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In China, Student Loans May Be Expanding Societal Gaps They Were Supposed to Close

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Beijing

Last year in August, Ma Xiaoqing arrived in Beijing, unsure how long he could stay. A month earlier, after years of diligent studying in a remote province, he had won admission to China Agricultural University, an elite university. His parents had borrowed money from neighbors to pay for Mr. Ma's first year of college -- \$1,000, four times his parents' annual income -- and sent him on a two-day train trip to Beijing, where he had hoped to apply for a student loan to pay for the rest of his education. But after he arrived he did not know how to begin, whom to talk to, or where to go. Alone and homesick, three months later, he called his mother and said that he wanted to come home.

Mr. Ma's frustration is all too common today in China. In 1999, Chinese universities began for the first time in China's history as a socialist country to charge tuition. Before that, universities were free, and graduates were assigned jobs by the state. Beginning in the 1990s, graduates could finally choose their own futures, and the government began to cut financial support to universities, forcing them to pay more of their own way. While more opportunities for higher education were being created, students and their parents were being asked to shoulder a large financial burden. So in the same year as tuition was instituted, the Ministry of Education created a student-loan program to assist poor students.

"Not one of the newly enrolled students will be deprived of the right to study because of family financial difficulties," China's vice minister of education, Zhang Baoqing, said at the time.

Today Chinese universities charge an average of \$600 annually, three-fourths of China's annual per capita income. Mr. Ma was getting a \$140 discount off his university's usual tuition of \$500 because he was studying zoology, a department subsidized by the government because it wants more zoologists and the field isn't a popular one. But the cost of room and board more than doubles the bill.

Mr. Ma's parents, like the vast majority of Chinese, are subsistence farmers, growing wheat on a small plot of land on the remote plains of Guanghan county, in Sichuan province, earning little and saving nothing. During the Mao Zedong era they suffered immense poverty; then, when Deng Xiaoping came into power in the late 1970s and freed the peasants from the communes, they saw their lives gradually improve. But in the mid-'90s, as local officials steadily increased taxes, the national government drastically cut subsidies supporting wheat prices, throwing peasants back into poverty.

A Way Out

This autumn, while Mr. Ma is hunched over books in the university library, his parents will be harvesting wheat from dawn to dusk, expecting to pocket only \$250 for the season, a sum that will also be their annual income. Their son's chance at a university degree is the family's only way out.

"While other parents in the village told their young kids to go find work, my mother encouraged me to go to school," Mr. Ma says.

Nowadays for poor students, going to college means getting a loan. But the ministry has conceded that not all students can obtain loans. According to its own statistics, 534,000 students have applied for what the government said would be \$400-million in state education loans. Only 170,000 students received loans, and they received an average of 37 percent of what they asked for, reaching a total of \$145-million. Banks refused to allocate the full \$400-million for the student loans. The remaining 70 percent of the students were rejected, because the banks viewed them as poor credit risks. The free-market economy has rapidly created more places for students at state and private institutions. But it also means that those who can't pay the price will be shoved off the waiting line for enrollment.

"The student-loan program is a lie," declares Li, a laid-off worker in the southwest city of Chongqing who declined to give her full name.

After her son got a high enough score on the national entrance exam to be admitted to Chongqing Construction College, he went to the bank to apply for a student loan, but he has never heard back. The family had to borrow money from friends to pay for the first year, and is now heavily in debt and does not know where to turn. "We can only take it one step at a time," says Mrs. Zhang.

A Decentralized System

Why are stories like those of Ms. Zhang and Ma Xiaoqing proliferating? The Ministry of Education does not have the power to push universities and banks into lending to students. Like most policies in China, the national government mandate to issue student loans is carried out by local governments at their own discretion, and often, with their own money.

Regional economic disparities mean that a few local governments can pressure regional banks or local universities into offering students generous aid while the majority of places either choose to be stingy or don't have student-loan programs in place yet. These disparities are cemented by the way the ministry distributes scarce funds: The government spends less than 3 percent of the gross national product on education, and most of the money earmarked for higher education goes to a few select universities, giving a handful of them enough money to lend directly to students but leaving most universities in a position where student loans are out of the question.

Moreover, China does not yet have a system to rate people's credit. Unlike ordinary loans, student loans neither require collateral nor a guarantor so banks are at the mercy of each student's honesty and ability to repay the loan. "We support giving students loans but much prefer to offer them ordinary loans, which limit our risk exposure," says Cui Yiping, a Beijing bank official responsible for student loans with the Agriculture Bank of China, one of the four state banks charged with giving out student loans. Some bank officials have openly said that they will not lend to students because they believe that the odds are against new graduates finding employment.

Even when a willingness to lend exists, both universities and banks have yet to create a way to market or administer student loans, and rules vary from institution to institution. Students then are left to wander in the darkness.

'Insecure and Pessimistic'

Like Ma Xiaoqing. China Agricultural University did not have a student-loan office, counselors, or brochures. "When I first came to Beijing, I was anxious, insecure, and pessimistic," says Mr. Ma, a usually ebullient young man who talks fast and shakes his legs when seated.

"I compensated by putting all my energy into studying, and by remembering all the hard work I put into getting into university." By withdrawing into his studies, he missed the fact that there was an information meeting about student loans early in September, and that he could have applied for a loan then. Last December he called his mother.

"He told me that there was nothing he could do and that he had to come home," recalls Lai Dengyu, Mr. Ma's mother. "I told him that he couldn't give up. 'You've already made it to Beijing, and you can't quit school -- schooling is too important,' I said. 'If there's nothing you can do, I'll borrow some more money.'"

Ma Xiaoqing recalls that after talking to his mother that cold December day he became depressed.

"I knew there was nothing my mother could do," he says. "I knew that our neighbors had no more money left to lend us."

Mr. Ma can count himself as one of the few lucky ones. A few days after he called his mother, a lecturer at the university told him that although he had missed the first meeting, he had one more chance. Six of his 37 classmates in the lecturer's class joined him at the loan meeting. There, a representative from the Industrial and Commercial Bank of China, another of the four state banks charged with administering student loans, explained the procedure for filling out the two-page application, and gave the students a short time to complete it and decide how much money they needed for the next three years.

"The meeting was not planned very well," says Mr. Ma. "No one explained to us what happens if we graduate and fail to find a job. How about if we want to go to graduate school? What happens if I study abroad? And we can only fill out the application once -- we cannot apply for additional loans if the first is not enough."

"The bank representative told us that if we applied to go to graduate school we can apply for another loan," says Yang Li, one of Mr. Ma's classmates who attended an earlier meeting. "But someone had to ask before the bank representative told us this. If you don't ask, they won't tell you."

The most important question that Mr. Ma had to answer in his application form was how much money he wanted for his monthly allowance. The limit was the equivalent of \$30, and Mr. Ma chose \$12, just enough for food.

"Chinese don't like loans, and if they don't absolutely need the money, they won't borrow it," says Mr. Ma.

At the end of the afternoon he had to sign a contract, promising to pay back the principal and interest by

2006, three years after his graduation. He was told that the government will pay for half of the 10-percent annual interest rate. In hindsight he thinks that the process was too quick and confusing.

"It should have been more clear and transparent," he says. "I don't know much about what the loan demands and how it works, and no one bothered telling my parents, so they know nothing." Although Mr. Ma's parents are not legally responsible for repaying the loan, his future earnings will have to pay off both his own debts and theirs.

A Chaotic Start

Zhou Xiaohong, a professor of education at China's Northeast Normal University, explains that Mr. Ma's experience is a common one. Last year when the program started things were very chaotic, and students didn't know how to deal with the complex student-loan process.

"The universities did not benefit from the student-loan program so they did little to help the students," Mr. Zhou says. Wang Yan, China Agricultural University's dean of student affairs and the person responsible for student loans, believes that the current system is fine.

"We've done enough in promoting the student-loan program," she says. "Along with ICBC, we organized a lecture early in September describing the student-loan process. But since last year was our first year perhaps there were some problems. This year we've greatly improved the system, though." For example, she says, students who need a loan can arrive on campus and get one before they pay the first year's tuition.

On January 1, 2001, Mr. Ma received a notice from the bank saying that he had been awarded \$1,644, enough to cover his three remaining years. Every month he goes to the bank's automatic teller machine to get his allowance, and the bank automatically wires his tuition to the university.

After his graduation, Mr. Ma will be expected to pay \$150 every three months, a sum he expects he can manage. Last summer, thanks to his university's work-study program, he stayed in Beijing, working three hours a day at the university's swimming pool and pocketing \$60 a month.

Many students have come to feel that, far from evening out social inequality, the student-loan program is just reinforcing it, with students who can get to the wealthier provinces prospering, and others left behind. In a pilot program, the World Bank has established a \$100,000 fund at Lanzhou University, which generally is not considered to be one of the politically favored institutions, to see if it can create a better student-loan program.

But two decades of capitalism in China has led many to accept inequality.

"It's true that in other provinces students don't have access to money," says Wang Yan, the dean. "Beijing has a lot of money so it's easy for students here to borrow money. But what do you expect? Beijing is the capital, after all."