

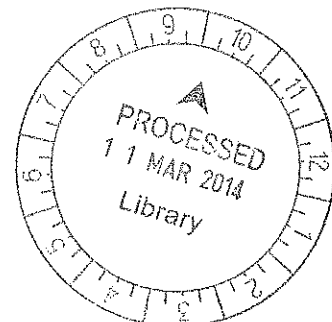
INTI INTERNATIONAL UNIVERSITY

MASTER OF BUSINESS ADMINISTRATION

To examine the factors affecting the investment of private
education in China

FOR REFERENCE ONLY

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Abstract

On the basis of summary of literatures about investment climate and non-government education, the dissertation analyzes current conditions of non-government education, and explores its economic characteristics, growth stage, functions, and the way for private investment to participate in education.

The dissertation classifies climate factors that may influence non-government education into eight investment climate factors on the basis of the viewpoint of macroeconomics and the result of literature review, and investigation, then makes hypothesizes of these factors. Using the Panel Data of 8 fundamental economic variables of 31 provinces of China in about 6 years. This dissertation analyzes the relationship between climate factors and non-government education investment. It reveals that, during all the period, there is no statistical contradiction between the empirical result and hypothesizes.

Having finished research of the degree and direction of the influence of these investment climate factors, this dissertation evaluates the investment climate in different areas with the Generalization Principal Component Analysis. The result shows that the first 7 areas scores high are Beijing, Shanghai, Zhejiang, Guangdong, Jiangsu, Tianjin, Shandong. The scores are high and consistent, which indicates that compared with other locations, these areas are more suitable for investment in non-government education, and have sustainable favorable non-government investment climate.

Keywords: Private Education, Investment Climate, Principal Component Analysis, China

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Li Ye

18th November 2013

Declaration by candidate

I hereby declare that this research project is of my own effort except for the information that has been used from various authors that have been cited accordingly and ethically.

18th November 2013

Li Ye

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Chapter I: Introduction

1.1 Background

1.1.1 The history of the Chinese private education industry

Private education has traditionally played a key role in Chinese culture, with a history of teaching students that dates back thousands of years. In the decades following the rise to power of the Chinese Communist Party in 1949, however, the existing private education system was dismantled and replaced by a centrally-planned, state-run approach. This new system was viewed by the central government as being more aligned with its national socioeconomic plan. This new, centrally- formulated education system was designed to teach and at the same time transmit a distinctively political, socialist message to students.

The Chinese government's implementation of economic reform policies in the 1970's led to unprecedented growth in the Chinese economy; however, China's national educational system has struggled to keep pace with the country's economic emergence. China's investment in education in the past two decades has lagged far behind the expenditures of other countries. While developed economies spend an average of 5.5 % of GDP on education, and developing economies average 4.8 %, China has never devoted more than 4 % of its GDP to education spending (Patrick, 2011). According to United Nations statistics,

although China has seventeen percent of the world's student-age population, its current educational market share, in value terms, is only 2 % (Patrick, 2011). Indeed, the central government has shown little interest in providing funding for primary and secondary education. The previous two decades have seen the financial burden of providing education move from the central government to local authorities, which have in turn passed on the burden to the schools themselves.

China's seeming reluctance to provide funding for education is surprising given the country's traditional focus on learning. In addition to striking a discordant note with the country's intellectual heritage, the government's relatively low spending levels on education may eventually hinder China's continued economic success. Education is the foundation for economic improvement and international competitiveness. Discussing the importance of education, scholars Sun Qi-lin and Kong Kai note that in "the global economy where knowledge is becoming increasingly fundamental, countries or families that lack opportunities for basic education have to confront the risk of being marginalized within the increasingly prosperous global economy."

Research has shown that even the comparatively small investment in Chinese education since the country's market-oriented economic restructuring has been a great impetus behind economic growth. Education provides an opportunity for

individuals to improve their economic and social standing in life, while laying the foundation for the sustainable development of the national economy.

Realizing the importance of education as a mechanism for transmitting the skills necessary to continue China's modernization and economic development, the Chinese government has again turned to private education in an attempt to supplement its underfunded public education system. Chinese officials have signaled the importance they place on education's role in contributing to the country's economic and social progress, as well as their openness to using private education to achieve these goals. The government has once again opened the doors to private education, with the passage of a series of supportive laws (Hou, 2011; Nee & Cao, 2005).

In response to this encouragement, the number of private schools has skyrocketed. This situation changed over the past thirty years as China transitioned toward a market-oriented society.

In the late 1990s, new reform agenda converted public schools to private schools. In 1987, the former China's State Education Commission promulgated the "Several provisional regulations about social force running school", it making the Chinese government concern for private education (Che, 2011). After the China's Ministry of Education (MoE) successively promulgated the "The Law of Education Facilitated by Social Organizations (LEFSO)" and "LEFSO Implementing Regulations". There is the Chinese government emphasis on

private education elevated to a new height (Hayhoe, 1999). Under the strong support of the Chinese government, China's various social forces have held education industry.

Nowadays, the rapid development of China's education industry is remarkable. Between 2001 and 2009, the numbers of annual graduates in China from 1.1 million to 6.1 million and increased by six times. Currently, degree holders' account for 7.4% of the total population, with overall literacy rate reached 92.2% (KPMG, 2011). Meanwhile, according to China Education and Research Network (2010), Non-state/Private schools were increasing and solid growth, as shown in Figure 1.

	No. of Schools	Graduates	New Entrants	Total Enrollment	Staff & Workers	Fulltime Teachers	Other
Higher Education							
(1)Regular HEIs	278	222991	498562	1337942	123230	75144	218474
Normal Courses		13674	42659	125426			
Short-cycle Courses		209317	455903	1212516			
(2)Independent college	(318)	142139	527284	1467040	106648	73820	6595
Normal Courses		108652	455163	1264513			
Short-cycle Courses		33487	72121	202527			
(3)Non-state/private higher educational institution	994				45866	21776	939013
Secondary Education							
(1) Senior Secondary	5805	1102202	1852010	4503451	562158	392920	
Regular Schools	3246	612738	909045	2477160	434801	314622	
Secondary Vocational Schools	2559	489464	942965	2026291	127357	78298	267261
(2)Junior Secondary Education	4561	1102088	1323872	3943973	310	192	
Regular Junior Secondary Schools	4550	1101403	1322984	3940611			
Vocational JSSs	11	685	888	3362	310	192	
Regular Primary Schools	6161	643121	712489	4120907	246898	179836	
Pre-school Education	75426	2628256	4104503	7756871	636914	376656	
Other: Vocational-technical Training Institutions	(23470)				216735	117047	8768353

Note: Data on Staff and Workers in Junior Secondary Schools are included in the data of Regular Schools.

Figure 1: Data on the Number of Non-state/Private Schools of all Levels

1.1.2 Structure of the Chinese private education industry

In China, "private education" is distinguished from the public or state-run education system, and refers to non-state funded individuals or organizations that provide education services or activities. Structure of the Chinese private education has undergone tremendous changes because The Chinese Ministry of Education has issued mass of laws and regulations (see Appendix I). For example, the Rules on Sino-foreign Co-operation in Running Schools ("RSCRS") was issued by 2003, the Law of Education Facilitated by Social Organizations ("LEFSO") Implementing Regulations was promulgated by 2004, and revised by 2006 Compulsory Education Law of the People's Republic of China. Thus, there is to make private education penetration into each level of education, as shown in Figure 2.

Education industry	Subsector	Educational Level						
		0-3 years	Nursery School & Kindergarten	Primary School	Junior secondary school	Senior secondary school	Higher Education	Vocational or Professional school
Public education	Public schools		√	√	√	√	√	√
	Private schools			√	√	√	√	
Diploma-Oriented Education	Test Prep	Extracurricular/Supplementary Tutoring		√	√	√	√	
		Language Training	√	√	√	√	√	√
		Certificate or Professional Qualification Prep		√	√	√	√	√
	Technical /Skills-oriented Training	Arts, Sports, and Other Training	√	√	√	√	√	√
		Vocational Training				√	√	√
		Management Training						√
	Online Education	Online Education	√	√	√	√	√	√

Figure 2: Structure of the Chinese private education industry
(Source from: Deloitte analysis, 2012)

1.1.3 Policy environment and market size for private education

The development of the private-school industry in China has been largely influenced by the domestic policy and institutional environments in which it operates. Here follows an analysis of the political context that is shaping the growth of this sector.

There is an increasing focus on a long-standing but newly-refurbished goal that aims to spend 4% of GDP on education, a target based on the worldwide baseline levels of state spending on education. As early as 1993, the "China Educational Reform and Development Agenda," issued by the CPC Central Committee and State Council, proposed that government financial educational expenditure should aim to reach 4% of national GDP. However, because China's GDP grew so rapidly over subsequent years, and because fiscal revenues remained a relatively low percentage of GDP, this percentage-based goal was not accomplished as planned. However, by 2010, spending on education had gradually risen to 3.66% of GDP. Further, on March 5, 2012, during the Eleventh National People's Congress, Premier Wen Jiabao re-emphasized the importance of meeting the original targets. Indeed, local governments in various regions are obligated to cooperate towards reaching this 4% goal for education.

In addition, China's Ministry of Education (MoE) recently issued a national mid-to-long-term education reform and development plan outline to support education career sustainable development in the future. Thus, the private sector has played an important role in this regard. In order to encourage healthy investment mentality, the government implemented a number of important provisions to ensure that private projects can make long-term commitment and meet growing demand.

On 29 July 2010, the Chinese Ministry of Education (MoE) officially announced "National Mid-to-Long-term Education Reform and Development Plan" that it across over the next 10 years (Ministry of Education of the People's Republic of China, 2013). The guidelines cover almost every aspect of the education spectrum - from academic to vocational education, from public to private institutions, from kindergartens to universities. Therefore, there are many opportunities for investors in China's education industry.

Meanwhile, under the national plans to achieve 40% gross enrollment rate (refers to the ratio of the number of students actively enrolled at institutions of higher learning, over the total population of school-aged individuals) of higher education by 2020, the China's education market is ushering in overall prosperity. Deloitte (2012) predicts that given the prospects for these various types of training organizations described above, this subsector will maintain a compound annual growth rate of 15% over the next three years, to reach a market size of RMB 640billion by 2015, as shown in Figure 3.

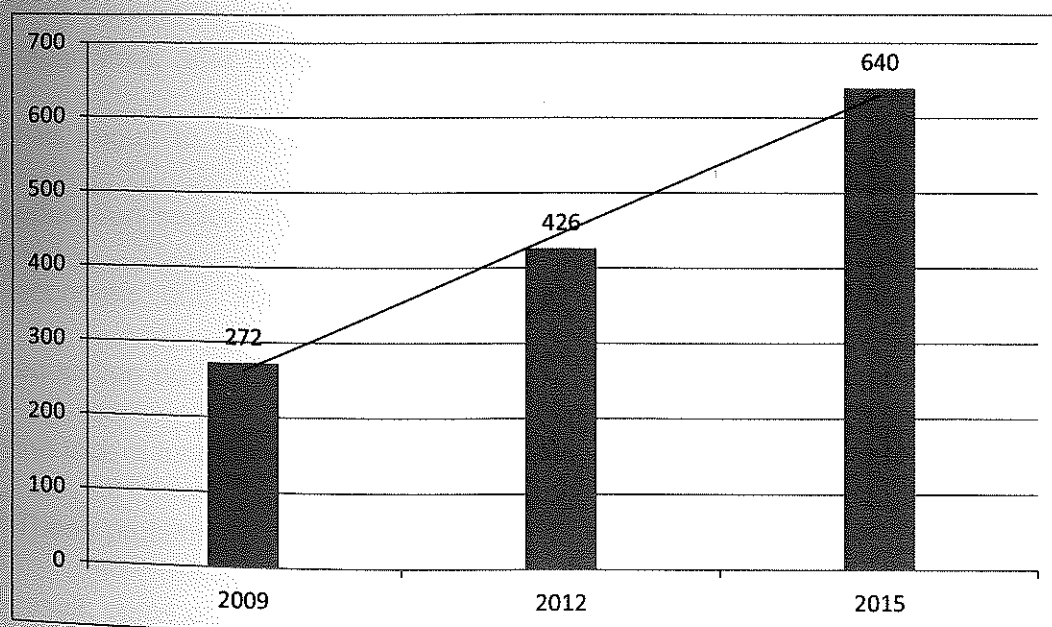


Figure 3: China private education industry -market size (RMB billion)
(Source from: Deloitte Research, 2012)