



Education in emerging markets: closing the gap

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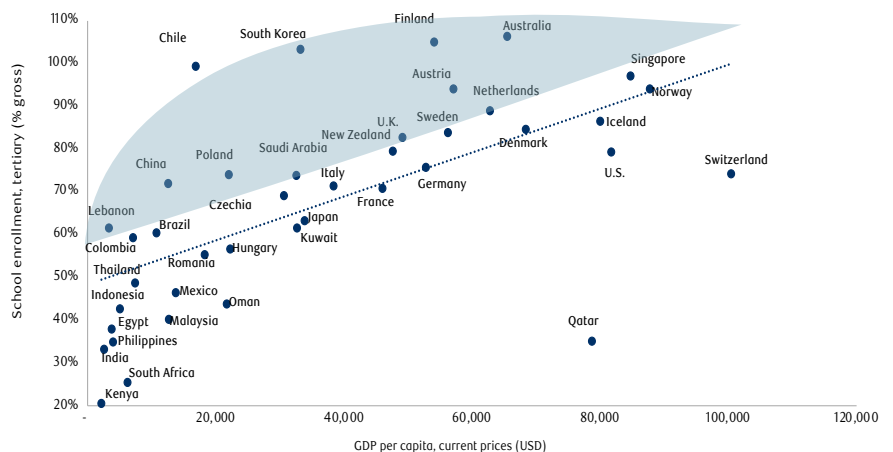
“While there are a multitude of factors at play, one important driver of a country’s long-term development is education.”

Within our EM Equity team, whilst ESG analysis is primarily conducted at company level, being aware of ESG factors at country level is useful for our overall portfolio strategy, and for positioning our portfolios in areas of long-term structural growth while avoiding the risks. Here, we focus on developments within education, an important socioeconomic factor driving a country’s long-term economic development.

Of the nearly 200 countries in the world, over 150 are classified as emerging, according to the International Monetary Fund¹. Key considerations within this classification are income levels, living standards, and economic development.

The emerging world is home to a dominant share of the global population and an abundance of natural resources, yet this has not historically translated into sustained economic growth. While there are a multitude of factors at play, one important driver of a country’s long-term development is education. Data shows a strong correlation between education levels and the economic development of a country, with tertiary education showing the strongest relationship (Exhibit 1). In addition to financial returns, education creates a more equitable and inclusive society, requiring less government spending on social welfare programmes and therefore bolstering the capacity for education spending.

Exhibit 1: Strong correlation between education and economic development (GDP per capita versus tertiary school enrollment by country)



Source: World Development Indicators, IMF, as at June 2024.

¹ worlddata.info/developing-countries.php

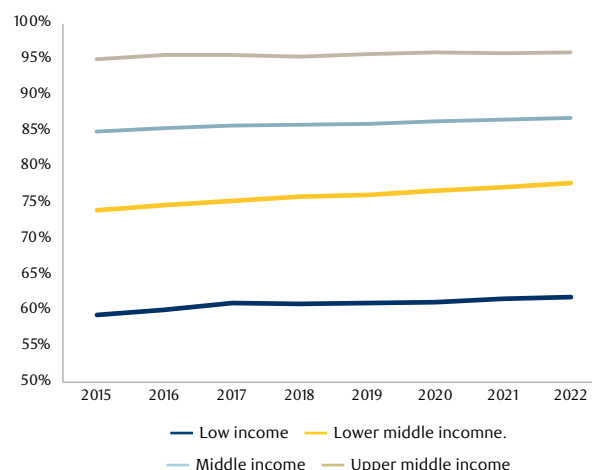
Given this relationship, it is therefore not surprising that education levels tend to be lower in the emerging world. As illustrated in Exhibit 2, low-income countries have considerably lower literacy rates than higher-income countries, with limited improvement over the past decade. Amongst the factors that have led to this are historical underinvestment by governments and affordability issues.

While public education spending remains lower in many emerging countries compared to the developed world, it is higher in some EM countries, notably South Africa and Brazil, where there has been a big government push in recent years to improve the quality and accessibility of education particularly amongst the poorer echelons of society (Exhibit 3).

One area which has historically presented an issue but where we have seen considerable progress globally is female participation in education. Gender parity was achieved in primary and lower secondary education enrollment in 2009 and in upper secondary education in 2013. For tertiary education, parity was achieved in 1998 and, since 2004, we have seen female tertiary enrollment overtake that of males. By 2020, there were 113 women enrolled for every 100 men at the tertiary level of education globally². However, breaking down these positive global trends reveals there is significant disparity amongst countries.

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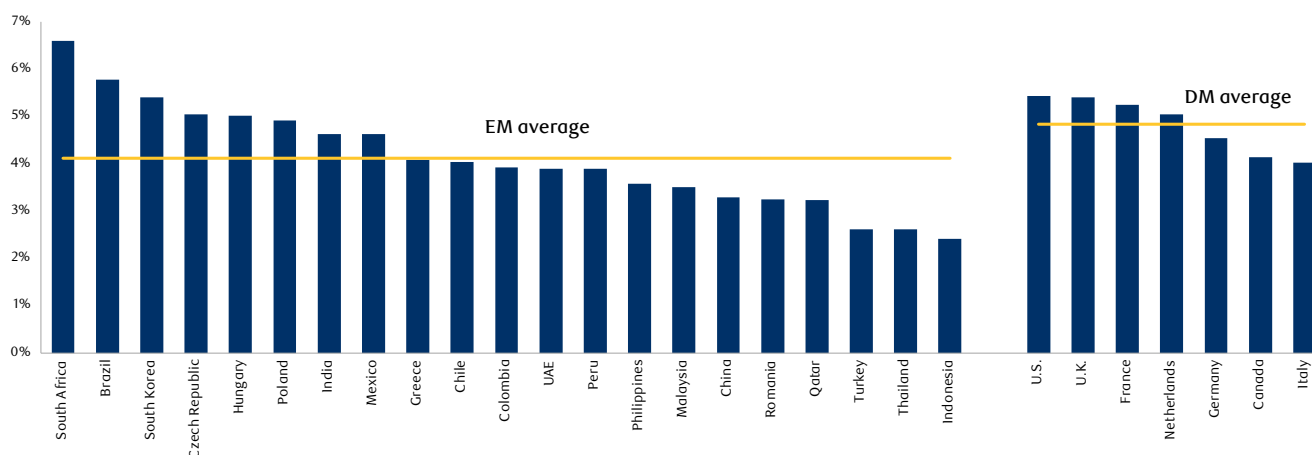
Exhibit 2: Literacy rates are lower in low-income countries
(% literate amongst adult population)



Source: World Development Indicators, as at June 2024.
Note: Literacy rate, adult total (% of people ages 15 and above).



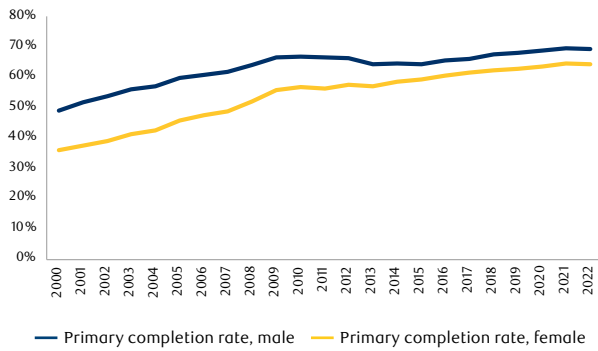
Exhibit 3: Government expenditure on education as a % of GDP tends to be lower in EM



Source: World Development Indicators, as at June 2024.
Note: Date shown for most recent year available by country, ranging from 2020 to 2023. Averages are based on countries shown.

² right-to-education.org/sites/right-to-education.org/files/resource-attachments/UNESCO_Higher%20Education%20Global%20Data%20Report_Working%20document_May2022_EN_0.pdf#:~:text=The%20gender%20parity%20index%20indicates%20that%20globally%20there,for%20every%20100%20men%20in%202020%20%28UIS%20database%29.

Exhibit 4: Male and female primary completion rates in low-income countries



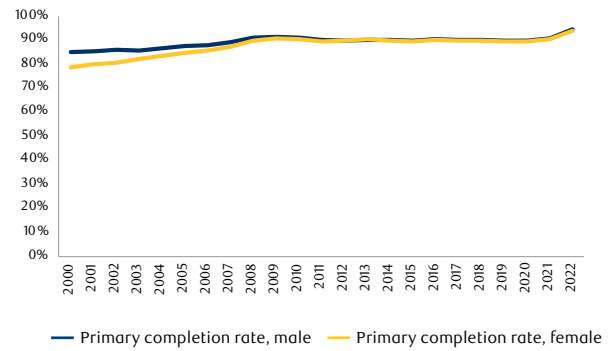
Source: World Development Indicators, as at June 2024.

This is illustrated in Exhibits 4 and 5 which compare male and female primary completion rates between low- and middle-income countries. While the gender gap has been closed in middle income countries, a gap still remains in lower income countries, albeit it has narrowed considerably over the past two decades.

With females constituting roughly half of the world's population, we expect their growing representation in education to present a significant structural growth driver for emerging countries in coming years, providing a boost to the workforce, and translating into higher economic growth.

An area which presents both an opportunity and challenge within the education space is technology. Managed effectively, technology has the power to improve access to education, and enhance the means by which it is delivered.

Exhibit 5: Male and female primary completion rates in middle-income countries



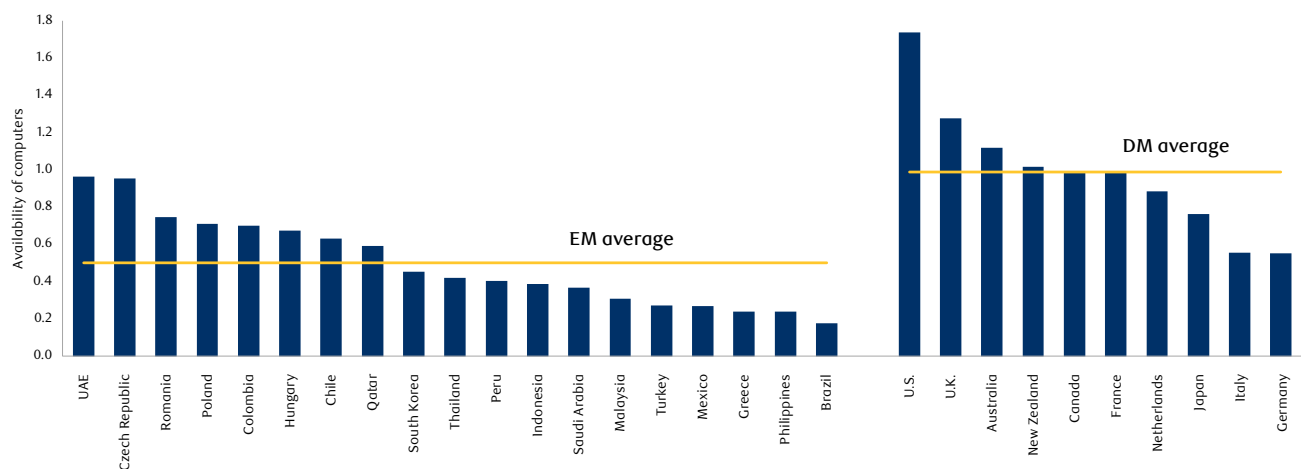
Source: World Development Indicators, as at June 2024.

According to UNESCO, 85% of countries currently have policies or legislation for improving school or learner connectivity, while 88% aim to develop digital skills standards within their plans. However, access to technology within education varies considerably between countries and income levels, which could potentially exacerbate the issue of global education inequality going forward (Exhibit 6).

India: balancing economic and social reforms

India has made significant strides in terms of its economic development over the past decade, under the leadership of Prime Minister Narendra Modi. The country surpassed the U.K. to become the fifth largest economy globally last year and is on track to overtake Japan and Germany for the third spot by 2027³. So far, government reforms and investments have been focused on areas such as infrastructure and digitalisation, in order to remove historic bottlenecks and improve India's attractiveness for business and foreign direct investment ("FDI").

Exhibit 6: Large disparity in technology access in education across countries



Source: PISA 2022 results "Learning during – and from – disruption".

Note: Data indicates ratio of school computers available to 15-year-olds for educational purposes to the total number of students in the modal grade for 15-year-olds. Averages based on countries shown.

³ IMF, 2024.

The next leg of India’s development will require the government to address considerable socioeconomic challenges, including high youth unemployment, inequality, and education. As shown in Exhibits 7 and 8, India stands out as having very low female labour force participation compared with other EMs. Similar trends can be witnessed by income level or minority group.

The government released its National Education Policy in 2020 with the key objective of increasing the gross enrollment ratio to 100% in pre-school to secondary level by 2030 and increasing the gross enrollment ratio from 26% to 50% in higher education by 2035⁴. There have also been efforts to improve female and caste participation, where enrollment levels are disproportionately low. For example, from 2014-15 to 2021-22, there has been 31% growth in school enrolment amongst girls, while enrolment figures for girls belonging to Scheduled Castes showed a growth of 50%⁵.

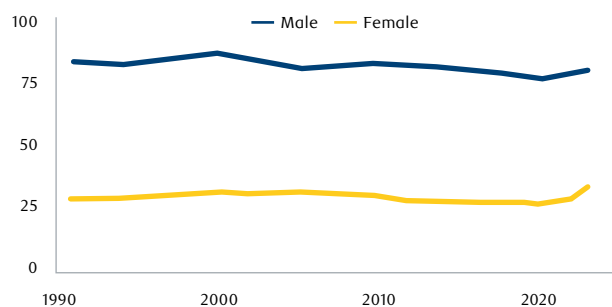
However, significantly more needs to be done. With Modi now embarking on his third term through a coalition government and strengthened opposition, could this bring socioeconomic issues into greater focus?

Saudi Arabia: increasing female workforce participation through social empowerment

A country that is making significant strides from a low base is Saudi Arabia. As part of the Crown Prince’s Vision 2030 growth framework, the kingdom has embarked on a range of social and economic reforms in order to boost its working age population, primarily by empowering women and attracting expats.

Exhibit 7: India’s labour force participation rate by females and males

Percentage of male and female population aged 15+



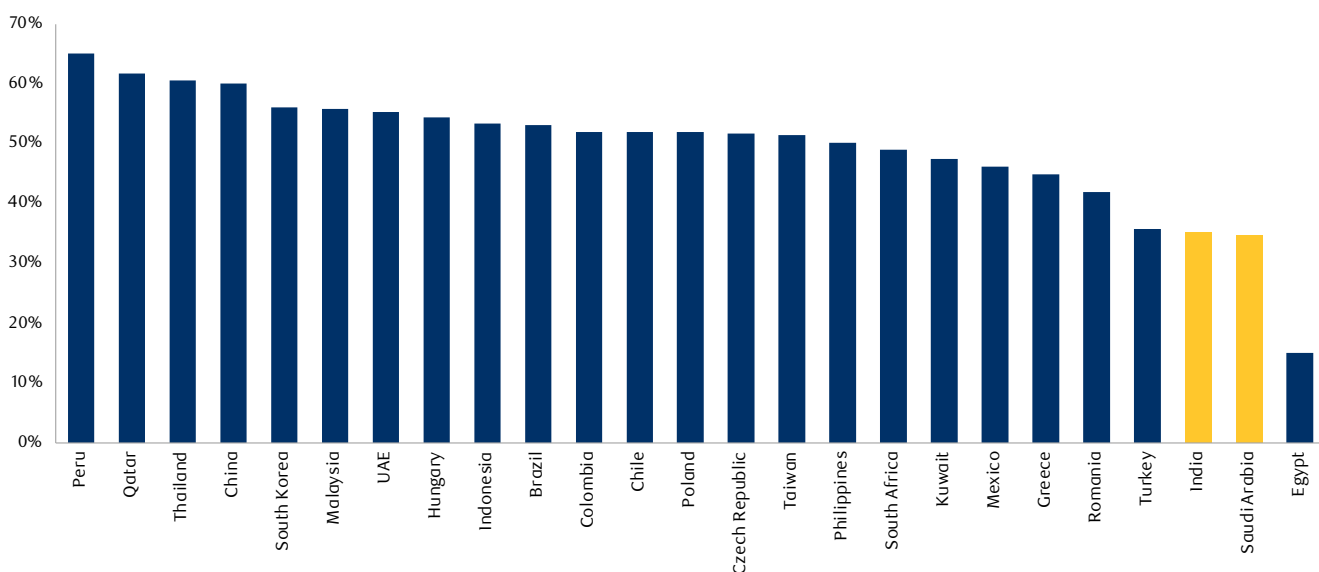
Source: World Bank, 2022. Based on Modelled International Labour Organisation estimates.

Women have been granted greater social freedoms through milestones such as the right to drive, relaxed clothing measures, and the abolishment of certain male guardianship rules.

As a result, female workforce participation in the kingdom has risen in recent years, from 19% in 2016 to circa 35% in 2022 (Exhibit 8). This is expected to benefit the economy, by adding USD39 billion or 3.5% to GDP by 2032⁶.

“Women have been granted greater social freedoms through milestones such as the right to drive, relaxed clothing measures, and the abolishment of certain male guardianship rules.”

Exhibit 8: Female workforce participation by country – India and Saudi are behind



Source: International Labour Organisation. Date shown for most recent year available by country, ranging from 2020 to 2023.

⁴ Ministry of Education pib.gov.in/PressReleaseIframePage.aspx?PRID=1847066.

⁵ indiafoundation.in/articles-and-commentaries/a-decade-of-reforms-the-evolution-of-education-and-skill-development/

⁶ S&P Global, GASTAT, as at September 2023.

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Dijana is a product specialist on the RBC Emerging Markets Equity team at RBC GAM. Prior to joining the firm in 2018, she worked as a vice president at an international bank, where she spent six years in the managed investments and investment marketing businesses, focusing on the positioning of investment capabilities and thought leadership, having earlier worked in an investment advisory role at a global accounting firm.

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