ITS SEMINAR

LOCATION, CONCENTRATION AND PERFORMANCE OF ECONOMIC ACTIVITY IN BRAZIL

Co-sponsored by the
Department of Planning, Policy and Design and the
Program in Transportation Science

Richard Funderburg
Department of Planning, Policy and Design
University of California, Irvine

FRIDAY, MARCH 4, 2005
12:00 noon - 1:30 p.m.
Room 408, Multipurpose Academic & Administration Building

What are the prospects for economic development in lagging sub-national regions? What are the roles of public infrastructure investments and fiscal incentives in influencing the location and performance of industrial activity? To examine these issues, I estimate a spatial probit function for industrial activity in Brazil that explicitly incorporates infrastructure and fiscal improvements in the cost structure of individual firms. Using firm-level data from a 2001 annual industrial survey and regional/ spatial data at the micro-regional level, I find considerable firm-level cost savings from location in areas with relatively lower transportation costs to large markets. In comparison, fiscal incentives have modest effects on firm-level costs. Although this suggests that firms benefit from locations with good access to markets, it does not necessarily suggest that improving inter-regional connectivity will help lagging regions. Improving inter-regional connectivity implicitly reduces a natural tariff barrier so firms that currently serve large markets and benefit from economies of scale can more easily expand into new markets in competition with local producers. Thus, producers in the leading regions can crowd out local producers, with detrimental effects on production and employment in the lagging region.

Richard Funderburg is a Ph.D. candidate in the Department of Planning, Policy and Design at UCI. His research interests include economic geography, agglomeration economies and industry clusters. Prior to his studies at UCI, he earned his master's degree in Public Policy Administration from Sacramento State University and was a workforce policy analyst for the State of California Employment Development Department. This study was supported as part of the World Bank's research program on 'Urbanization and Quality of Life'. Richard and his co-authors, Somik V. Lall and Tito Yepes, began work on the study during the summer of 2003 when Richard interned as a temporary consultant for the World Bank.