

City specialisation and labour productivity in Southeast Europe

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Non-technical summary

Sources of productivity differentials in manufacturing in post-transition urban South-East Europe

The goal of this paper is to contribute to understanding the effects of urbanisation and localisation economies to firm performance in post-transitional urban Europe. This research looks into the sources of manufacturing firms productivity differentials across urban landscape in six countries in South-East Europe (SEE) region: Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Bulgaria and Romania in the period 2006-2013. Research questions that are raised are: Do localisation and urbanisation economies play equally important role as industry or firm-traits in firm performance?; What have been the effects of localisation economies on firm performance in post-2008 period? In the first question the structural traits of urban economies are considered as a factor that can be supportive for productivity growth. The second question deals with the issue of exposure to economic shocks. The new economic geography (NEG) predicts that, with the rise of specialisation across EU space, specialised locations will be more exposed to asymmetric shocks. Given the fact that the period of observation also includes the period related to economic recession brought on by the global financial crisis from 2008, this prediction of NEG can be tested on a micro-scale.

The research is based on Bureau Van Dijk's Amadeus firm-level database. The empirical analysis in this paper consists of two building blocks. Firstly, the mapping of productivity differentials across firms relies on methodologies for estimating firms' total factor productivity (TFP). Secondly, sources of firm-level TFP differences are estimated with a panel data model with fixed effects. The model is built with the purpose to integrate firm, industry and agglomeration factors that can have effect on firm performance.

The estimations of the model show that that factors that account for productivity advantages of manufacturing firms in urban post-transition SEE are both firm related and related to the environment in which these firms operate. Firms located in diversified cities benefit from a productivity premium generated in this type of agglomeration, while no evidence was found that the relative specialisation across industries has any effect to firm productivity level. Productivity advantages were associated with urbanisation economies, while there was no evidence that localisation economies are a source of productivity differences. This implies that diversified cities constitute an environment that is more conducive to agglomeration externalities. Model estimations for the economic crisis period (2009-2013) have shown that larger relative specialisation in a particular industry in an urban location in SEE does not lead to over-exposure on a micro-scale. Model estimates have remained robust to various checks,

performed to address the issues of multi-plant firms and firm functions separation, period specifics, heterogeneity of countries and data noisiness.

Key words: city, specialisation, diversification, manufacturing, total factor productivity.

JEL: D24, R00, R12