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# China's human capital investment

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## Abstract

This paper discusses human capital investment in China. China's current policies favor physical capital investment over schooling and urban human capital investment over rural human capital investment. Current migration policies discriminate against children of migrants. A more balanced investment strategy across rural and urban regions and types of capital is appropriate. Private funding for education through tuition and fees should be encouraged and can supplement government funding and make schools more financially self-sufficient. However, if this policy is enacted, capital markets for financing education need to be developed to avoid discouraging students from poor families from attending school.

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*Keywords:* Human capital; Economic growth; Migration

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## 1. Introduction

In 1995, China, at all levels of government, spent about 2.5% of its GDP on investment in schooling.<sup>2</sup> At the same time, roughly 30% of its GDP was devoted to physical investment. In the United States, those figures were 5.4% and 17%, respectively. In South Korea, they were 3.7% and 30%. See [Table 1](#) for a comparison of China with other countries in its governmental expenditure of GDP on education. China was below average

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<sup>2</sup> See UNESCO, *Statistical Yearbook* (New York: UNESCO, 1999).

Table 1  
Public expenditures on education as a percentage of GNP in 1995

World	5.2
China	2.5
Philippines	3
Thailand	4.1
India	3.3
Malaysia	4.7
Singapore	3
Pakistan	2.8
Turkey	2.2
South Korea	3.7
Egypt	4.8
Mexico	4.9
Brazil	5.1
Argentina	3.8 <sup>a</sup>
United States	5.4 <sup>a</sup>
Japan	3.6 <sup>a</sup>
Canada	6.9 <sup>a</sup>
Germany	4.8
Russian Federation	3.5
Poland	5.2
Hungary	5.3

Source: UNESCO (1999).

<sup>a</sup> Data were only available for 1994.

even among its peers in its expenditure on investment in people. Recent trends in governmental human capital investment are favorable, but the investment proportion is still low by world standards, rising to 3.3% in 2002 (see Table 2). More than 45% of GDP was invested in physical capital in 2002. Even the dramatic growth in private spending on

Table 2  
Government appropriation for education as a percentage of GDP in 100 million Yuan

Year	Government appropriations for education	GDP	Educational expenditure as percentage of GDP
1991	618	21,618	2.9%
1992	729	26,638	2.7%
1993	868	34,634	2.5%
1994	1175	46,759	2.5%
1995	1412	58,478	2.4%
1996	1672	67,885	2.5%
1997	1863	74,463	2.5%
1998	2033	78,345	2.6%
1999	2287	82,068	2.8%
2000	2563	89,468	2.9%
2001	3057	97,315	3.1%
2002	3491	104,791	3.3%

Source: China Statistical Yearbook 2003.

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