



THE IMPACT OF EDUCATION ON ECONOMIC GROWTH IN DEVELOPING COUNTRIES

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The impact of education on economic growth in developing countries

Economic growth in developing countries is typically marked by a transition from agriculture-based towards more service- and knowledge-based industries (Appiah, 2017). However, many developing countries lack the financial and educational resources that are crucially important to carry out this transition. Lacking such resources can pose a barrier to economic growth, as human capital and a skilled labour force are required both to foster the growth of innovative services, and thereby create positive feedback loops that spur further social, economic, and educational development (Appiah, 2017). Hence, in developing countries, investment in education is the single most crucial factor in driving economic growth (Beal, 2012).

The economic and social benefits of education investment for developing countries and their people are well-supported by research. For instance, it has been shown that investment in education does not only promote economic growth, but also provides people with the skills, knowledge, and tools to improve the quality of that country's governance, which in itself is a key factor in economic growth (Grant, 2017). This will ultimately assist in maintaining political and economic stability and have a positive effect on that country's gross domestic product (GDP). Beal (2012) identifies that of the ten dimensions that make up a country's economic wellbeing, education, and overall skills development in a population are the most important factors when considering long-term economic sustainability. Additionally, compared to investment in other aspects of a country's economy, such as public finances and economic institutions, education is the most important lever in enhancing long-term economic development (Beal, 2012).

The relationship between government spending on education and economic growth can be complex and difficult to measure, as the effects of education are often indirect and can take many years to fully materialize (Appiah 2017). Nevertheless, the positive correlation between educational quality, quantity, enrolment, and economic growth is well documented (Cooray, 2009). Furthermore, as shown in Table 1, significant historical evidence supports that education investment provides an average of 9% return on investment (Psacharopoulos, 2018). As a result, it can be argued that quality and quantity of education combined with student enrolment are significant driving factors in economic growth and should thus be a priority for government expenditure, especially if such expenditure targets enrolment or quality and quantity of

education (Cooray, 2009). This ultimately means that a country that is not vastly improving its wealth can still provide educational improvements to its population through investing in the quality and quantity of education provided to its citizens (Beal, 2012).

Region	Overall Rate of Return (%)	Mean Years of Schooling
Latin America and Caribbean	11.0	7.3
Sub-Saharan Africa	10.5	5.2
East Asia and Pacific	8.7	6.9
South Asia	8.1	4.9
Advanced Economies	8.0	9.5
Europe and Central Asia	7.3	9.1
Middle East and North Africa	5.7	7.5

Table 1. Private returns to schooling by region (Psacharopoulos, 2018)

Against this backdrop, the World Economic Forum argues that education improves a country's productivity by increasing workforce efficiency, facilitating knowledge transfer, and promoting and assisting innovation (Grant, 2017). Beal (2012) shows that investment in education can amplify growth within a country by encouraging activities that develop competitive advantage, promote entrepreneurship, and increase specific labour inputs within the market. Such investments in education provide substantial benefits in the development and advancement of labour inputs and innovation within a country, both of which are essential factors in increasing economic growth (Agarwal, 2020). Many studies indicate the positive relationship between education and economic growth. For instance, Cooray (2009) identifies that enrolment for primary, secondary, and tertiary levels is beneficial and highly significant for economic growth. Roser (2013) shows the positive correlation between mean years of schooling and GDP per capita and expected years of schooling and GDP per capita (Figure 1). Chien (2015) identifies the positive relationship between labour productivity and average GDP growth.

As East Timor is yet to mark a significant transition to service- and knowledge-based industries, investing in education can provide even more social and economic benefits when compared to developed countries. East Timor's restricted farming land and reliance on agriculture are limiting factors for the country; however, education that leads to productivity has displayed a positive correlation in increasing agriculture production (Lundahl, 2013). East Timor's constrained economic development, dependency on agriculture, and global positioning put them in a unique situation to capitalise on education reform.

Research supports that education development in East Timor would provide significant economic and social benefits. Hence, investment into both quality and quantity of education in East Timor would provide a stable long-term foundation for economic growth and should be an investment priority.

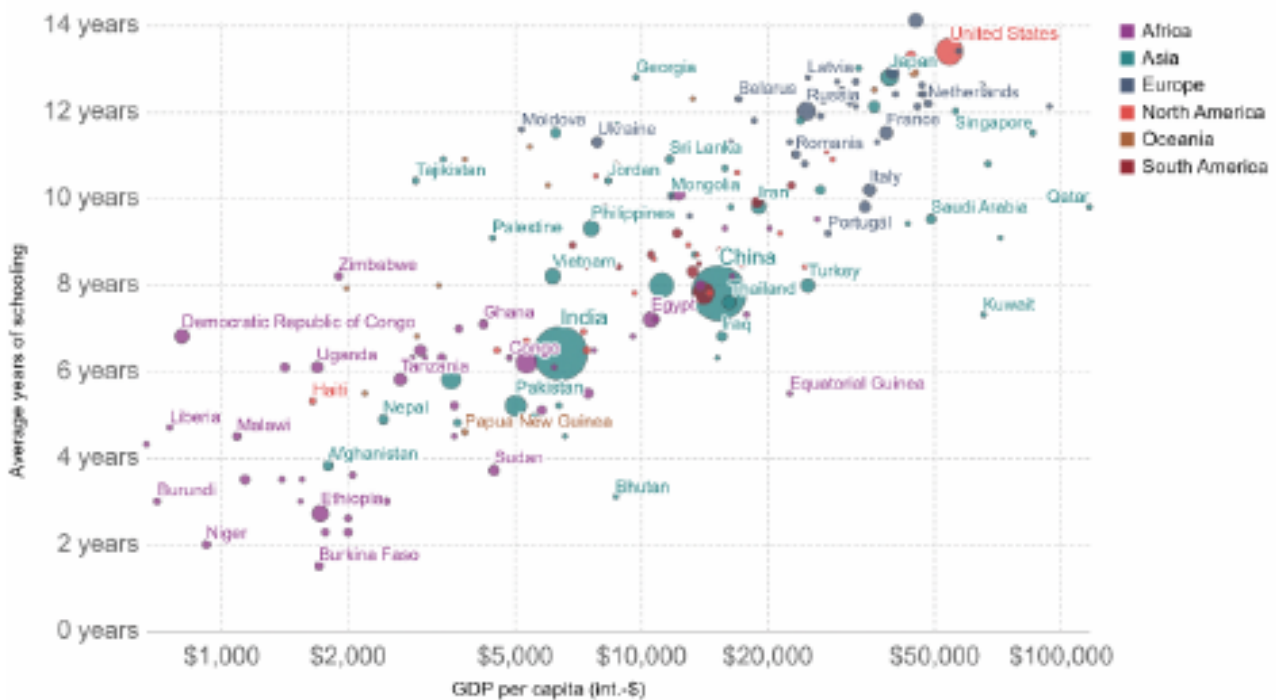


Figure 1. Average years of Schooling vs GDP per capita, 2017 (Roser, 2013)

In conclusion, the contribution of quality and quantity of education to economic growth and GDP within developing countries is widely supported by research. Education provides social, economic, and political benefits for any country and plays a critical role in individual and societal prosperity. In developing countries, the benefits of investing in education are even higher. Better quality and quantity of education can lead to a positive feedback loop that helps a developing country transition towards a service-based and knowledge-intensive, innovative economy by upskilling their workforce. The evidence generally supports the relationship between education and economic growth, and research has shown that without investment in quality education developing countries will struggle to achieve long-term economic development.

In short, investing in education has substantial economic, social, and political benefits for developing countries and should thus be a priority for human development and foreign aid programmes.

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