

TOKYO SEMINAR

# Expanding Opportunities: Toward Inclusive Growth

## PRESENTERS

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CHAPTER I

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# Expanding opportunities: A map for equitable growth in South Asia



CHAPTER I

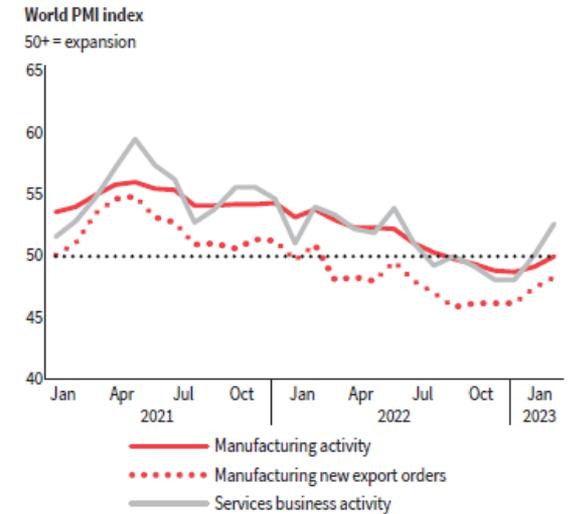
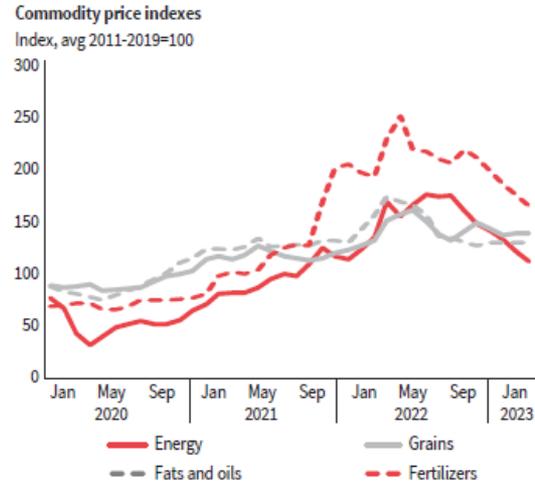
# Opportunities amid lingering challenges





# Global environment with mixed news

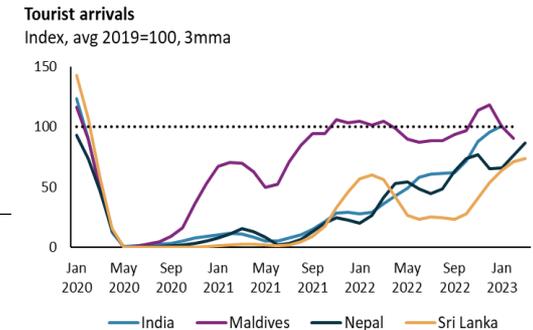
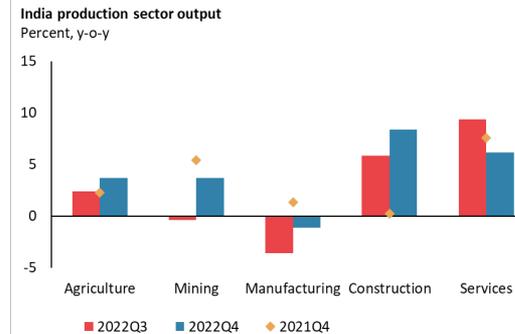
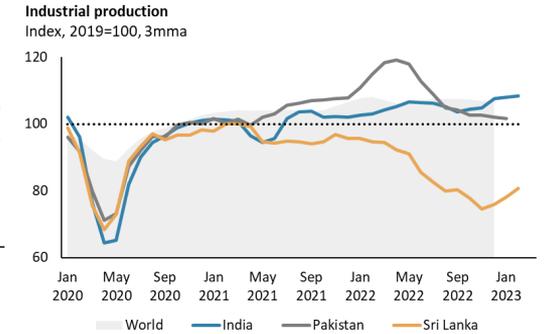
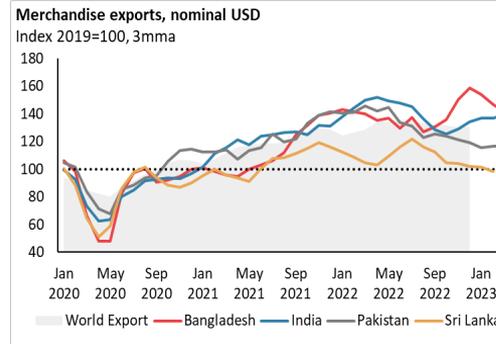
- Global energy and fertilizer commodity prices have fallen from the high levels of mid-2022, but food prices stay high.
- Global services sector is recovering while manufacturing and goods exports are weak.





# South Asia manufacturing weakened, and services remained robust

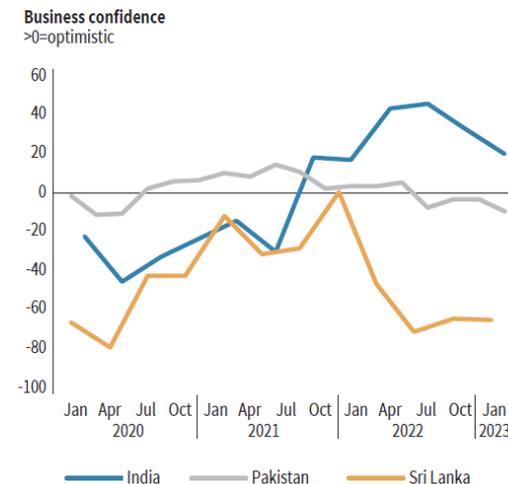
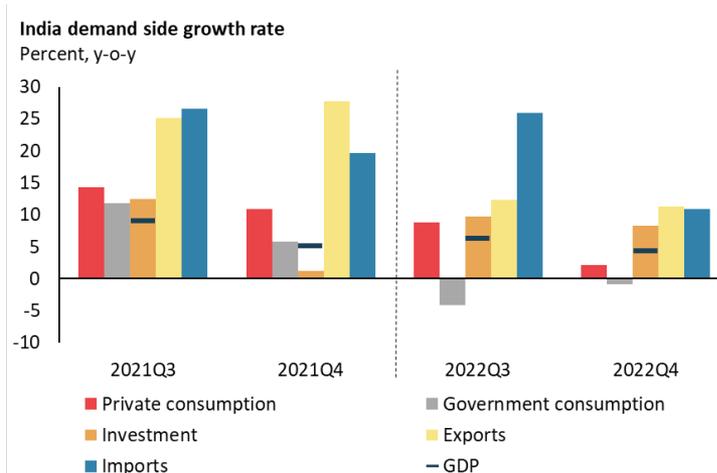
- High input costs, weak external demand, and import restrictions limited activities manufacturing in South Asia.
- Services sector boosted by continued return of tourists, reopening of the Chinese economy, and professional/IT services.





# Consumption growth moderated, while investment remained strong in some countries

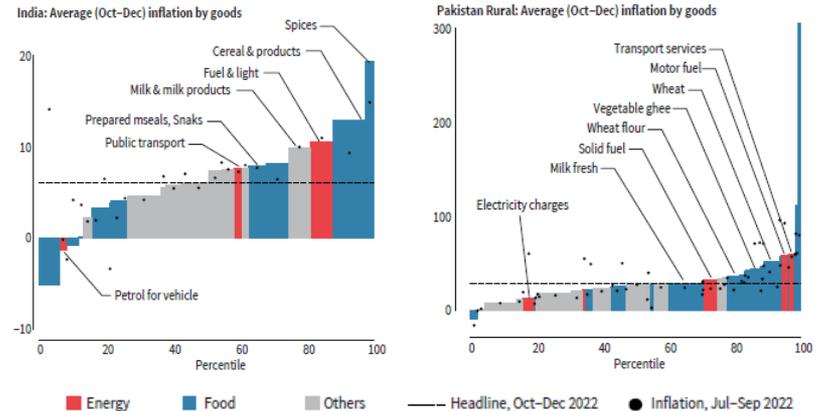
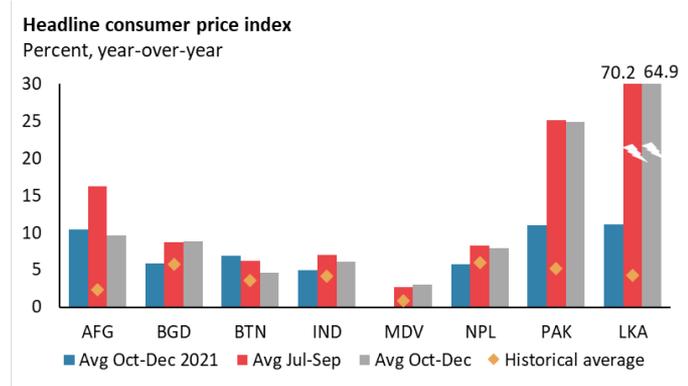
- Consumption growth has slowed in the most recent quarter (Oct-Dec 2022) due to high inflation, high borrowing cost, and slow income growth.
- India's investment growth boosted by strong profits and government's capex push, and business confidence remains optimistic ...
- ...but not for all countries, e.g., Pakistan and Sri Lanka business confidence remains pessimistic.





# Inflation has slowed but remains sticky

- Consumer inflation has fallen but remains sticky in most countries.
- In some countries (e.g., Bangladesh, India, Nepal), inflation increased slightly in early 2023 after falling in late 2022.
- In Pakistan, both headline and core inflation has been rising continually.
- Consistent with falling global energy prices, inflation of many energy goods has fall.
- Food inflation remains high, especially certain items due to local-level supply constraints ...
- ...which impacts the poor more

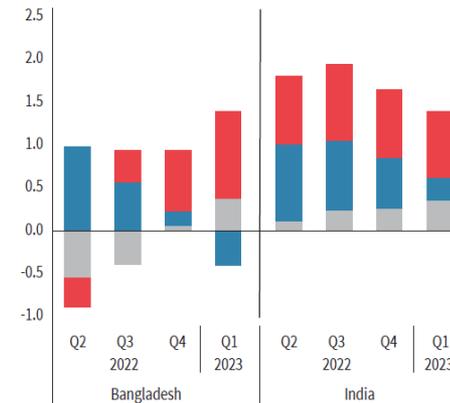




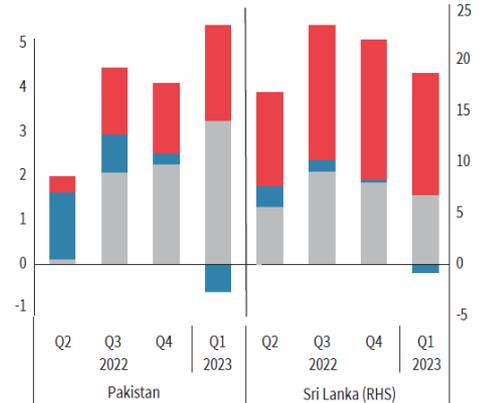
# Exchange rate and local-level supply constraints become drivers of consumer inflation

- As energy commodity prices fall, oil prices have become a smaller contributor to consumer inflation.
- Local-level supply constraints become important in Bangladesh and Pakistan, and remain important in Sri Lanka, e.g., import restrictions, goods shortages, flood-induced shortages.
- Currency depreciation increasingly contributes to consumer inflation in Bangladesh and Pakistan.

Contribution to CPI inflation deviation  
Percentage points



Contribution to CPI inflation deviation  
Percentage points

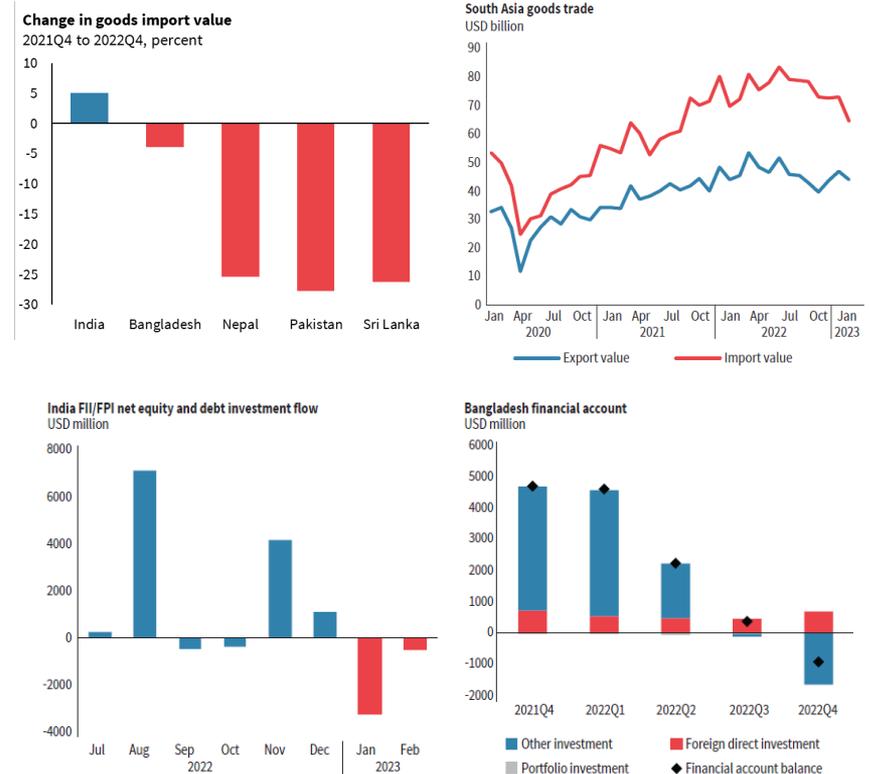


■ Supply ■ Oil (USD) ■ Exchange rate (USD/LCU)



# Falling goods imports helped improve goods trade balance, but financial account outflow increased

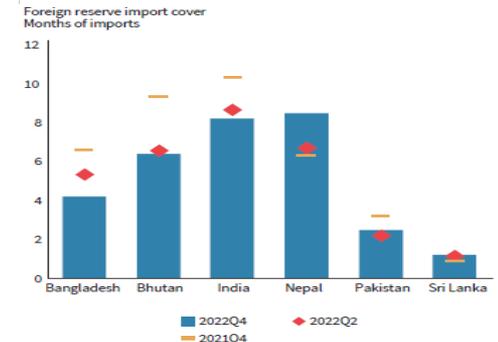
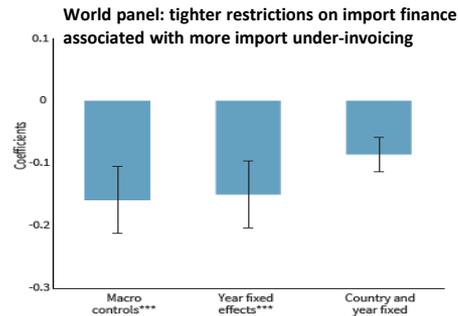
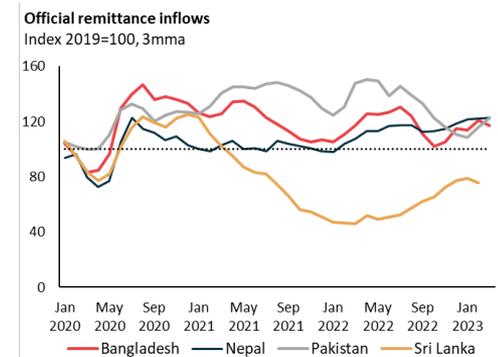
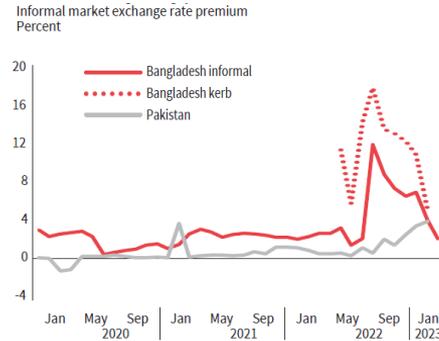
- Falling energy commodity prices improved South Asia's terms of trade. Import restrictions in many SAR countries reduced import volume.
- As a result, import value fell in many SAR countries, helping to improve the region's goods trade balance.
- Pressure on financial account remains high, with increased net capital outflows due to US monetary tightening, deteriorated outlooks in some SAR countries, and shifts in investor appetite.





# Exchange rate intervention and increased controls contributed to falling reserves

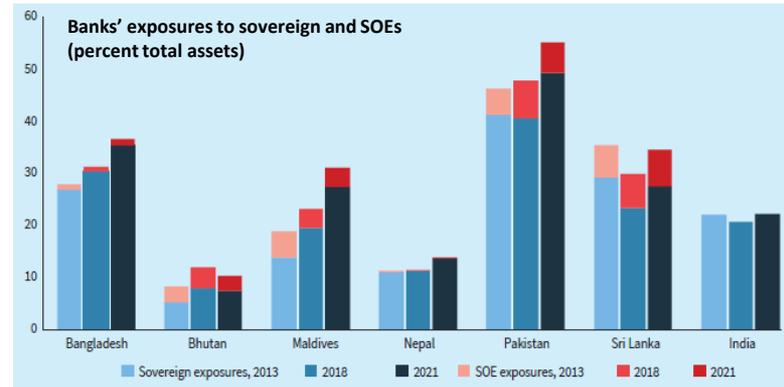
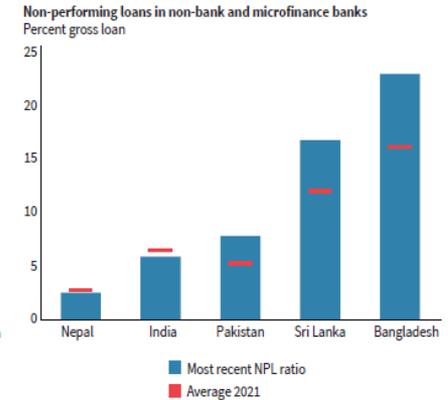
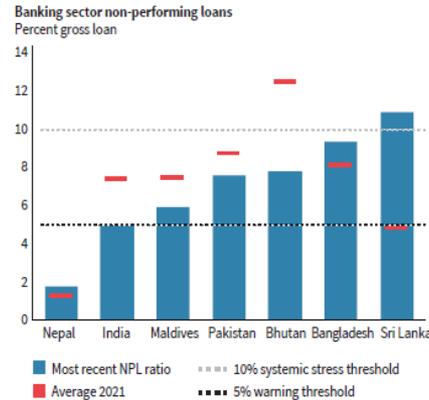
- Import restrictions and exchange rate interventions were used to counter external sector pressures – *Table 1.3 in the report.*
- Exchange rate interventions widened informal exchange rate gap, diverted remittance inflows to informal channels, and limited official remittance growth.
- Tighter import restrictions shown to encourage import under-invoicing, which further diverts currency inflow through formal channels.
- Foreign reserve fell in most SAR countries.





# As global financial condition worsened, asset quality declined and sovereign-bank nexus increased in SAR

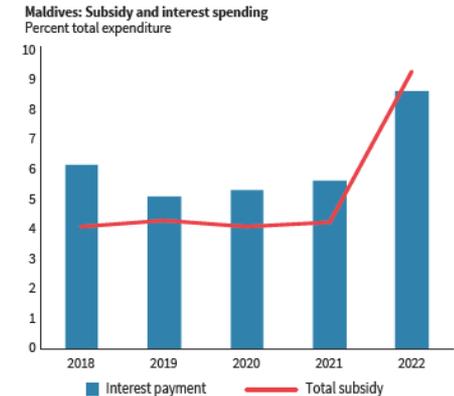
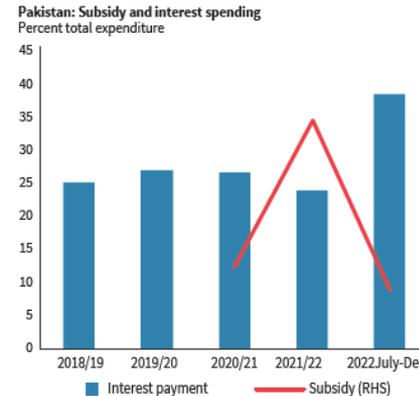
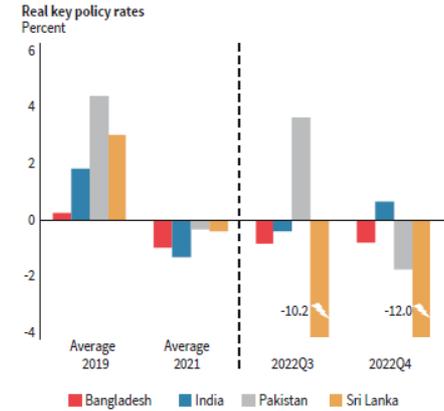
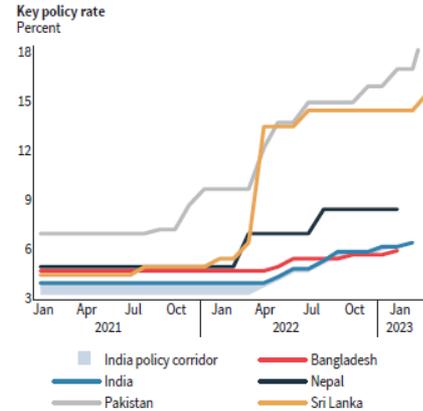
- Pandemic-era loan moratoria delayed recognition of asset quality declines...
- ...but non-performing loan ratios have started increasing, in Bangladesh due to high import costs and in Sri Lanka due to rising rates and increased macroeconomic uncertainties.
- Government borrowing from domestic banks increased since pandemic in Maldives, Pakistan, Sri Lanka, which crowds out private credit and increases financial sector vulnerability.





# Monetary tightening and fiscal consolidation

- Continued monetary tightening to counter capital outflow, even as inflation has slowed in most countries.
- Yet, policy rate adjusted for expected inflation negative in Bangladesh, Pakistan, and Sri Lanka.
- Most South Asian countries are consolidating fiscal budget through
  - Reduced current spending
  - Increased taxes and lower subsidies
- But countries also increasing capital spending (e.g., India, Maldives), while debt servicing costs have increased.



CHAPTER II

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# Navigating economic uncertainties

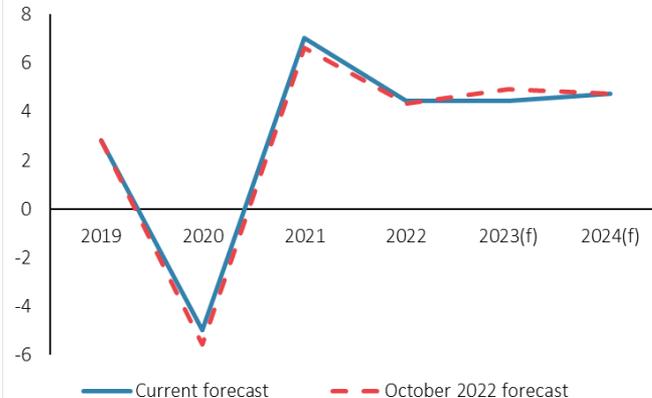




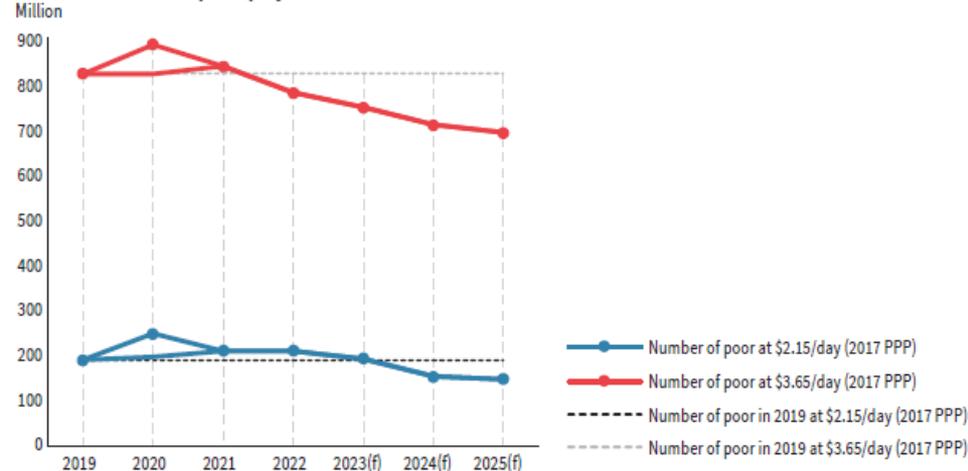
# South Asia's medium-term growth outlook has dimmed, as external uncertainty increased

- South Asia's economy is expected to grow by 5.6 percent in 2023, slower than previous forecasts.
- Per capita GDP will grow at ½ percent point slower in 2023 than previous forecast.
- The number of poor will not fall as quickly as previously expected, due to elevated inflation, slow recovery of employment and income, and withdrawal of pandemic-era support programs.

South Asia real GDP per capita growth rate



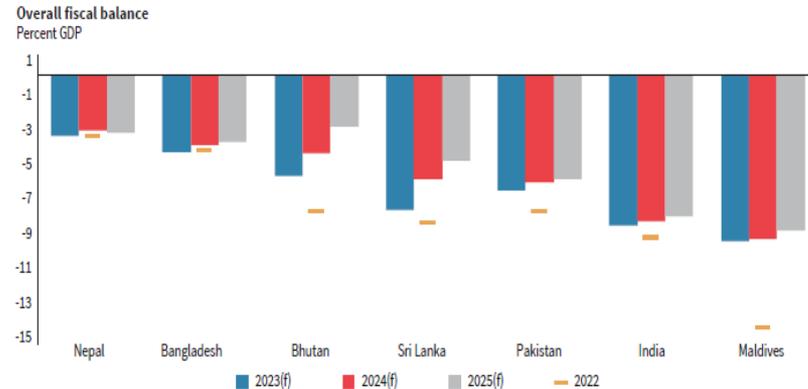
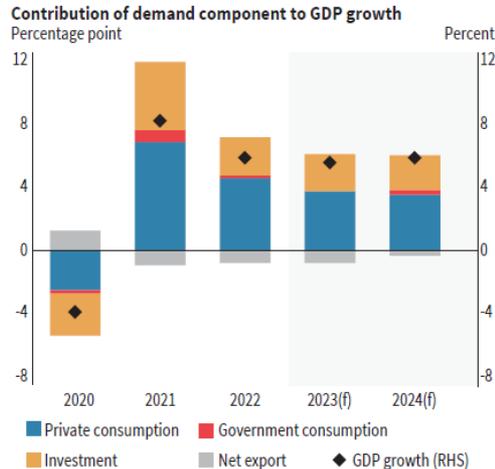
South Asia number of poor (projection)





# Growth of investment will remain strong, while growth in consumption will be constrained

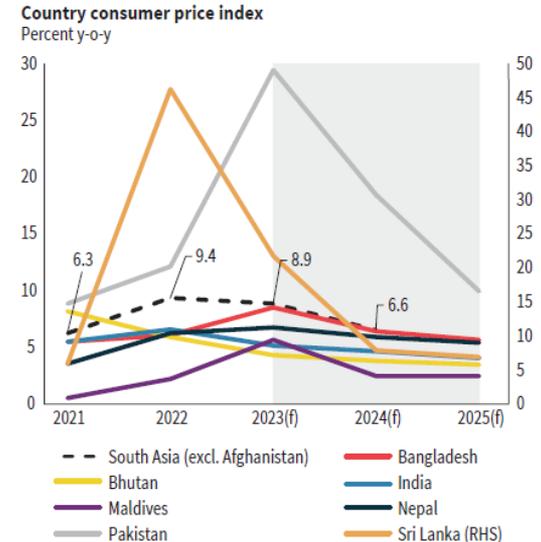
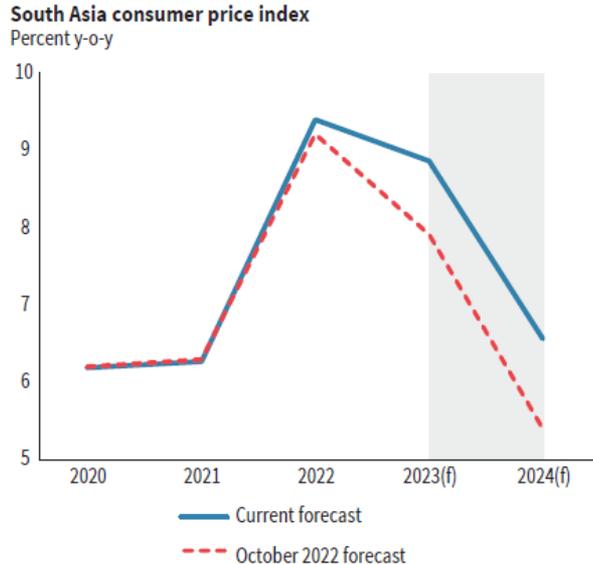
- Real investment growth will remain strong amid capex push, despite high borrowing rates and unfavorable investor sentiment.
- Real private consumption will be constrained by elevated inflation, rising borrowing costs, and slower income growth.
- Fiscal consolidation will reduce growth in government consumption and lead to narrowing fiscal deficits.





# Inflation will fall more slowly than previously expected

- Inflation in the region is expected to have peaked in 2022, as global commodity prices decline and consumption growth remains weak.
- But weaker currencies, tax hike and subsidy removal, and weather-related supply constraints are expected to keep inflation high through 2023 in some countries.

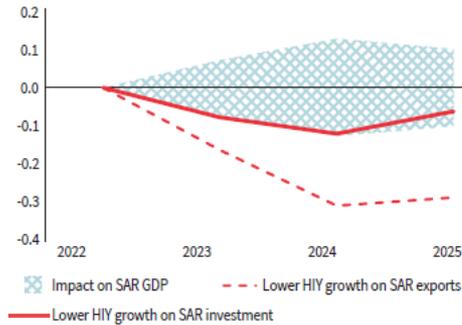




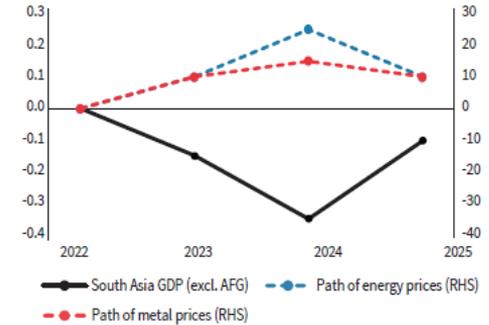
# External developments pose risks to South Asia's growth

- Lower growth of high-income countries would lower SAR exports and investment...
- ...and higher energy and metal commodity prices would also limit activities.
- Faster-than-expected US interest rate hikes would negatively affect SAR through lower export demand, impacts on exchange rate due to capital outflow

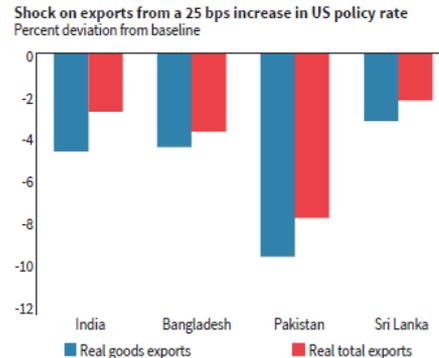
Impact of deviation in high-income country growth  
Percent change from baseline



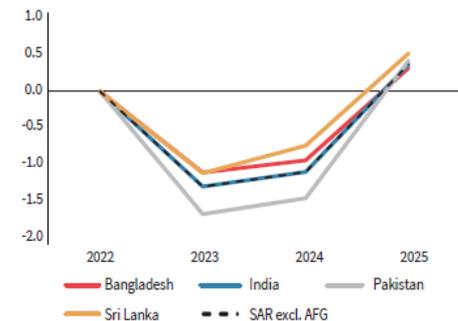
Impact of higher energy and metal global prices  
Percent change from baseline



Faster tightening of US monetary policy lowers SAR growth



Impact of US monetary tightening  
GDP percent change from baseline



CHAPTER III

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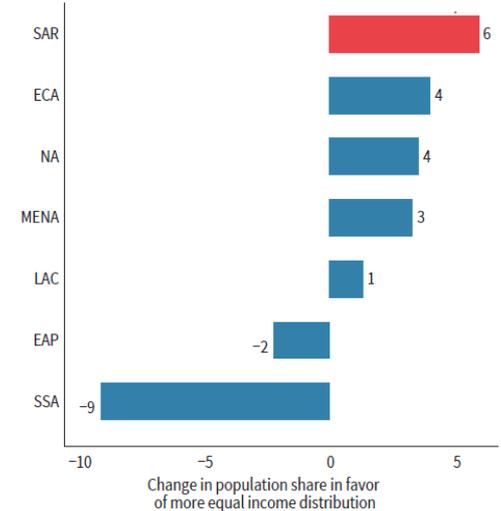
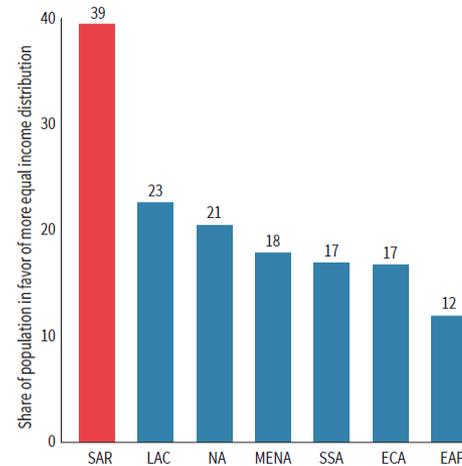
# Expanding Opportunities: A Map for Equitable Growth in South Asia





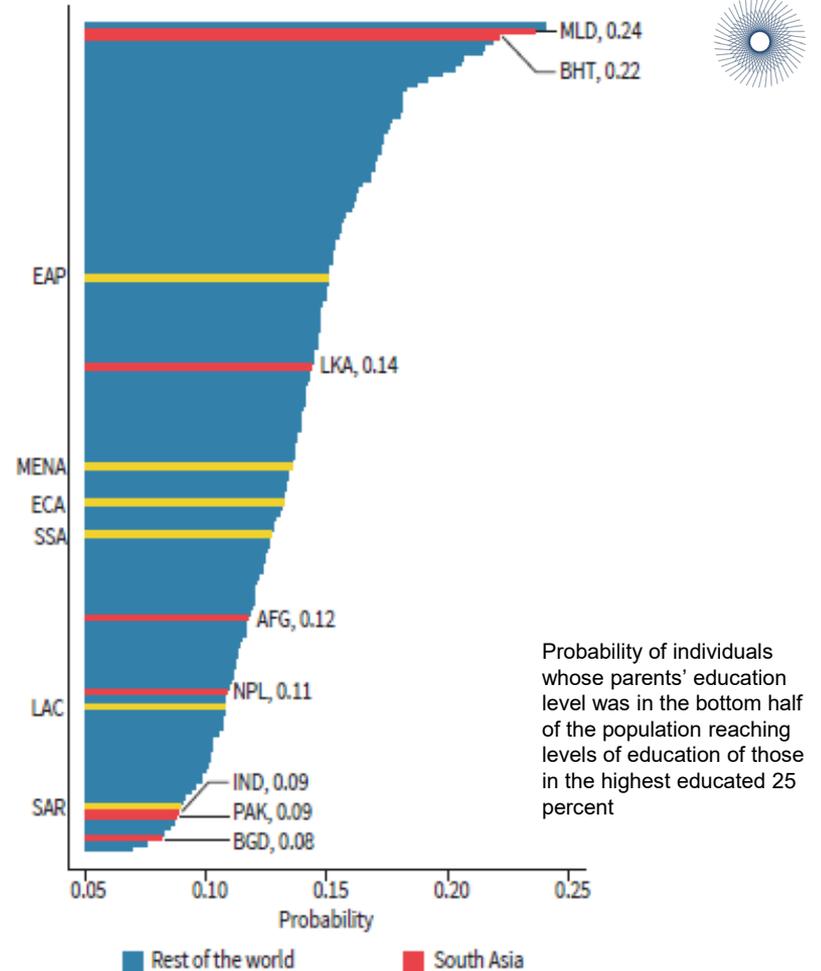
# Motivation: demand for equity

- Among South Asians, calls for re-distribution—i.e., support for the statement that “incomes should be made more equal”—are among the highest in the world.
- And, over the past three decades, these calls have also increased more in this region than elsewhere.



# High inequality of opportunity

- Almost three decades of sustained economic growth across most of South Asia has brought significant poverty reduction, yet inclusive social progress has remained elusive.
- Inequality of opportunity and intergenerational mobility in South Asia is one of the highest in the world.

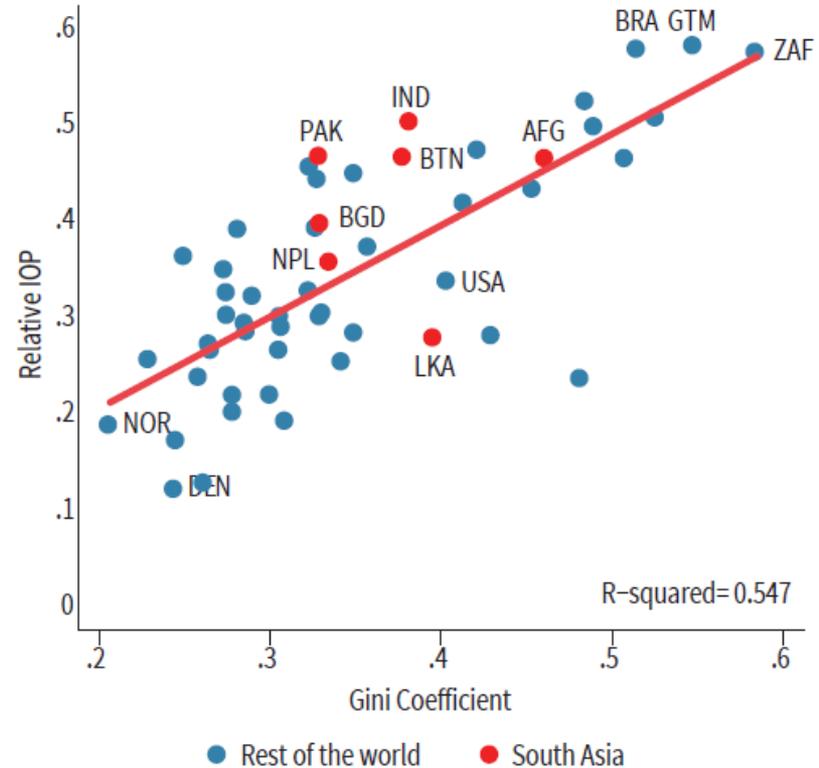




# The Gatsby Curve

However, conditional on the levels of inequality of outcomes –

Most countries in the region have higher than expected inequality of *opportunity*





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## This matters because:

Inequality of opportunity is more detrimental to growth and societal cohesion than inequality of outcomes.

- Low equality of opportunity reduces incentives to invest in human capital.
- Low equality of opportunity is also linked to misallocation of talent (Hsieh et al., 2019)
  - ✓ While the impact of overall inequality on growth is ambiguous, there is growing evidence that inequality of opportunity is detrimental for economic growth (Marrero and Rodriguez, 2013; van der Weide and Milanovic, 2014; Marrero et al., 2016, Ferreira et al 2018)
- Distributional tensions between groups widen fissures in the social contract (Bussolo et al, 2018)

A focus on equality of opportunity is also useful in the current short term macroeconomic situation with countries reducing their expenditures and in need of public support for adjustment policies.



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## Key concepts:

### **(Relative) Inequality of Opportunity (IOp):**

The portion of inequality of outcomes (years of schooling, consumption etc.) due to circumstances beyond an individual's control (e.g. gender, ethnicity, caste, religion, place of birth etc.)

### **(Relative) Intergenerational mobility:**

The measure of intergenerational mobility used in the current report is the bottom half mobility measure – the average education attainment rank of an individual born to a parent in the bottom half of the education attainment distribution within their generation (Asher, Novosad & Rafkin, 2021)



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# Data

## Leverage two background papers that leverage harmonized data from:

- 39 national, representative household surveys
- Across seven countries
- Spanning ~6 million individuals born between 1950–2000s

To establish previously unknown facts about inequality of opportunity and intergenerational mobility across South Asia.

## Datasets Harmonized for Analysis

Country	Survey Name
Afghanistan	Afghanistan Living Conditions Survey
Afghanistan	National Risk & Vulnerability Assessment
Afghanistan	Income, Expenditure & Labor Force Survey
Sri Lanka	Household Income & Expenditure Survey
Nepal	Nepal Living Standard Survey
India	India Human Development Survey
Bangladesh	Household Income & Expenditure Survey
Bhutan	Bhutan Living Standards Survey
Pakistan	Pakistan Integrated Household Survey
Pakistan	Pakistan Social & Living standards Measurement Survey
Pakistan	Household Income & Expenditure Survey



# Key Findings: high levels of unfair inequality

1. **On average for the region, inherited circumstances explain a large proportion** , ranging between 40 and 60 percent of inequality of the distribution of consumption per capita and a slightly lower percent of the distribution of education.
2. **Intergenerational mobility in education is also low** . The average education attainment rank of a child born to parents in the bottom half of the education attainment distribution is the 37<sup>th</sup> percentile.
3. While the region as a whole experiences unfair disparities, there is a **clear hierarchy of countries within South Asia in terms of social progress.**

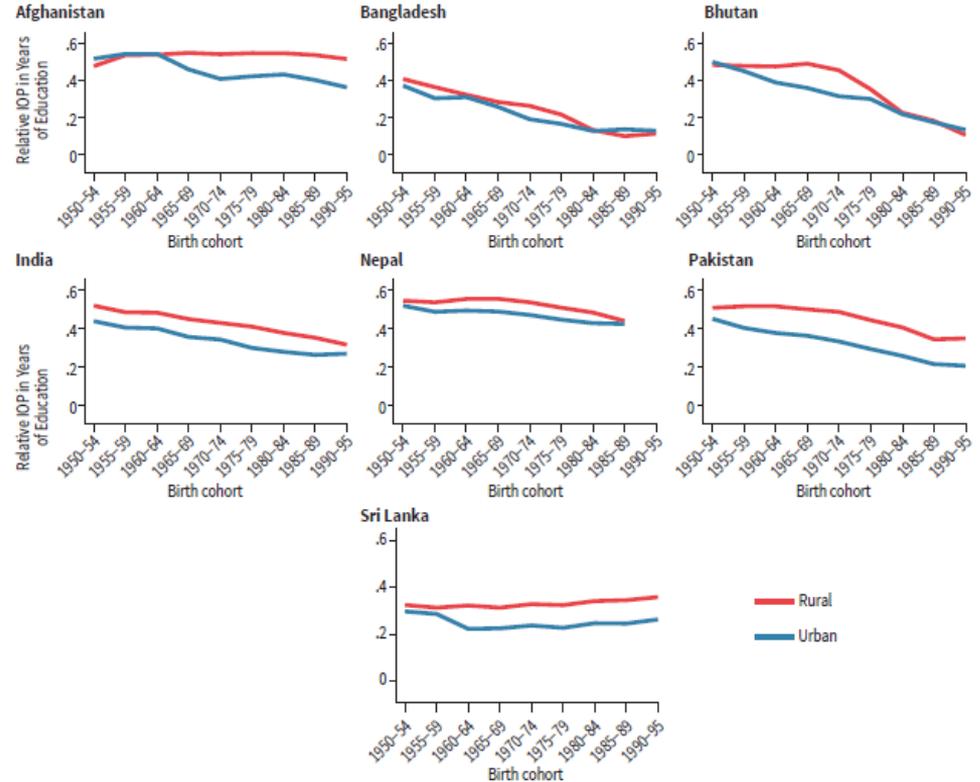
Country	Education	Consumption	
	(1) Bottom half mobility	(2) Relative IOP (Years of Schooling)	(3) Relative IOP (Consumption, 35–55-year-olds)
Pakistan	38.82	0.41	0.54
India	38.83	0.39	0.57
Nepal	40.73	0.55	0.41
Afghanistan	41.99	0.54	0.45
Bangladesh	43.24	0.14	0.44
Sri Lanka	45.23	0.34	0.31
Bhutan	47.93	0.37	0.39



# Urban premium

4. Within countries, there is an **urban premium**. Being born in a city translates into higher chances to move further ahead than one's own parents and, more generally, other inherited circumstances do not constrain achievement as tightly as in rural areas.

and we find the urban premium favors girls more than boys .



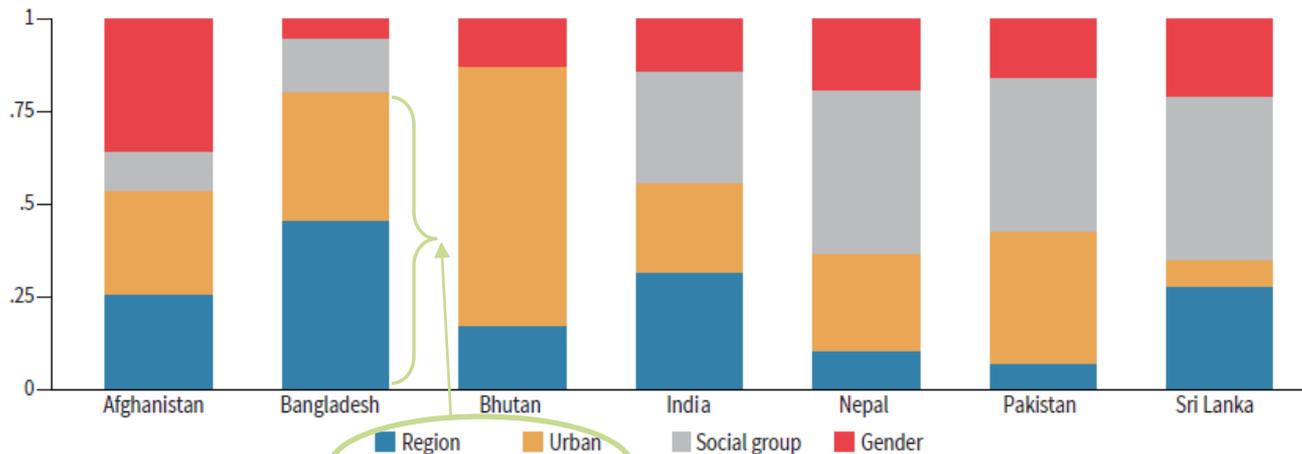


# Geography matters

5. **Not all circumstances matter equally** : geography (region of birth, and within it, city or rural area) plays the largest role in all countries, followed by socio-demographic factors such as caste, ethnicity and then gender.

Relative contribution of circumstances

Education IOP



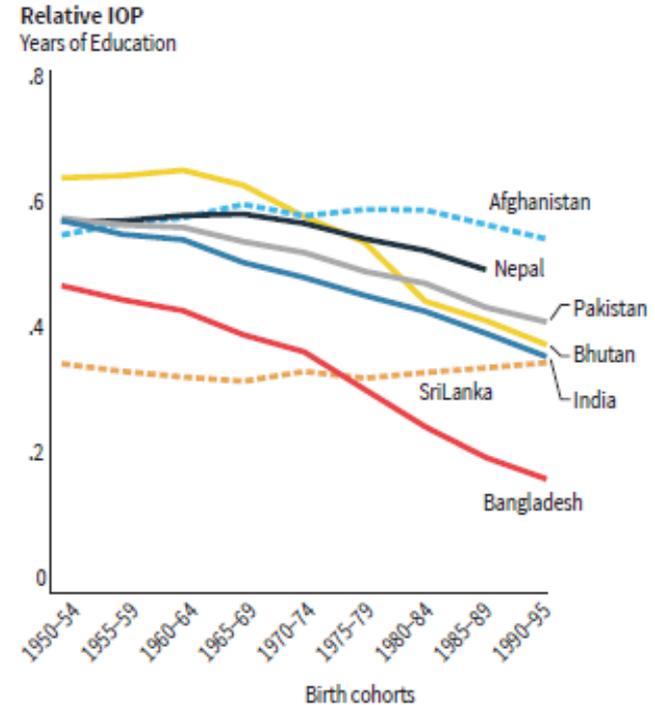
**Geography**



# Trends for education IOp

6. Inequality of opportunity of education has reduced in most countries over the last 3 decades, even if intergenerational mobility remained low and relatively stable:

- This apparent paradox can be explained by the fact that the two concepts – inequality of opportunity and intergenerational mobility – assess different features of the distribution of educational achievement.
- Hence, in South Asia education opportunities have improved for groups that were initially disadvantaged, but there has not been much reshuffling in the ranking of the distribution.

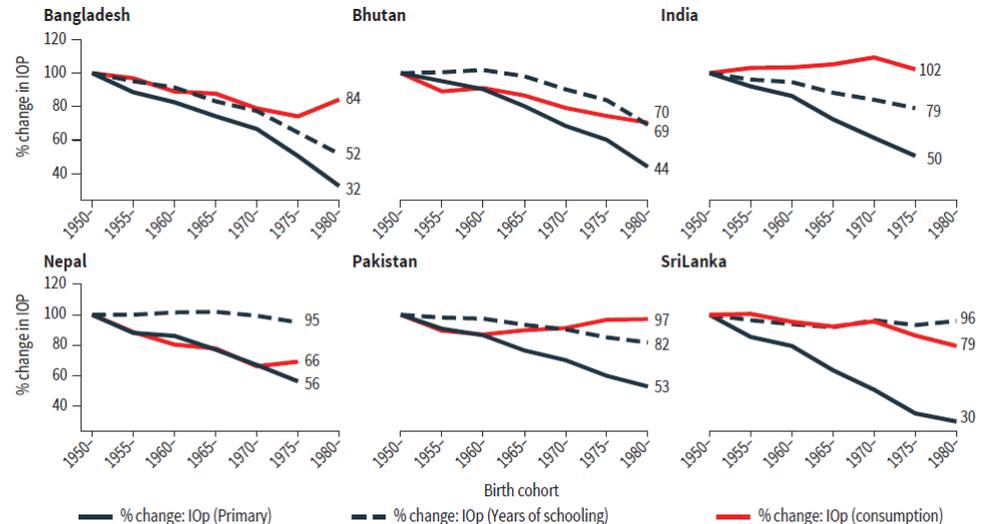
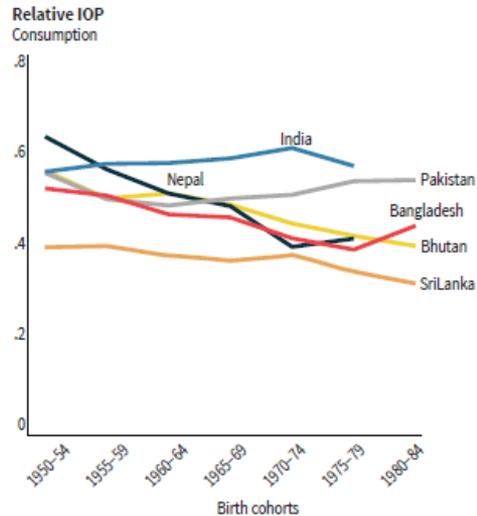




# Different trends for IOp of consumption

7. Remarkably, **the reduction of inequality of opportunity in education has not translated into a reduction of inequality in the distribution of welfare measured by the level of consumption**. Three factors are likely behind this striking observation:

- There has been equalization of opportunity in obtaining basic levels of education, but not so much for higher levels of education, which are the ones that matter for incomes
- This equalization of basic education does not account for quality: inequality in learning outcomes remains and this matters for advancement to higher levels of education and ultimately for incomes.
- The labor market remunerates the same education level in a differential way according to other circumstances.





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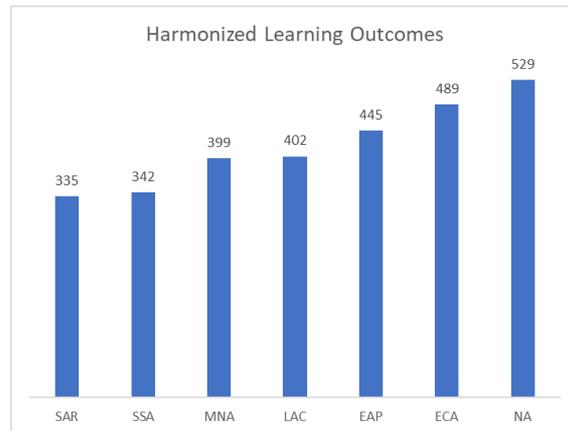
# Policy implications

- People in South Asia are increasingly concerned about economic inequality, and policies to promote inclusive growth are likely to find widespread public approval. However, building an opportunity -egalitarian society is not an easy task.
- Framework of the international panel on social progress ([www.ipsp.org](http://www.ipsp.org)) useful to classify policies in three groups:
  - i. **pre-market** (or pre-distribution), a group which includes policies preparing individuals such as education, training policies, but even inheritance;
  - ii. **in-market** which affects the rules of how the market (and even society) functions and includes competition policies, technology policies, labor market regulations, electoral system rules amongst others;
  - iii. **post-market** (or redistribution) which includes safety nets as well as progressive taxation.
- Here, we discuss briefly education policies (both supply and demand), affirmative action policies, and labor mobility, as these relate to the findings of the chapter.



# Education Policies

- Considerable achievements on primary schooling.
- However, as of 2019–20, government spending on education in South Asia was less than 3% of GDP, well below the global average of 4.3 %.
- And quality of education (learning) needs improvement (even on compiling internationally comparable data on learning).
- **On the demand side:** tackle social norms that can affect decisions regarding girls' education and influence employment outcomes of women.





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# Affirmative Action and Spatial Mobility

- Policies specifically designed for the 'low -opportunity groups', affirmative action deserves renewed consideration.
- Nepal's affirmative action policy, which reserves public jobs for disadvantaged groups, has significantly improved educational and labor markets by incentivizing younger eligible candidates to invest more in their human capital (Subedi et al. 2022).
- Similarly, affirmative action policies for scheduled castes have increased educational attainment in secondary schooling and literacy in India (Cassan 2019).
- Appropriate implementation of affirmative action policies can serve to reduce the opportunity gaps discussed in the report. However, inequality has multiple dimensions, and affirmative action policies that work effectively along one dimension may neglect another.
- **Enabling individuals to move to places with greater scope for mobility would also help reduce inequality of opportunity:**
  - Many of the constraints on migration are well-known. People often lack information about where to migrate, underestimate the income gains from migration, and are unable to afford the costs of relocation. Or lack access to a safety net that could shield them from the uncertainties of looking for work and living in an unfamiliar place.

# Expanding Opportunities: Toward Inclusive Growth

## Thank You!

To learn more about the report, please visit  
[www.worldbank.org/southasiafocus](http://www.worldbank.org/southasiafocus)