

DEMAND FOR EDUCATION IN CHINA REMAINS STRONG

-
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GLOBAL ✕
by Mirae Asset



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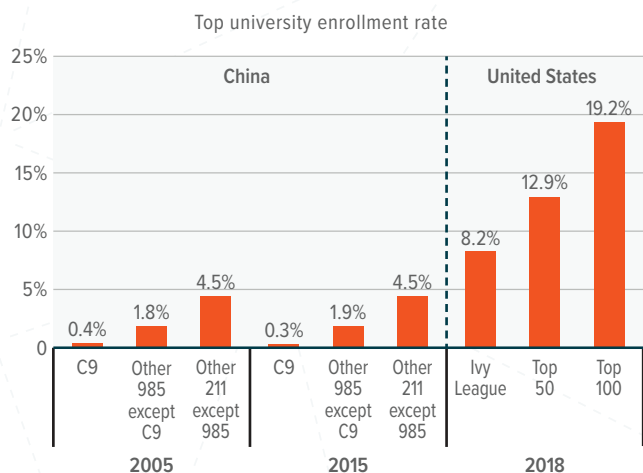
**WHY THE DEMAND FOR EDUCATION
IN CHINA REMAINS STRONG**

- Rapid economic growth is underpinning a desire for better education
- Parents are willing to invest heavily in their children's future
- The one-child policy is now a choice rather than an obligation
- High-value-added industries require better skills

Demand for education, particularly K12 After School Tutoring (AST), remains robust in China. The country's rapid economic growth has led to improvements in the education levels of many parents, who, in turn, believe that entering a good university will change their children's lives. In other words, many parents see education as an investment rather than an expense.

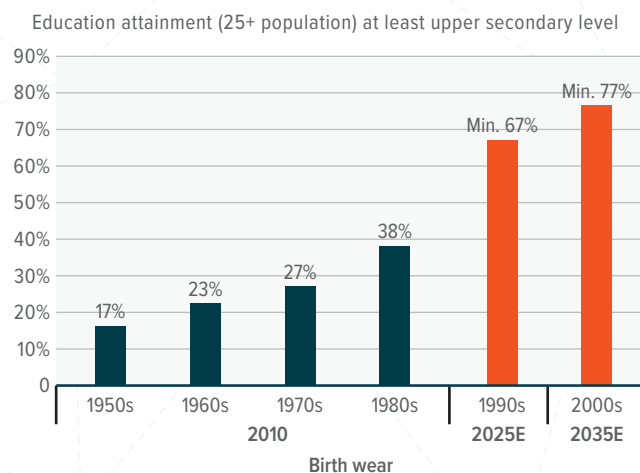


EXHIBIT 1. HIGHLY INTENSIVE COMPETITION FOR TOP UNIVERSITIES IN CHINA



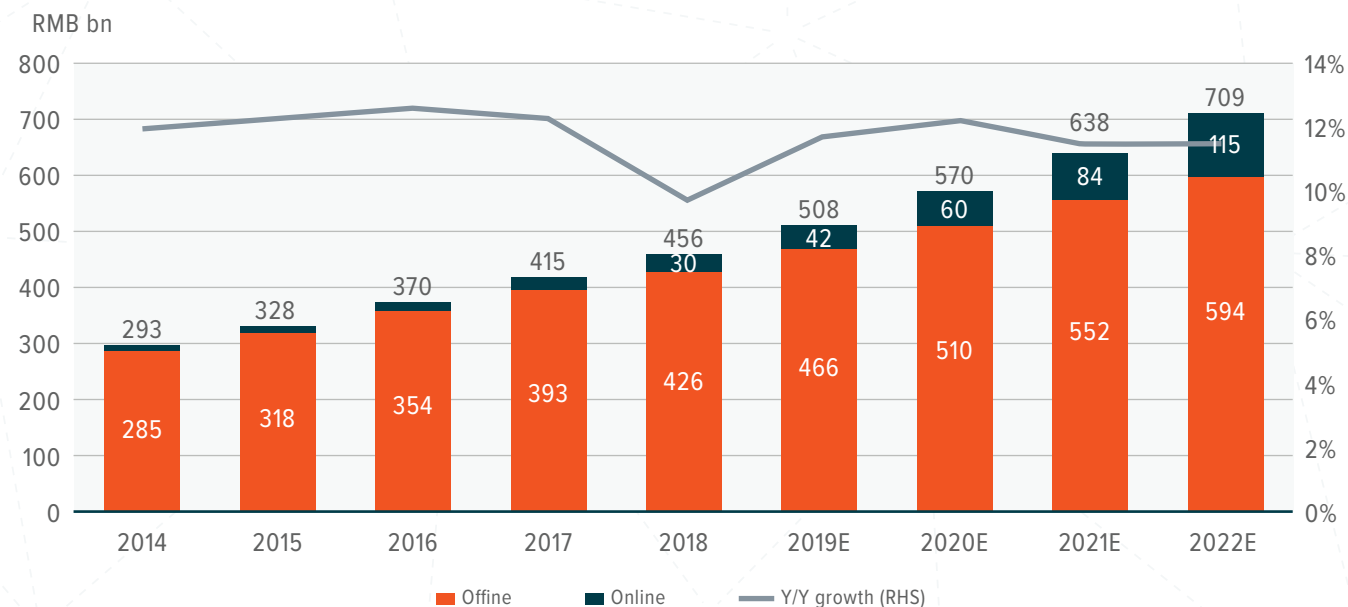
Source: Journal of Educational Studies, US Department of Education National Center, Morgan Stanley, November 7, 2019
 Note: '985' and '211' are two national programs for developing top universities

EXHIBIT 2. EDUCATION LEVEL IS IN FAST-IMPROVING TREND



Source: NBS, MoE China, Morgan Stanley Research, November 7, 2019

EXHIBIT 3. CHINA AST K12 MARKET SIZE (BASED ON REVENUE)

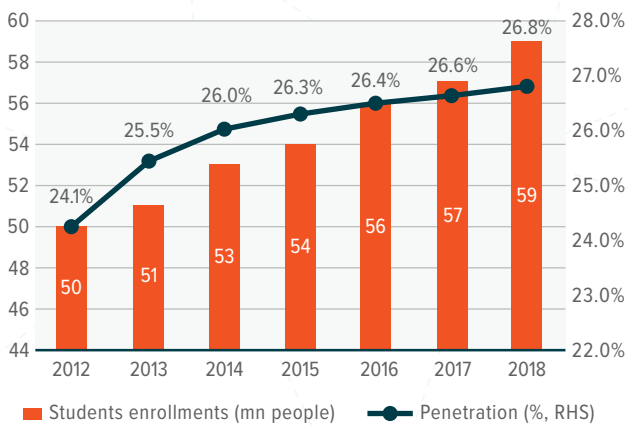


Source: Frost & Sullivan, JP Morgan estimates, November 2019

SPEND RATHER THAN SAVE

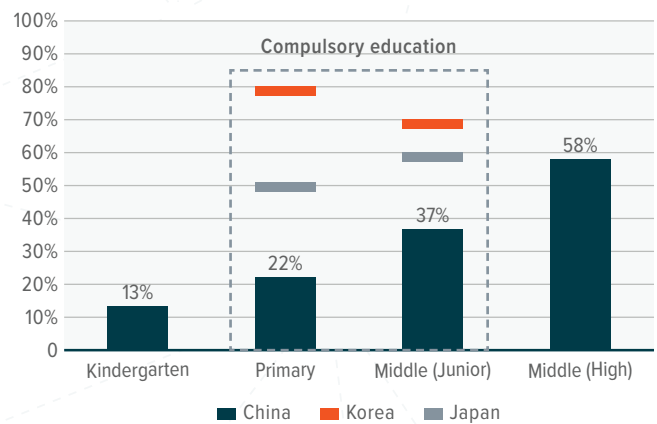
Education is now more affordable thanks to rising incomes and better social welfare. Money that may have been saved by previous generations can now be released. Indeed, education-related costs are one of the last things parents cut if they need to trim their discretionary spending.

EXHIBIT 4. K12 AST PENETRATION IN CHINA



Source: Frost & Sullivan, JP Morgan estimates, November 2019

EXHIBIT 5. K12 AST PENETRATION (BASED ON STUDENT ENROLLMENT)



Note: China's penetration rate is based on student enrollment data in 2018; Japan penetration is based on NIER research 2015, Korea's penetration is based on KOSIS research 2015

ONE CHILD, BY CHOICE

The Chinese government has relaxed its one-child policy and now allows families to have two children (if one parent was an only child in 2013). For financial reasons, however, many couples choose to have only one child – a trend being mirrored in other developed countries. These so-called 'little emperors' are not only supported by two parents but also four grandparents. This may be another reason why so many parents are willing to invest so much in education – they only have one opportunity.



HEADING TO THE CITY

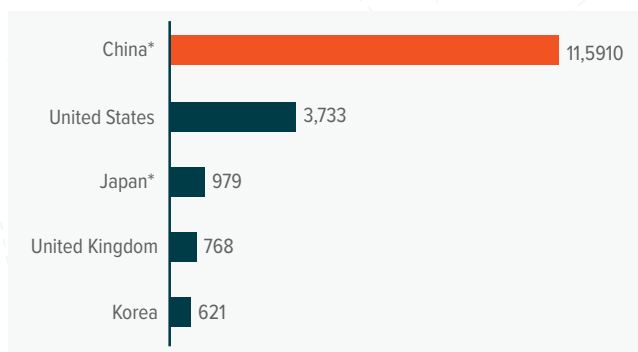
According to Morgan Stanley, the urbanization ratio reached 60% in 2018 (from 20% in 1978), and is expected to touch 75% by 2030. By that stage, there will be 220 million urban dwellers. That said, junior education is already inadequate in many big cities, and there will be strong demand for K12 AST going forward.

LOW TO HIGH VALUE

Finally, China is upgrading its core industries with a move to high-value-added areas, such as technology. The country has long been the world's factory, but with rising labor costs, even more so with the recent trade war, the low-value sectors (for example, textiles) are shifting their manufacturing bases to other countries (Vietnam, India and others in South East Asia). At the same time, the government is supporting strategic high-value-added industries, such as electric vehicles, 5G, and semiconductors, with its Made in China 2025 target. This works both ways: the state needs highly educated people, while at the same time, it has to provide job opportunities for them. In a way, we can say that learning is paying off because when there are good jobs for highly qualified people, it then underpins the demand for education.

EXHIBIT 6. CHINA'S NUMBER OF NEW GRADUATES PER YEAR FAR EXCEEDS THAT OF KEY DEVELOPED COUNTRIES

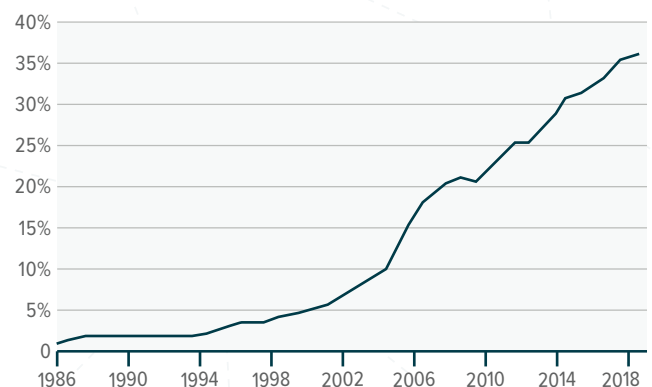
Annual Average No. of Graduates from Tertiary Education (Thousand People)



Source: World Bank, Morgan Stanley Research 2019
Note: 2013-2017 data for China and 2012-2016 data for the other countries; 2013-2016 data for Japan because of missing data for 2012

EXHIBIT 7. MORE AND MORE YOUNG PEOPLE ARE GRADUATING FROM COLLEGE

Tertiary Graduates / Births 22 Years Ago



Source: Ministry of Education, NBS, Morgan Stanley 2019

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