMP alleged that university students cost taxpayers \$231,400 per year, but this didn't subtract tuition paid by students to Government, capital improvements, and housing scheme allowances (now discontinued)
  - Actually, university students cost HK taxpayers only \$128,594 per year, similar to public institutions elsewhere – Attachment 3b
- **Higher education has already faced cuts, while other sectors spared**
- Higher education budgets have already been cut by 10%, and salaries by 5%, when other sectors were protected
  - Another 10% budget cut in 2004-05, plus a 6% salary cut in 2004-06
  - Even more cuts are threatened for 2005-08
  - This would be disastrous for Hong Kong
  - Education spending is not current consumption – it is rather an investment in future standards of living
- **Further cost cutting could be counter-productive or ineffectual**
- Further cuts in higher education funding would harm quality long term
  - Mergers are extremely costly, rare, and very rarely successful – <http://merger.ust.hk>
  - Huge up-front costs for new facilities, moving, integration, disruption
  - Alumni loyalty and support are often lost
  - Operating savings are offset by greater coordination / travel costs
  - Not a single example of a successful merger of quality universities can be found
  - Only failures (London, San Fran, China costs up, AGSM struggling)
  - Voluntary collaborations are common

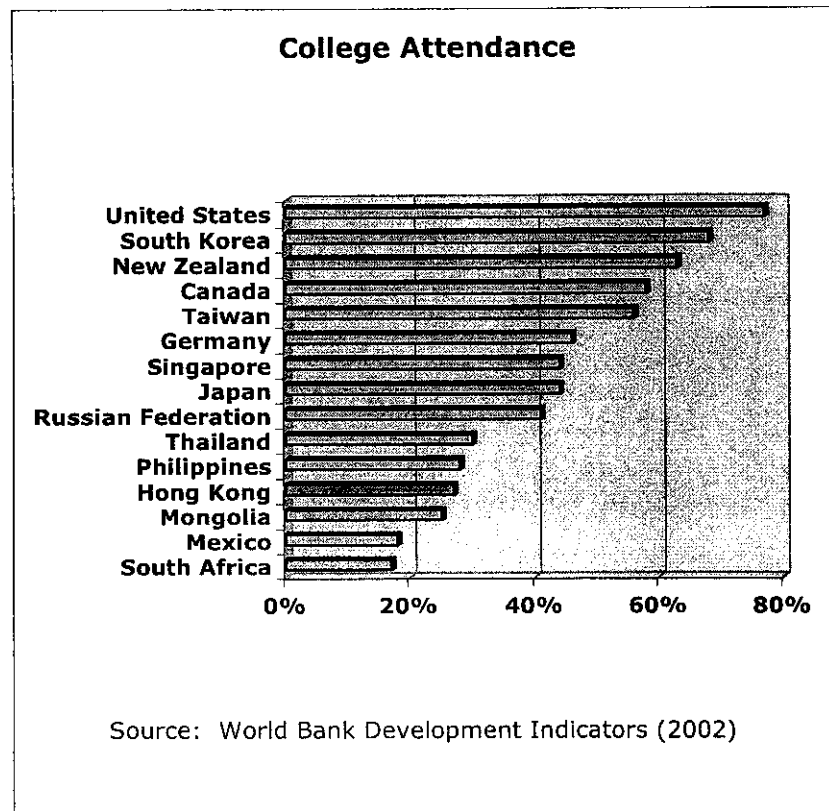
- Whatever the cut in higher education spending, it will not have a significant effect on the Government deficit
  - It will only impoverish Hong Kong's future
  - Structural reform certainly is warranted, but the major issue is the tax base
- ❑ **Universities are fragile**
- Good faculty have many opportunities, regionally and worldwide
  - Competition for faculty has increased, and is increasing (US, Europe, and China)
  - Quality faculty lost would be very difficult for Hong Kong to replace, even in the long run

## **The Bright View**

- ❑ **In a global knowledge-based economy, living standards depend not on location or natural resources, but almost entirely on the education levels of citizens and research innovation**
- No surprise that the most vibrant economic regions in the world are centered on competing research universities (Silicon Valley, Boston, Ox-Bridge, etc.)
  - Universities attract talented employees, generate innovations, inventions, new companies and jobs
  - Universities also attract spending for tuition and living costs, with "out-of-state" tuition an key source of higher education funding in many countries
  - The US, UK, Singapore and Australia understand this well, and have benefited immensely, along with foresighted cities there
  - In UK, one of the top foreign exchange earners is Manchester University
- ❑ **China currently under-invests in education, with higher education restricted to a select few**
- This is recognized at the highest levels of China's government
  - Nobel Prize winning economist James Heckman recently spoke at Beijing's Great Hall of the People in a talk originally titled "China Neglects Investment in Human Capital" (*Wall Street Journal*, 4 November 2003)
- ❑ **Hong Kong must develop its comparative advantages in competition with other China cities – finance, logistics, tourism – and higher education!**
- ❑ **With hundreds of millions of Chinese families leaping into the middle class, China is at the start of a HUGE WAVE OF DEMAND FOR HIGHER EDUCATION!**
- ❑ **Hong Kong's universities are highly developed, prominent in the region, and globally, and it will be at least a decade before China universities catch up**
- For example, HKUST already has generated 65 US patents / start-up companies

- Numerous engineering & scientific honors
  - By staying focused on its “MIT” mission, every department tops in its specialty in the region, and beyond
  - HKUST Business School is top 20 in research in the world, and 6<sup>th</sup> among public universities) (*The Financial Times* 2003)
  - HKUST’s MBA ranks 1<sup>st</sup> in region / EMBA recently ranked 9<sup>th</sup> in the world
  - In China HKUST is known as the “miracle university”
  - HKU, CUHK, and other universities in Hong Kong are similarly developed and prominent
- **Hong Kong has incredible opportunity to <sup>be</sup> China’s education hub! China’s Boston!**
- Hong Kong doesn’t have too many universities, but rather too few
  - Hong Kong’s eight public universities enroll 78,000 full and part-time students
  - Chicago, with a similar population, has 11 public and 14 private universities enrolling 229,000 students
  - At same density as US, Hong Kong should have 98 colleges and universities, and even more for Boston – Attachment 4
- **Economies are improving in the US, Hong Kong and globally, with China booming**
- Stock markets are up, and they are leading indicators
  - Employment expanding, profits are rebounding, with tax revenues not far behind
  - It would be unwise to cut education budgets now for coming years when the future is so bright, and by doing so, Hong Kong would miss its “once in a century” opportunity
- **What should we do? – Attachment 5**
- Look for economies, certainly, and voluntary collaborations that promote them with institutions within and beyond Hong Kong (for example, Kellogg-HKUST EMBA)
  - Identify and implement needed structural reforms in education and tax base
  - Enhance, don’t cut, higher education funding to position Hong Kong to capture huge coming higher education demand and realize its potential as China’s education hub
  - Promote specialization, differentiation and accountability to promote excellence and healthy competition, with California one example
  - Introduce “out-of-state” tuition models, funding flexibility, and incentives for private sector giving to universities – tax, culture and other
- **Thank you for your consideration**

Attachment 1



## A14 | LEADERS & LETTERS

TUESDAY, NOVEMBER 18, 2003

# South China Morning Post

FOUNDED IN 1903  
MORNING POST CENTRE, DAI FAT STREET, TAI PO

## Universities should face public examination

**T**ung Chee-hwa may have disappointed the community on many fronts, but you cannot accuse him of neglecting education. Since he became chief executive, government spending on education has risen more than 60 per cent, from \$37.9 billion in 1996-97 to \$61 billion this financial year. His administration has made 105 policy commitments since the handover to improve the quality of education.

At 4.8 per cent of gross domestic product, Hong Kong's public expenditure on education compares favourably with many developed countries. According to the United Nations' latest Human Development Indicators, Hong Kong's level of spending on education is on par with Australia (4.7 per cent), the Netherlands (4.8 per cent) and the United Kingdom (4.5 per cent) and surpasses Japan (3.5 per cent), Singapore (3.7 per cent) and South Korea (3.8 per cent).

What the figures fail to show, however, is that the allocation of resources has been skewed heavily in favour of higher education, which consumes 32 per cent of the education budget, compared with just 2 per cent for pre-primary, 24 per cent for primary and 35 per cent for secondary. On a per capita basis, the disparities are even more alarming. On average, Hong Kong's 69,000 university students each cost taxpayers \$231,400 a year to educate compared with \$36,400 each for our 449,000 secondary students and \$25,300 for each of our 442,000 primary students. It is therefore ironic that university students, not their junior counterparts in secondary or primary schools, should have threatened to boycott classes to protest against proposed funding cuts.

In 2000, the Education Commission released a reform blueprint after conducting a comprehensive review of the education system. Though not billed as such, the exercise was essentially an attempt to de-colonialise the system. Its

main thrust was to remove remaining barriers in the school system previously used to select a privileged few to receive higher education and to introduce measures to enrich the learning process to raise quality.

With hindsight, a major failing of that review was the skimpy attention it gave to the critical issue of funding. While commitments were made to give extra funds to basic education and to encourage tertiary institutions to use their existing resources more effectively and flexibly, no attempt was made to identify areas of under-investment, wastage or inequity. Nor was there any study on whether Hong Kong, despite its respectable level of spending on education, should still spend more to make up for past neglect, perhaps through a blister programme.

With the government facing a ballooning budget deficit, the universities must accept the need for funding cuts. But we must also begin serious planning for the future once the budgetary constraints are eased. The current provision of first-year, first-degree places to 18 per cent of young people is low by international standards. It also makes no sense not to fund community colleges when the government has pledged to increase tertiary education provision to 60 per cent of young people.

Measured by public examination scores, Hong Kong schools produce an amazingly large number of "failures" year after year. Yet, many of these supposedly poor performers have nevertheless managed to graduate with flying colours on furthering their studies at overseas universities, raising questions about our schools' ability to develop their students' full potential.

The community must be involved in addressing these crucial issues about funding and quality. A good way of achieving that would be to hold a public inquiry, with professional input from local and overseas experts.

# Letters

## Not-so-high education budget

Your leader asserts "Universities should face public examination" (November 18). Its statistics also should face a public exam.

Hong Kong's current education budget of 4.8 per cent of GDP is compared with United Nations figures from 1998-2000 for Australia (4.7 per cent), Netherlands (4.8), UK (4.5), Japan (3.5), Singapore (3.7) and South Korea (3.8).

The inference? Hong Kong is spending plenty. But notice an apples-to-oranges statistical slip. Hong Kong's figure is boosted by today's recessionary GDP, while other countries' figures are deflated by former boomtime GDPs. Hong Kong's corresponding apples-to-apples figure is 3.9 per cent of GDP for 1998-2000, and 3.4 per cent excluding capital investments. Not cited are figures for countries that spend much more than Hong Kong on education - Denmark (8.2 per cent), Sweden (7.8), Israel (7.3), Finland and New Zealand (both 6.1). All are robust economic competitors.

The 4.8 per cent figure was supplied by the Education and Manpower Bureau, as were other statistics used in the leader. Like the one asserting that higher education consumes 32 per cent of Hong Kong's total education budget. Fair enough, if higher education is defined to include vocational training. According to statistics of the University Grants Committee (UGC), Hong Kong's eight universities plus the Institute of Education accounted for only 26 per cent of education spending in 2002-03, 25 per cent excluding capital investments. And this is before recent university budget cuts and increased education spending shaved the universities' share. Choose your statistic.

Another figure asserts that university students cost taxpayers \$231,400 per year to educate versus \$36,400 for secondary and \$25,300 for primary students. But check the maths. UGC's total funding for higher education of \$14,281 million for 2002-03, divided by 68,825 fulltime equivalent students, yields \$207,497 per student-year. Reasonably excluding capital investments and home financing allowances yields \$170,694 per student-year. Further subtracting tuition fees paid by uni-

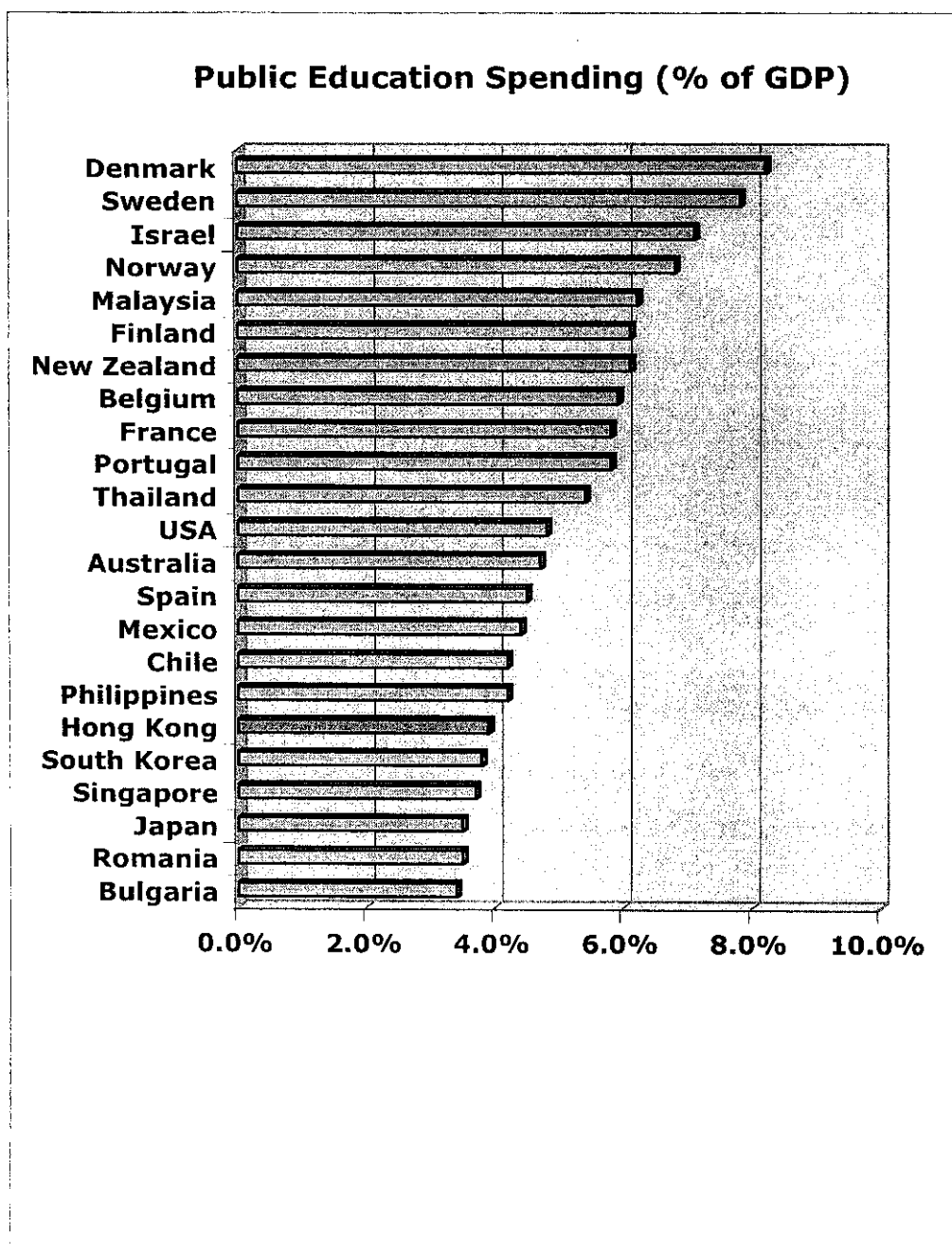
versity students yields a net cost to taxpayers of only \$165,397, or \$128,594 net of capital improvements and home financing. Big difference. Further investigation reveals the \$231,400 to inappropriately allocate large vocational training costs to university students. Hong Kong classifies most research and development as education spending. Universities in many countries receive substantial R & D funding from donations, contracts and other non-governmental sources not in education totals. This further distorts the comparisons.

World Bank Development Indicators (2001) reveal R & D expenditures to average 2.2 per cent of GDI globally, with much higher levels for developed countries. A substantial portion goes to universities. Hong Kong spends a paltry 0.4 per cent on R & D compared with the US (2.63 per cent), Sweden (3.76) and Korea (2.82).

Hong Kong also underprovides college spots for its young people. As you correctly observe, the "current provision of first-year, first-degree places to 18 per cent of young people is low by international standards." You also observe correctly that "it also makes no sense not to fund community colleges when the government has pledged to increase tertiary education provision to 60 per cent of young people."

Certainly, higher education, like every other sector of government, should strive to identify efficiencies. But in perspective, higher education budgets have already been cut by 10 per cent, and salaries by 5 per cent, when other sectors were protected. Another 10 per cent budget cut is scheduled for 2004-05, plus a 6 per cent salary cut in 2004-06, with even lower higher education budgets threatened for 2005-08.

This would be disastrous for Hong Kong. In a global, knowledge-based economy, prosperity depends not on natural resources or location, but on the education levels of citizens and research innovation. Thus, universities should not be viewed as costs but as investments in Hong Kong's future standards of living. Go figure.  
PROFESSOR GARY C. BIDDLE, Head, Department of Accounting, School of Business and Management, Hong Kong University of Science & Technology



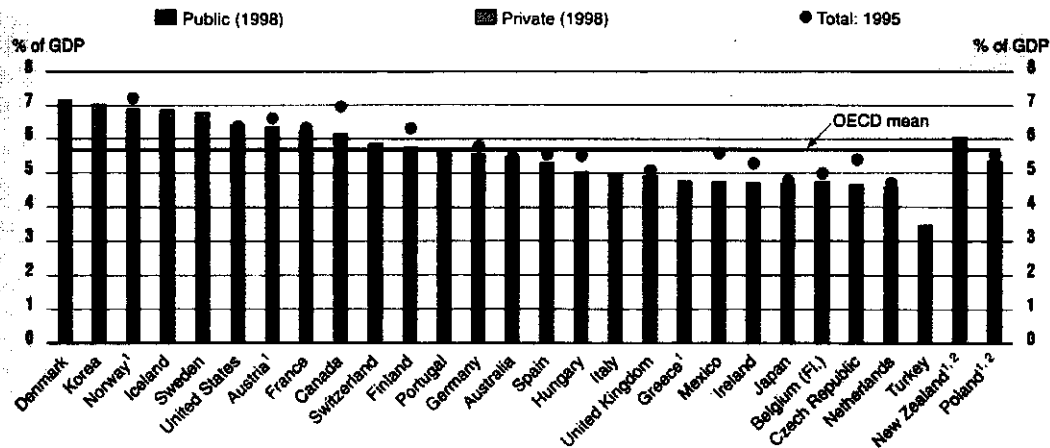
Source: United Nations Human Development Indicators (2003). Total public expenditure on education, including current and capital expenditure, 1998-2000, as a percent of GDP. In many countries education expenditures exclude research spending and non-public sources of education funding, which can be significant, for example, in the USA. The figure for Hong Kong includes research spending by Government, vocational training, Hong Kong Education Institute, and home financing scheme costs.



## Attachment 2d

**Chart B2.1. Expenditure on educational institutions as a percentage of GDP (1995, 1998)**

*Direct and indirect expenditure on public and private educational institutions from public and private sources for all levels of education, by source of fund and year*



1. Public subsidies included in private funds.

2. Public expenditure only.

Countries are ranked in descending order of total expenditure from both public and private sources on educational institutions.

Source: OECD, Table B2.1a.

#### Spending on educational institutions

(E.g., schools, universities, educational administration and student welfare services)

E.g., public spending on educational services in educational institutions

#### Spending on instruction

E.g., subsidised private spending on instructional services in institutions

#### Spending on research and development

E.g., public spending on university research

#### Spending on educational services other than instruction

E.g., public spending on ancillary services such as meals, transport to schools, or housing on the campus

#### Spending on education outside educational institutions

(E.g., private purchases of educational goods and services, including private tutoring)

E.g., subsidised private spending on books

E.g., subsidised private spending on student living costs or reduced prices for transport

## Attachment 3a

Amount of Approved Recurrent, Earmarked and Capital Grants for UGC-funded Institutions, 1996-97 to 2002-03

	Financial Year						
	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
Amount of approved grants (HK\$'000)							
Recurrent Grant	11,184	11,613	12,623	12,949	11,965	11,773	11,748
Earmarked Grants for Home Financing Scheme and Other Housing-related Benefits			421	1,305	1,318	1,339	1,317
Capital Grant	456	1,410	1,999	1,146	1,316	849	1,216
Total	12,096	13,023	14,142	14,491	14,589	13,961	14,281
Total amount of approved grants as % of total government expenditure <sup>1</sup>	6.7%	6.7%	6.5%	6.8%	6.5%	5.8%	5.9%
Total amount of approved grants as % of total government expenditure on education <sup>2</sup>	30.7%	27.7%	29.2%	28.8%	28.4%	26.5%	26.6%

## Notes:

- <sup>1</sup> The figures of total government expenditure and total government expenditure on education are extracted from The Budget.
- <sup>2</sup> The HKIEd came under the aegis of the UGC with effect from 1 July 1998.

**Attachment 3b**

**Higher Ed Student Cost to Taxpayers**

Alleged annual cost	<u>\$ 231,400</u>
Actual annual cost*	<u>\$ 128,594</u>
Overstatement	<u>\$ 102,806</u>
Percentage overstatement	80%

\*The University Grant Committee's total funding for higher education of \$14,281 million for 2002-03, divided by 68,825 full time equivalent students, yields \$207,497 per student-year. Reasonably excluding capital investments and home financing allowances (that are no longer funded) yields \$170,694 per student-year. Further subtracting the \$42,100 tuition fees paid by undergraduate university students yields a net cost to taxpayers of \$165,397, or only \$128,594 net of capital improvements and home financing allowances.

Source: UGC web page

**Higher Education Spending**

Hong Kong spent 1.1% of its Gross Domestic Product (GDP) on higher education in 2001 versus 1.3% in the US, 1.8% in Canada, 1.8% in New Zealand, and 1.5% in Malaysia.

Source: International Statistical Yearbook (2002)

**Attachment 4**

**Colleges and Universities**

Hong Kong's eight public universities enroll 78,000 full and part-time students. Chicago, with a similar population, has 11 public and 14 private universities enrolling 229,000 students. Boston, a smaller city, has more than 80 colleges and universities enrolling over 200,000 students. The US has 4,200 colleges and universities in total. On a comparable per capita basis, Hong Kong would have 98 colleges and universities.

## **Spend more, not less, on universities**

**Attachment 5**

by Gary Biddle

Nothing is more vital to Hong Kong's future prosperity than its universities. Yet some claim the city has too many and is spending too much on higher education. This may reflect a personal bias or agenda, but it does not fit the facts, which reveal that, if anything, Hong Kong has too few universities.

Its eight public universities enrol 78,000 full- and part-time students. Chicago, with roughly the same population, has 11 public and 14 private universities, enrolling 229,000 students. Boston, a smaller city, has more than 80 colleges and universities enrolling more than 200,000 students. Even the US corn-belt state of Iowa, with a population less than half of Hong Kong's, has more than 60 colleges and universities. In a global knowledge-based economy, it is educational levels, rather than natural resources or location, that determine living standards and economic growth.

Nor is Hong Kong overeducating its young people. Its public universities accommodate only 18 per cent of college-age students. Even with overseas attendance, which is beyond the financial reach of many, World Bank Development Indicators reveal that only 27 per cent of Hong Kong's secondary school students attend university. This contrasts with 77 per cent in the US, 63 per cent in New Zealand and 58 per cent in Canada. Strikingly, Hong Kong's attendance is low even by regional standards. In Japan and Singapore, 44 per cent of secondary school students attend university, 56 per cent in Taiwan, and 68 per cent in South Korea. Hong Kong ranks below even Thailand and the Philippines, in the company of Mongolia, and just ahead of Mexico and South Africa.

What about higher-education spending? Hong Kong tops the list, right? Wrong. According to the International Statistical Yearbook, Hong Kong spent 1.1 per cent of its gross domestic product (GDP) on higher education in 2001. This compares with 1.3 per cent in the US, 1.8 per cent in Canada and 1.5 per cent in Malaysia. Even New Zealand, not known for generous university funding, spent 1.8 per cent of its GDP on higher education. It is clear whose citizens will get ahead.

Which brings us to university mergers. They would save money, right? Wrong again. Research reveals they are costly, and for universities, rare and rarely successful. One has to go back decades to find even a few examples, like Carnegie Mellon and Case Western Reserve in the US. These required huge funding, and their rankings changed little. A proposed merger of Imperial College and University College London was recently called off. A merger of the Berkeley and Stanford medical schools dissolved after two years due to cost overruns.

With Sars deepening the government's deficit woes, Hong Kong cannot afford to incur large merger costs for dubious benefits. The result would be inferior higher education at higher expense. Imagine, for example, the costs to build new laboratories to accommodate combined chemistry faculties, and to refurbish old labs for new uses. Moving and relocation costs would be significant, along with lost productivity. Valuable university brand names would vanish, along with alumni identities and support. Nor would operating savings arise, unless faculty-student ratios were slashed - but this would diminish educational quality. The very process of merger, with its attendant disruption and turmoil, would be costly. It would also cause top staff to leave Hong Kong. Professors want to teach and conduct research, not spend time in contentious meetings. How can Hong Kong achieve quality higher education at a reasonable cost? Research suggests a number of answers.

We should encourage universities to differentiate. This is what top universities (and companies) do worldwide. Long practised in the US, this policy is now being adopted in Britain and elsewhere.

Demand achievement. If a university achieves its goals, it deserves more resources.

Preserve and protect competition to encourage innovation, improvement, and programme choices for students. Agglomeration is a false economy. Lou Gerstner, of IBM, said: "Successful enterprises are built from the ground up. You can't assemble them with a bunch of acquisitions. That brings huge integration problems."

Voluntary collaborations both inside and outside Hong Kong should be promoted. While university mergers are rare, collaborations are common worldwide.

Budgets should be managed sensibly, without resort to extreme and costly schemes. Mergers are risky, and far less costly approaches provide natural incentives to optimise. Private and other sources of funding can, and are, being developed.

Hong Kong's education policy is far too important to be based on unfounded assertions. Decisions should be based on thorough research, thoughtful analysis and open discussion. The young people of Hong Kong deserve the opportunities offered elsewhere to obtain world-class education at a reasonable cost. Hong Kong's prosperity depends on it.

*Gary Biddle is associate dean in the school of business and management at Hong Kong University of Science and Technology*