

# Location, location, location: Economists document key role of spatial component in economic growth

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Location and other geographical factors play an important role in supporting economic growth and development in emerging markets, a new study from the Consortium on Financial Systems and Poverty has found.

The study, which examines growth in the Thai economy between 1986 and 1996, shows that a high concentration of enterprise in an area predicts high subsequent growth in and around that area. Entrepreneurial activity decreases virtually by the mile the further away one gets from centers of economic concentration.

In addition, other geographic conditions, such as flat topography and proximity to transportation, also show a strong correlation to enterprise growth.

These are the findings presented by Robert M. Townsend and John S. Felkner in a article in the current issue of *Quarterly [Journal of Economics](#)*, "The Geographic Concentration of Enterprise in Developing Countries."

Townsend, a professor of economics at the Massachusetts Institute of Technology and principal investigator of CFSP, and Felkner, a research scientist at the University of Chicago's National Opinion Research Center, used extensive economic and physiographic data down to the

village level in Thailand. Their conclusions are drawn from an economic model that was tested against actual developments over time.

Thailand, the subject of intensive research by Townsend, is largely considered an Asian success story. It has shown consistently strong growth despite military coups, tsunamis, and the Asian financial crisis.

In the 10-year period studied, village wealth doubled, and by 1992 the ratio of money-like-assets to GDP, which indicates the level of financial intermediation, exceeded the level in the United States. At the same time, the country industrialized, with the fraction of GDP in manufacturing rising from 23 to 35% and the number of households in non-farm enterprises increasing by 27%.

However, this growth is not taking place uniformly throughout the country. Among the key findings of the study, which may suggest insights to other developing countries, are:

- There are high concentrations of enterprise around the capital of Bangkok and along main transportation arteries running north. At the rural village level, concentrations of enterprise within each province center surrounding large towns and intersections of major highways.
- Levels of enterprise drop as the distance to market and infrastructure grows.
- Over time, areas of high concentrations of enterprise (and those nearby) show increasing levels of enterprise. This suggests that enterprise fosters more enterprise.
- At the national level, there is some dissipation of large, central core concentrations of enterprise. In rural areas, the patterns are more mixed, but show little dissipation.
- Numerous regions remain stagnant. From the perspective of the

national scale, some regions appear to be permanently lagging, such as the Northeast, and other areas appear to have both low levels of enterprise and low growth.

- In rural areas, growth in enterprise is related to favorable environmental conditions such as good soil, proximity to rivers, and flat topography.

"We think these findings are important because we establish that concentrations of [enterprise](#) across space in a developing country play a crucial role in the larger process of development," notes Townsend.

"This could have important implications for developing economies, particularly for financial intermediaries, transportation planning, and industrial organization."

Provided by Consortium on Financial Systems & Poverty

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