

China's economic stability depends on more education, economist says

December 8 2011, By Adam Gorlick



The playground outside a Beijing school for migrant students is overlooked by the cooling towers and smokestacks of a power plant. The students have moved here from China's rural areas, where it's not unusual for children to test three years behind their peers in good city schools. Credit: Adam Gorlick

(PhysOrg.com) -- As the world holds a collective breath waiting to see whether China's white-hot economy blazes ahead or fizzles, Stanford economist Scott Rozelle is talking up a plan to protect the country's future.

“[China](#) needs to make sure every kid goes to [high school](#) so they have the skills and training they'll need to be productive workers,” he says.

With only 40 percent of the country's poor and rural children now receiving a formal high school [education](#), that's a tall – and expensive –

order to fill. Rozelle figures China needs to invest at least \$500 billion during the next decade to make sure nearly all the country's children have the support they'll need for a quality education.

But he warns the price will be even higher if the country falls short of that goal.

Hourly wages – now about \$2 – rose by 19 percent in the past year. If China's growth pattern continues, those wages can hit \$10 to \$15 by 2030. That trend is pushing China to shift from an economy based on labor-intensive, low-skilled manufacturing to one needing smarter, more literate workers.

Facing increasing payroll costs, employers cannot afford to hire workers who don't have a set of basic skills and an ability to master complicated tasks. If the labor force cannot measure up, businesses – and the jobs they promise – will go elsewhere.

And if that happens?

“Then,” Rozelle says, “You have Mexico and the crisis that country is facing today.”

China is now in much the same situation as Mexico during the late 1980s and early 1990s, when wages began to skyrocket and the country planned to attract and create high-skilled jobs to support them.

The idea was to move Mexico from a middle-income nation to a rich one. But there wasn't a deep enough labor pool to sustain the shift. While just over 80 percent of kids in Mexico's well-off cities were going to high school, only about 40 percent of those living in rural and poor urban areas were getting a secondary education.

Factories paying low wages soon moved to other countries. Job opportunities dried up. Unemployment soared, and so did the power and presence of drug cartels and organized crime. Gang violence is scaring away tourists, foreign investment and domestic business plans. More than ever, Mexico is now swamped with crime and corruption instead of the spoils of an economic windfall that seemed within reach just three decades ago.

Should China fall into the same trap, Rozelle warns of a destabilized Asian behemoth that would put a crimp in worldwide trade and global prosperity. And without a strong economy to assure its own population of a rising quality of life, China might begin to assert its military to increase a sense of nationalism, he says.

“The world is much better off with a stable and growing China,” says Rozelle, co-director of the Rural Education Action Project at Stanford’s Freeman Spogli Institute for International Studies.

And he says China can avoid Mexico’s mistake by following the path of countries such as South Korea.

While Mexico’s fortunes and wages were rising, so too were South Korea’s. But China’s neighbor made a smooth transition from a low-wage, labor-intensive economy to a highly productive, innovative and service-based workforce.

They pulled it off because of a strong commitment to education. Even in the years when South Korea’s economy was fueled by low-wage, labor-intensive manufacturing, nearly everyone went to high school. Whether or not South Korean officials were betting that education and economic success went hand-in-hand, it turned out that a strong education system was one of the key factors in the country’s growth, Rozelle says.

“In the 1970s and early 1980s, you had young women who were making shirts and socks in sweatshops transform themselves into highly skilled workers doing high-fashion design and other high-wage, high productivity jobs in the 1990s and 2000s,” Rozelle says. “And the key to it all was that those women went to high school and learned the skills that high-wage paying employers demanded. It was mandatory and free, and those women learned how to read, write and do math.”

China has a lot of catching up to do if it aspires to South Korea’s model. With up to 60 percent of children in poor rural areas missing out on high school, China’s education system in those regions now looks more like Mexico’s.

But if China begins investing heavily, the country stands a good chance of hitting a sustainable economic stride. That means spending about \$50 billion a year on services like early childhood education and computer-assisted learning while making sure schoolchildren have the health care, vision care and nutrition they need to pay attention and perform well in class.

“China has the money and the resources to contain the problem,” Rozelle says. “But it needs to do something right now, because time is running out.”

Provided by Stanford University

Citation: China's economic stability depends on more education, economist says (2011, December 8) retrieved 10 May 2024 from <https://phys.org/news/2011-12-china-economic-stability-economist.html>

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