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## Cluster Genesis

Pontus Braunerhjelm and Maryann P. Feldman (eds)

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This book examines the origins and emergence of technology-based industrial clusters — regional concentrations of related firms and organizations — in order to understand the forces that promoted economic development. Many places attempt to emulate the world's most famous industrial cluster Silicon Valley, with its rich institutional landscape of engaged and leveraged research universities, high-flying local venture capitalists, world class supporting business and legal consultants, and rich collaborative networks. While mature clusters may look similar, what really matters is the process by which clusters come into existence. But there is little understanding of such processes, and little guidance provided on the role of policies in promoting cluster emergence. The book attempts to bridge this gap in the literature by focusing on the early origins of high-technology cluster in Europe, the United States, and China, and the ensuing policy implications. The book is organized around three main themes: Creation Myths Revisited, Considering the Development Cluster Context, and Crafting Cluster and Economic Development Policy. The empirical analyses suggest that clusters that grow rapidly as compared to the less successful ones are distinguished by vigorous entrepreneurial activity and the active building of institutions aided by the forces of agglomeration economies.

## The Economics of Clusters

Gilles Duranton, Philippe Martin, Thierry Mayer, and Florian Mayneris

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Cluster policies have become very popular among policy makers over the last thirty years. However, the mechanisms at work behind cluster

dynamics, the gains that can be expected from more clustering, and the determinants of cluster policies that are implemented are not so clear. This book addresses these issues theoretically and empirically on the French case. Studying France is interesting because there is a long tradition of strong government intervention regarding the location of economic activity and because French cluster initiatives are more or less unified across the country. From a theoretical point of view, spatial agglomeration brings gains until a certain point from which congestion effects can offset these gains, and under certain conditions, it is likely that firms tend to cluster too much. This raises questions about cluster policies that would aim at always increasing concentration. Moreover, cluster policies are very demanding in terms of information and are subject to many political economy issues. The empirical analysis on French firm-level data confirms that, in the short run, firms reap gains from agglomeration until a given level of agglomeration from which congestion effects become more important. Given these agglomeration economies, the current geography in France does not seem vastly suboptimal. On the other hand, the analysis of the first cluster policy implemented in this country shows that traditional equity determinants of regional policies, instead of competitiveness considerations, were still in play. In that sense, while acknowledging the positive impact of spatial agglomeration on firm-level performance, this book tends to tone down the worldwide enthusiasm for cluster policies.

## Theoretical Perspectives

Aradhna Aggarwal

in Social and Economic Impact of SEZs in India

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This chapter critically examines the theoretical propositions that seek to explain the rationale and economic impact of special economic zones (SEZs) in developing countries and argues that the existing theoretical approaches do not fully capture the rationale and effects of SEZs. For a better understanding of the socio-economic impact of SEZs, it proposes an alternative approach based on the economics of agglomeration, in general, and industrial clustering, in particular. It integrates relevant theoretical accounts with an agglomeration-theoretic framework to develop an eclectic theoretical framework of their relevance and impact and provides a comprehensive criteria for their evaluation. It argues that SEZs are not an alternative strategy and, therefore, there is nothing 'second best' about them. They need to be viewed as a component

of the broader industrial strategy and their development needs to be synthesized with the overall cluster development policy.

## Where Multinational Corporations Invest and Don't Invest and Why

Stephen D. Cohen

in Multinational Corporations and Foreign Direct Investment: Avoiding Simplicity, Embracing Complexity

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Because not even the largest MNC can afford to invest in every country, an important phase of the FDI cycle is the process by which a country chooses where to establish its foreign subsidiaries. The heterogeneity of business strategies and objectives means that no single guideline exists for manufacturing and services companies when selecting appropriate overseas sites. This chapter begins with a statistical breakdown showing the asymmetrical geographical distribution of MNCs, with emphasis on their concentration in industrial countries. Next, the various positive factors that attract MNCs to certain countries, including financial incentives, are examined in detail. A separate section examines the various conditions that tend to repel incoming FDI. A recurring theme is that those persons believing MNCs to be a negative force on host countries would applaud government policies to discourage their entry or impose comprehensive regulation; advocates of private enterprise would have the opposite value judgment.

## Introduction

Edward L. Glaeser (ed.)

in Agglomeration Economics

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Agglomeration economies emphasize the role that cities can play in speeding the flow of ideas. The core idea at the center of information-based agglomeration economies is that all of the knowledge builds on things that one learns from the people around. The central premise is that the presence of knowledgeable neighbors enables an apprentice steelworker to learn his craft, but it also makes a biotechnology

researcher more innovative. The interaction of smart people in urban areas enhances the development of person-specific human capital and increases the rate at which new ideas are formed. A central paradox is that in cities, industrial agglomerations remain remarkably vital, despite ever easier movement of goods and knowledge across space. One of the facts that support the existence of agglomeration economies is the strong relationship between density and high wages. Understanding agglomeration economies requires moving beyond measuring the overall extent of agglomeration as revealed by housing prices, productivity, and population concentration and the exact mechanisms that make it more productive to cluster. The measurement of such nonlinearities is only one of the pressing topics for future research in this area.

## Entrepreneurship in World Cities

Zoltan Acs, Niels Bosma, and Rolf Sternberg

in *The Dynamics of Entrepreneurship: Evidence from Global Entrepreneurship Monitor Data*

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Entrepreneurs are of key importance in translating creativity into economic output. Consequently the urban dimension of entrepreneurship is a subject of great interest. This chapter sets out a framework encompassing the process between entrepreneurial perceptions and entrepreneurial activity at the individual level and demonstrate how an urban environment can have an impact on this process. The chapter creates entrepreneurship indices for thirty-five world cities exploiting the Global Entrepreneurship Monitor (GEM) Database 2001-2006. We investigate differences between city-level and country-level for a selection of these indices and show that, indeed, most of them are higher for world cities than for the rest of their respective countries. Albeit very preliminary, the results provide an initial exploration of the entrepreneurial advantage of world cities.

## Small Establishments/Big Effects

Stuart S. Rosenthal and William C. Strange (eds)

in *Agglomeration Economics*

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There is a long history of urban thinking that has considered the role of the organization of production into firms in the generation of increasing returns. This chapter discusses an econometric analysis of the organization–agglomeration relationship. It considers the relationship between the corporate organization of production (into establishments) and the spatial organization of production (into cities). Agglomeration economies are inherently geographic in nature. It does not matter whether the increasing return arises from consumer–supplier linkages, from entrepreneurial spillovers, or from knowledge spillovers or labor market pooling. The chapter concerns the microfoundations of the external increasing returns that give rise to the agglomeration patterns observed in the data, and reviews the theoretical and empirical literatures on industrial organization and agglomeration. The models of the birth of small establishments and the magnitude of their operations are also estimated. This estimation is carried out at the census tract level, using within metropolitan statistical areas variation in local industrial organization to estimate the models.

## Diffusion

Robert J. Bennett

in *Local Business Voice: The History of Chambers of Commerce in Britain, Ireland, and Revolutionary America, 1760-2011*

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Chambers were initially small in number and focused in the main ports. This was explained by their political weight, experience of lobbying for private Bills for infrastructure development (especially wet docks and canals), and their focus on networks of economic and social exchange. This chapter shows that their diffusion was generally down the population rank-size distribution of cities, eventually penetrating the whole market for local voice. However, the chapter shows that there was important regional differentiation, and there were some notable barriers to diffusion as a result of resistance. In London this included resistance from central government. In centres, such as Bristol, Dublin, Cork, and Londonderry, it was resistance from the pre-Reform local corporation; other centres had mixed support from pre-existing bodies such as the Merchant Adventurers, Staplers, and commercial committees.

# One World of Production?

Adam D. Dixon

in *The New Geography of Capitalism: Firms, Finance, and Society*

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This chapter rehearses scholarship in economic geography on the territorial development of capitalism in general and globalization in particular. The chapter integrates finance into this argument, considering how the pursuit of portfolio diversification and the demand for liquidity (i.e. the ease of exit) among international investors provide a mechanism for institutional change and convergence to occur. However, the chapter makes an argument that while global finance is a powerful force driving convergence, modern global finance is in some ways tolerant of institutional variegation. It argues, on the one hand, that the principle of diversification demands differentiation, and on the other, that financial markets and actors frequently follow change emanating from other developments instead of acting as the instigators of such change.

# Labor Pooling as a Source of Agglomeration

Henry G. Overman and Diego Puga (eds)

in *Agglomeration Economics*

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This chapter focuses on a potential source of agglomeration economies that has received particular attention: labor market pooling. A localized industry gains a great advantage from the fact that it offers a constant market for skill. A simple model is used to clarify the microeconomic foundations of labor pooling as a source of agglomeration economies and to motivate empirical analysis. The model is a version of the labor pooling model of Krugman which predicts that sectors whose establishments experience more idiosyncratic volatility will be more spatially concentrated. The chapter assesses the importance of labor market pooling as a source of agglomeration economies empirically and provides establishment-level data from the United Kingdom's Annual Respondents Database, which underlies the Annual Census of Production. The sectors whose establishments experience more heterogeneous employment shocks have greater potential to benefit from labor pooling

and, to exploit this, will be more spatially concentrated. It is often argued that urbanization is more important for services than for manufacturing.