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

- 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

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

- Connectivity may 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.)