



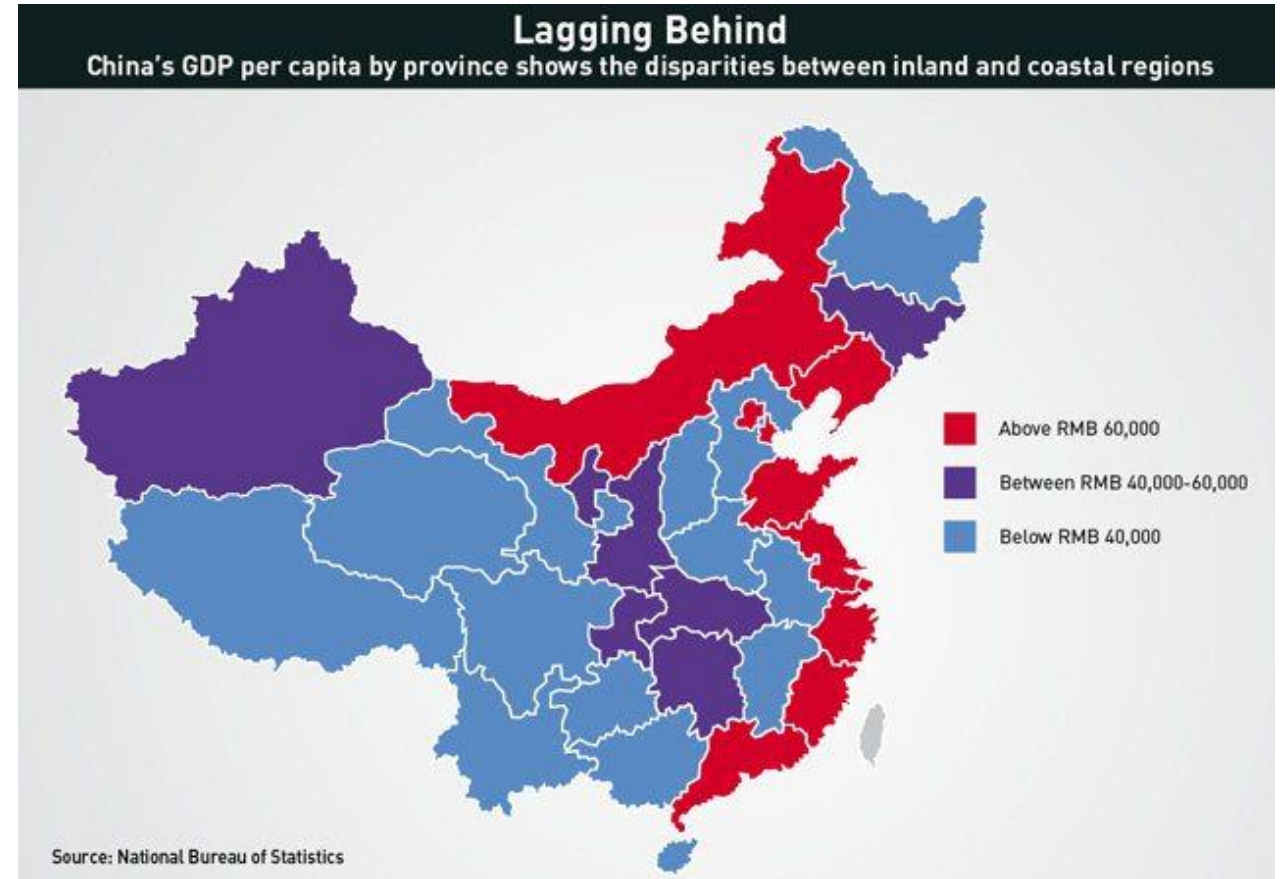
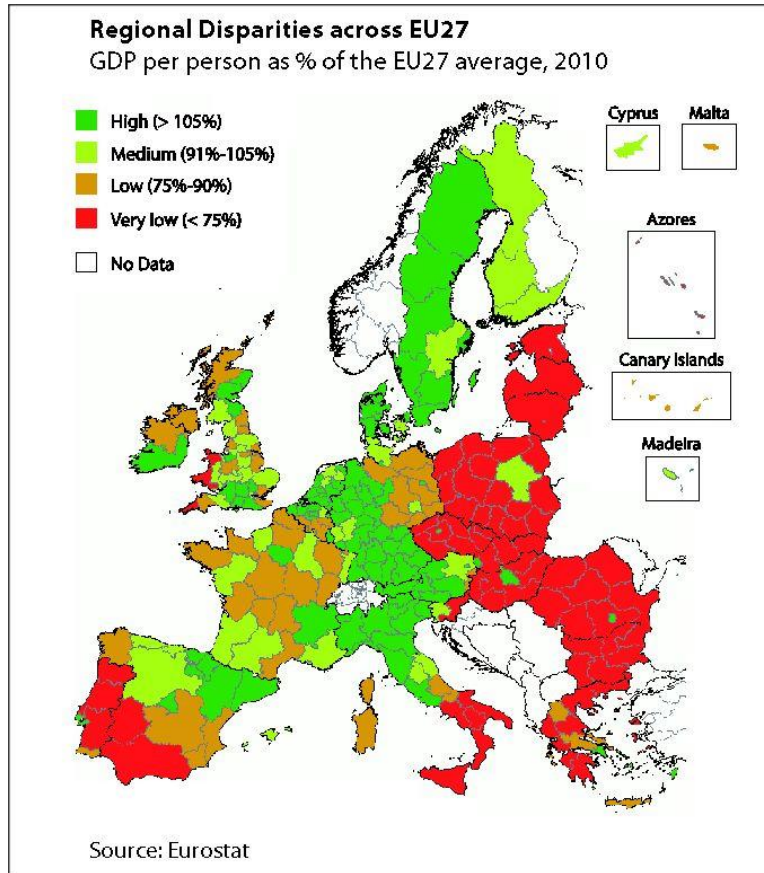
ASIAN INFRASTRUCTURE
INVESTMENT BANK

Pathways to managing regional disparities

Presentation to Indonesia Development Forum hosted by BAPPENAS

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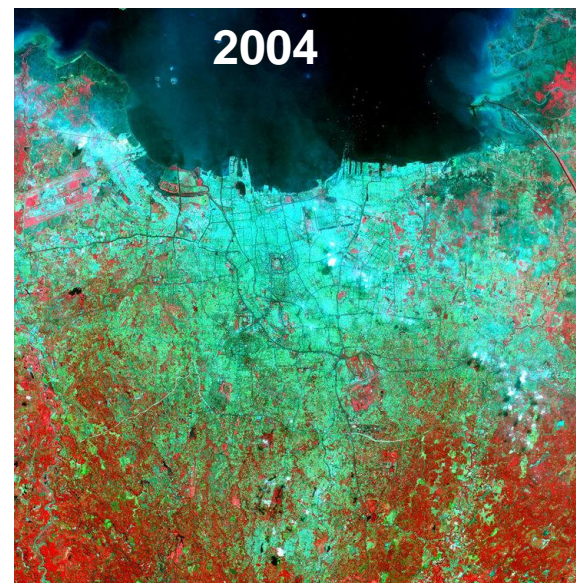
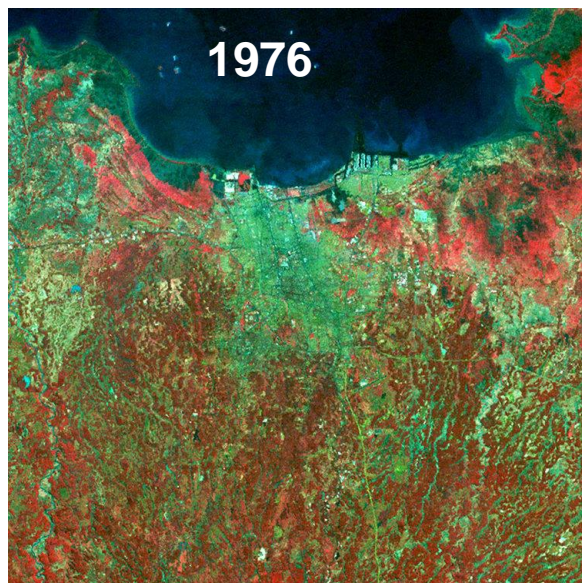
Disparities across regions persist



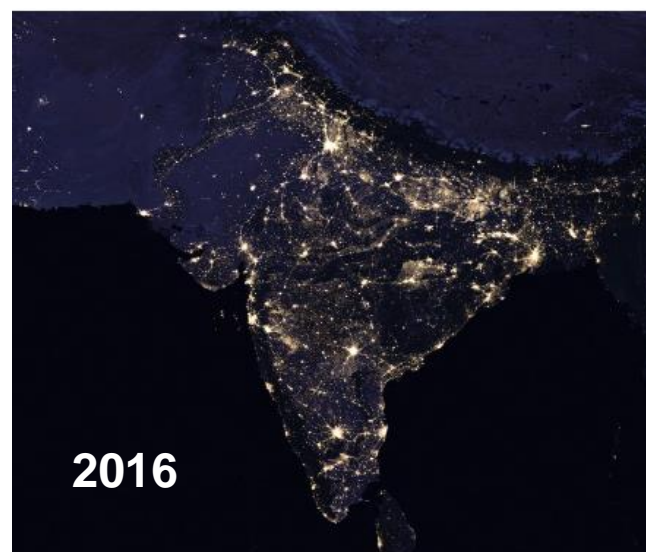
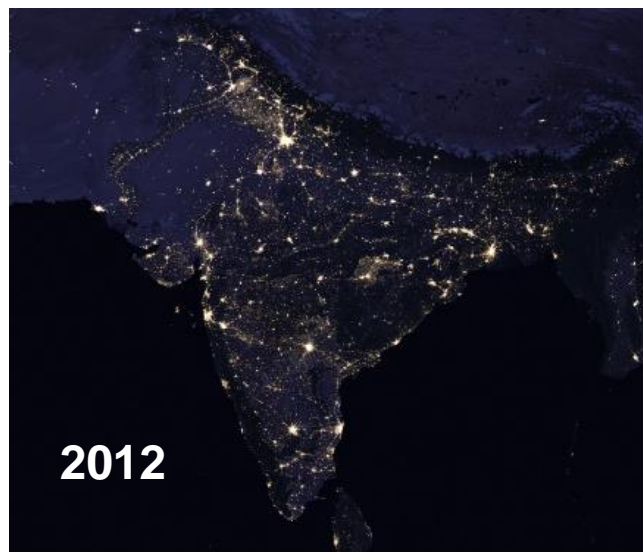
EU incomes still disparate across regions despite decades of cohesion policies

China also sees high degree of regional variations in incomes

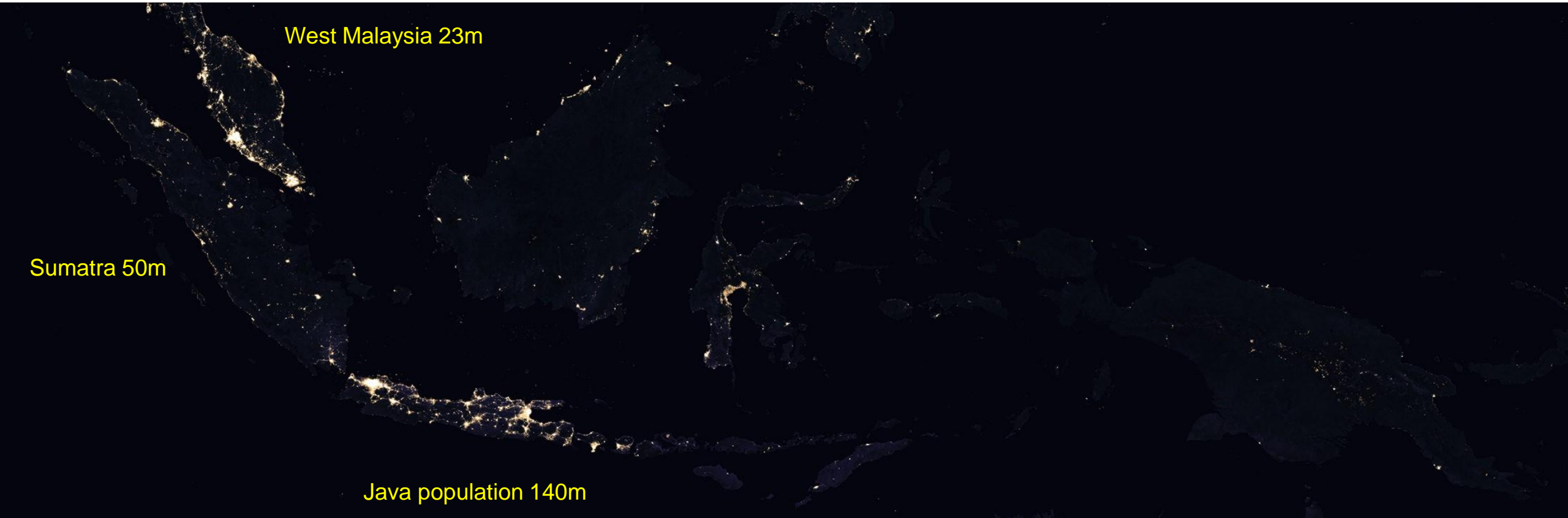
All the growth seems to accrue to cities!



**Guess which
city is this?**



Regional disparity in Indonesia – seen through satellite



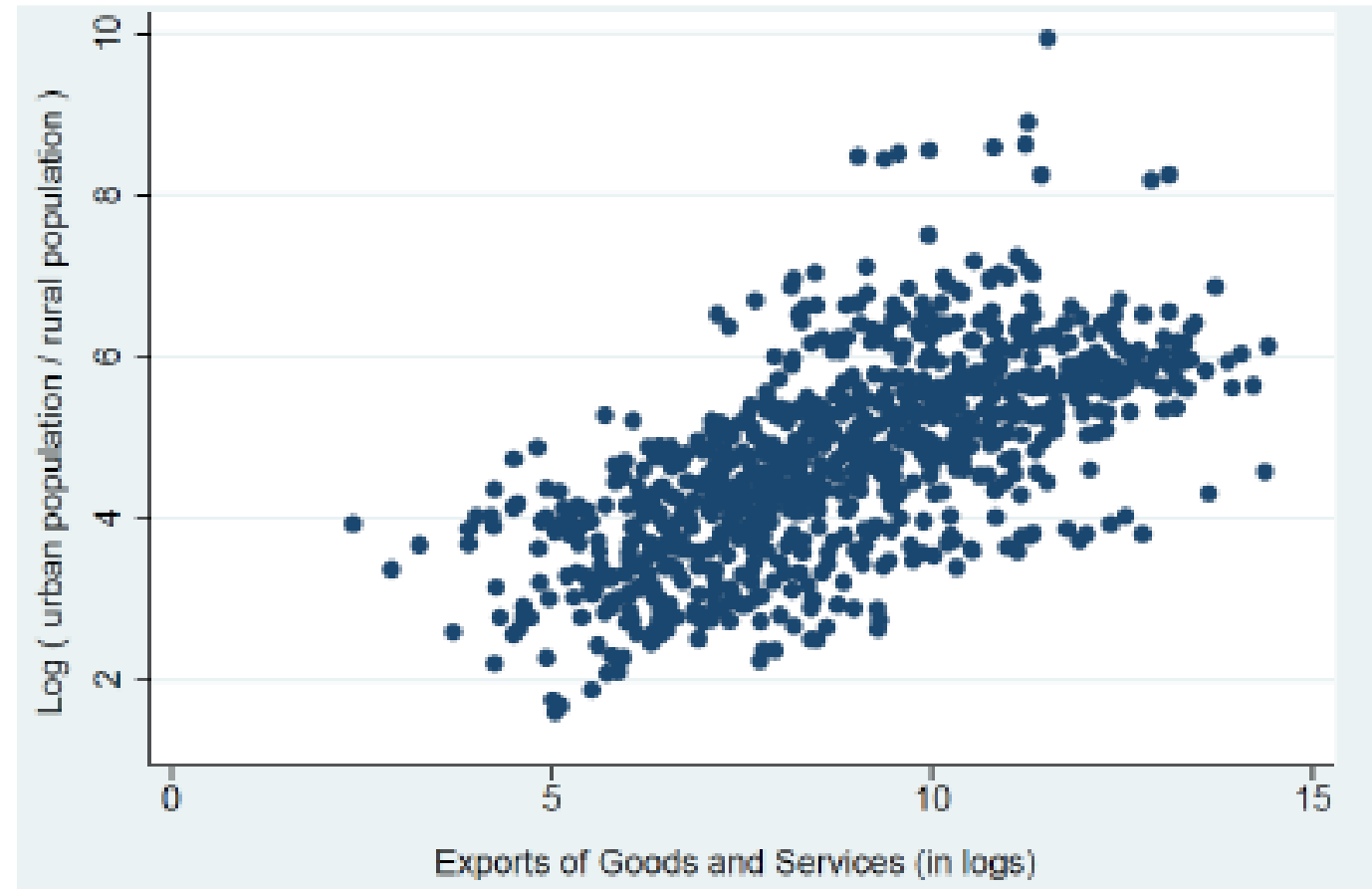
Source: NASA

Connectivity infrastructure can lead to regional disparities

- Key insight of last 3 decades of **economic geography**. Activities start to agglomerate at some locations and not others
- Initial advantages lead to highly disparate and “sticky” outcomes (sometimes even sub-optimally)
- Lead to disparities
 - Incomes in (big) cities higher than rural
 - Incomes are higher in export sectors higher than domestic
 - Welfare is higher in areas with better trade access to international markets

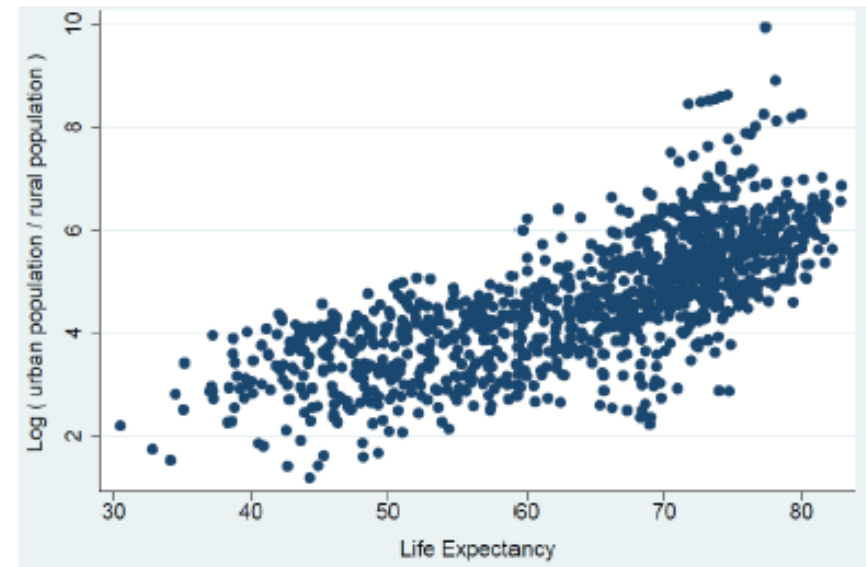
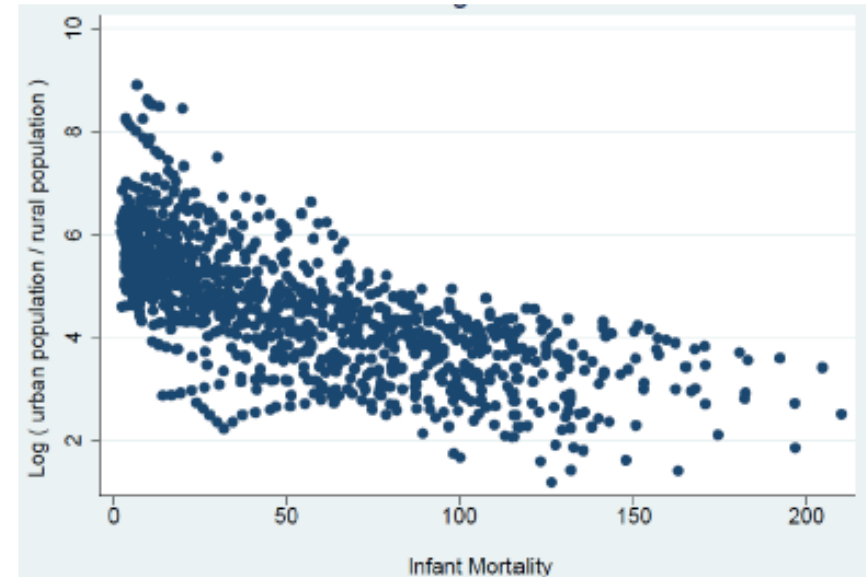
But more urban centers have positive exporting impact

- Countries with more cities (urban agglomerations) gain a competitive advantage
- Cross country samples show that higher urban-rural ratios correlate with higher exports



And on social outcomes

- Urbanization also correlates with better socio-economic outcomes
 - Correlates (negatively) with infant mortality
 - Correlates (positively) with life expectancy



The key (and age old) development question

- Address regional disparities by spreading economic opportunities?
- Or support more mobility towards areas of economic activities (and allow some regional disparities to exist)
- How do the economics and social effects work out? Answer is highly contextual, depends on institutional settings
 - Extent of mitigating social policies
 - Internal migration

A brief on Asian Infrastructure Investment Bank

- AIIB is set up to complement existing institutions and address Asia's development needs by focusing on infrastructure project financing
- Significant progress in first 2 years since inception in Jan, 2016
- Started with 57 member countries (regional and non-regional), expanded to 87
- Balance sheet of US\$100 billion; crossed US\$5.2 billion in loan and equity approvals in 2Q18
- Triple A ratings, possible bond debut 2018

Where AIIB can help

- Pursuing urbanization still seems to be the better option (than spreading out too much)
- Indonesia large enough to sustain several economic centers, which can be linked up by connectivity infrastructure
- **Transport strategy (draft)** – key focus on economic infrastructure that promote trade and economic development
- **Sustainable cities (draft)** – key focus on urban mobility, meeting basic needs (including affordable housing), integrated development

Thank you.

Let's Create Tomorrow.

