Key Findings from the Paper:
The Geographic Concentration of Enterprise in Developing Countries

Location and other geographical factors play an important role in supporting economic growth and development in emerging markets, this study has found.

Robert M. Townsend, professor of economics at the Massachusetts Institute of Technology and principal investigator of CFSP, and John S. Felkner, a research scientist at the University of Chicago’s National Opinion Research Center, present these findings in their paper.

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.

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%.

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However, this growth is not taking place uniformly throughout the country. The key findings of the study include the following:

• 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.

Felkner and Townsend’s study may offer insights to other developing countries. Townsend notes, “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. This could have important implications for developing economies, particularly for financial intermediaries, transportation planning, and industrial organization.”

ABOUT THE CONSORTIUM ON FINANCIAL SYSTEMS & POVERTY The Consortium on Financial Systems and Poverty (CFSP) is a private research organization of leading and emerging economists. Our goal is to improve the lives of the world’s poor and to reduce poverty through helping to identify, define, and develop more efficient financial systems. We strive to generate tangible and objective results that have meaningful lessons for policymakers, researchers, and stakeholders. We are based at the University of Chicago and led by Professor Robert M. Townsend of Massachusetts Institute of Technology.

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