

REPORT

Education is the Import that China Really Wants

Chinese Citizens Embrace Education as the Key to a Better Life

For more than a century, the sheer size of the market opportunity in China has attracted businesspeople from the West. Believing that penetrating this Asian market of 1.2 billion citizens is crucial to global competitiveness, corporations have invested billions of dollars into China. Until now, few multinationals have been able to earn the level of profits commensurate with the enormous amounts of capital that pour into this developing nation.

While the promise of the Chinese market is boundless, the reality is that only a fraction of the Chinese population has the means to buy products that these multinationals are trying to push into the marketplace. Citizens with an average income below \$1,000 a year can hardly afford to buy dishwashers, refrigerators and cars. So these multinational corporations continue to invest in their Chinese operations, waiting for the day when more Chinese consumers can buy their wares.

Despite the fact that education is, in many respects, China's most heavily demanded service, education has not been regarded as a great market opportunity outside of education circles. According to the China State Bureau of Statistics, the average family plans to earmark roughly 10 percent of their savings to education; in comparison, Chinese families expect to spend seven percent of their savings on housing. Moreover, overall education spending in China is increasing by more than 10 percent per year as the central government and the state governments allocate more spending to education and Chinese families allocate more of their savings to education.

As China develops a market driven economy that is increasingly open to global competition, Chinese government officials are fully aware that educa-



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tion is the key to the nation's success in the global economy. Similarly, Chinese citizens recognize that education is crucial to a better life in modern China. Unfortunately, insufficient education infrastructure remains a hurdle both to the country's economic development and its citizens' hope for a better life. Just 10 percent of eligible students are able to enroll in higher education institutions. This prevents China from developing a highly skilled workforce and thwarts the goals of millions of Chinese young people who aim to build a better life for their families.

In this light, it is clear that education is the import that Chinese citizens demand most. Chinese families can wait until their means improve to buy toasters, refrigerators and dishwashers. What Chinese families want today is a way to improve their socioeconomic standings, and education holds the key to their advancement. In this report, we examine the factors driving growth in the Chinese education market, present examples of companies that are building education businesses in China and explore several opportunities for education businesses operating outside of China. In particular, this report highlights the following market trends and forecasts:

- Spending on education in China will double by 2005 as the country's economy grows rapidly and the government allocates a greater percentage of spending to education. Eduventures.com estimates that total spending on education in China will reach \$90 billion in 2005, more than double the \$40 billion spent in 1999.
- Spending will grow particularly rapidly in the postsecondary market in which insufficient infrastructure prevents roughly 90 percent of eligible students from attending postsecondary institutions. The Chinese central government and state governments have launched ambitious programs to increase enrollments at postsecondary institutions, but significant investment is required if the country hopes to offer more students an opportunity to earn a university degree.
- The growing Chinese education market offers opportunities to entrepreneurs and investors, but success in China will depend upon building or accessing on-the-ground operating expertise. Government regulations and the importance of building relationships make it difficult to succeed in China without dedicating meaningful resources to this effort. Partnering with education companies that are based in China or Southeast Asia is a wise strategy for most education companies operating outside of China.