

RESEARCH PROJECTS 2015

Project Title

Agglomeration, Competition, and Firm Capability: Evidence from China and India

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Abstract

Long-standing theories have emphasized the efficient or growth-enhancing role of industrial clusters driven by demand patterns, fixed geographic features, or external economies of scale. This paper examines whether agglomeration is also associated with anti-competitive, even collusive forces. We motivate empirical tests by contrasting a model of agglomeration economies with one where proximity enables collusion. We then use data from Chinese and Indian manufacturing firms (1999-2008 and 1996-2011, respectively) to study the relationship between industrial agglomeration and competition. We measure competition directly using firm markup, but also indirectly using the marginal product of capital as a proxy of excess capacity used to deter entrants. Using the wide variation in agglomeration over the panel both within and between industries, we aim to empirically examine the relationship between market power and industrial agglomeration/clusters in order to better evaluate the impacts of development policies that promote or support industrial clusters and entrepreneur innovation.

