



ASIAN INFRASTRUCTURE
INVESTMENT BANK

Connectivity and Economic Growth

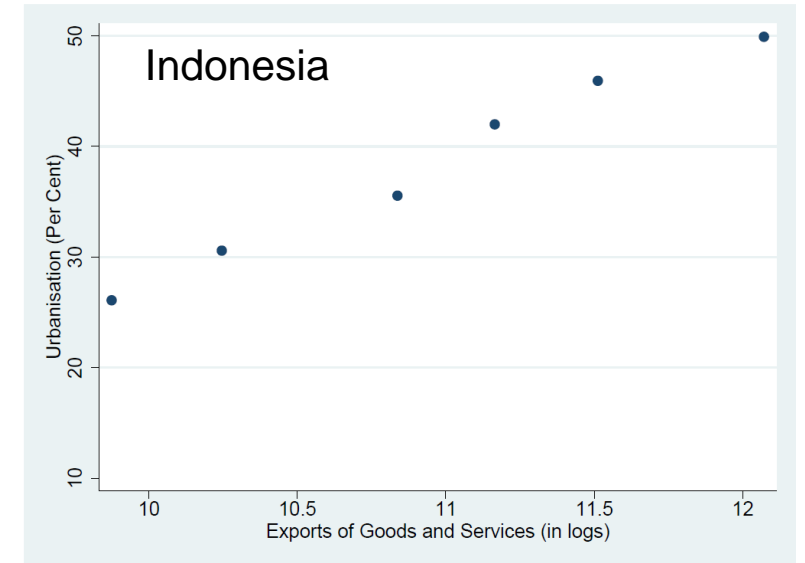
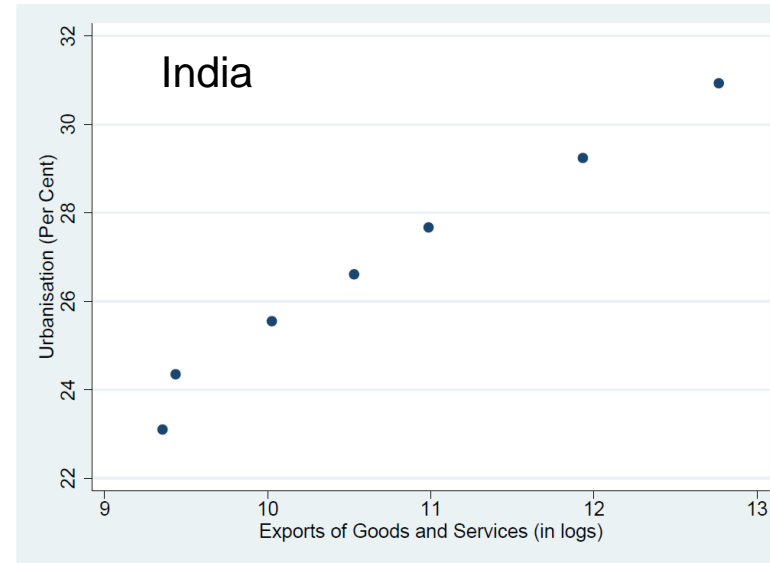
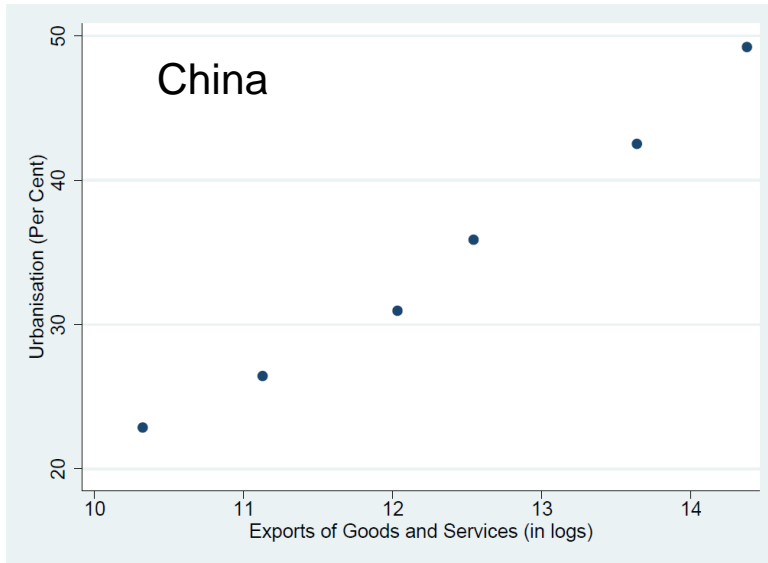
The causal links between transport, export, urbanization and economic development

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Connectivity explains economic development

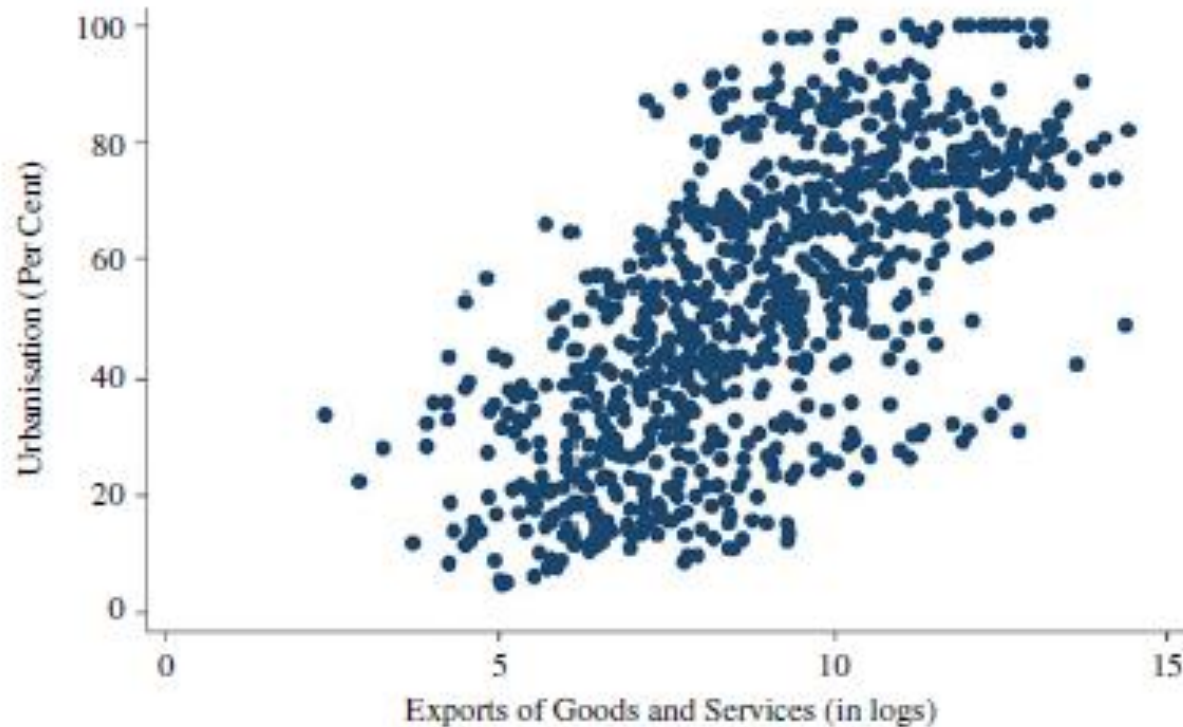
- Connectivity between markets explains level of economic development
 - Integrated and larger markets, economies of scale
 - Leads to lower prices, increasing consumer welfare
 - Facilitates factor mobility, increasing specialization and productivity
 - Literature is well established in theories and empirics
- Within country connectivity leads to production agglomeration and urbanization
 - Leads to increased productivity
 - Possibly accompanied by higher inequality

Asia saw rise of urbanization and exports (1980 – 2010)



- The level of exports and the degree of urbanization are positively correlated, across and within countries, but establishing causality less straightforward
- Use instrumental variables to disentangle cause and effect (see JP Thia, “Trade and Urbanisation”, World Economy, 2016)

Trade and urbanization reinforce each other



Data on world economies (1980 to 2010)
Correlation of urbanization and exports of goods and services

- Trade increase from 1980-2010 led to 6 pp increase in urbanization – implying several hundred million population globally
- 1 pp increase in urbanization leads to 2.9 to 4.3 per cent increase in exports
- As predicted by theorists in economic geography

Key takeaways

- Connectivity may be an “indivisible” concept
 - Domestic and cross border connectivity are one and the same thing, intertwined and highly complementary
 - Connectivity should be contiguous to support economic development
- Closely linked to the urbanization, trade, and economic development in a reinforcing manner
- Not a new idea, but to encourage MDBs to look further into integrating cross border and domestic connectivity projects, including urban projects

AIIB aims to play key role in promoting Asian connectivity

- Connectivity a priority theme for AIIB
- Projects include
 - Recently approved Oman rail study and port development – case in point that highlights complementarity between domestic and external connectivity
 - Pipeline project under consideration, linking energy markets
- AIIB will also start business development in transport and urban sector projects
- AIIB keen to join other MDBs in connectivity initiatives (GMS, CAREC, OBOR etc.)