
The impact of spatial concentration on enterprise performance: is localisation level optimal in Russia?

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Abstract: This paper empirically analyses the effect of spatial concentration of economic activities on enterprise productivity, using Russian firm-level data from 1999 to 2008. Panel data allows us to control for endogeneity biases associated with estimation of agglomeration economies, using fixed effects method. Our results show that Russian firms benefit from localisation and urbanisation economies, as well as from home market potential, and that these benefits vary across industries and cities. We also find that localisation benefits are not well internalised by firms in their location choice, i.e., there is difference between the pattern of location that would maximise productivity gains and the observed one. It shows that regional policy could help approaching optimum level of localisation economies.

Keywords: spatial concentration; localisation; urbanisation; home market potential; HMP; enterprise productivity; Russian cities.

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1 Introduction

Territories develop unevenly, with some cities attracting economic activities and flourishing, and the others steadily declining. It leads to several questions. The first one is whether firms' location choice is optimal. If it is not, policy measures such as cluster

Density of roads turned out to have low significance, possibly because transport infrastructure is not developed enough in Russia.

The first question in our research was about optimality of firms' location choice. Localisation economies proved to follow inverted U-pattern, i.e., to be positive but decreasing once a certain level of concentration is reached. Analysis shows the difference between the optimal enterprises' allocation that would maximise revenue gains and their observed allocation. It implies that localisation benefits are not well internalised by firms in their location choices. This finding confirms that location of enterprises in Russia is non-optimal.

Our findings also contribute to the background needed to answer a controversial question, whether economic policy should enhance spatial equality or support successful territories. Results imply that cluster policy would help to approach optimal level of localisation economies in Russia. Besides, firms located in smaller towns are a reasonable focus for policy initiatives such as improvement of business climate and facilitating agglomeration with neighbouring territories, particularly, via improvement of transport infrastructure. Enterprises located on the localisation levels exceeding the optimal one are assumed to face competition for resources and consumers. They would benefit from trade outside of their city; therefore policy aimed at improving official regulations, business climate, business services, and transport infrastructure would be useful.

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