

Testing Urbanization Economies in Manufacturing Industries: Urban Diversity or Urban Size?

—Fu Shihe

Abstract

Whether urbanization economies are caused by urban diversity or urban scale is not clear in the literature. This paper argues that city size captures mainly the pure scale economies of urban public goods, and may generate net diseconomies when a city size is too large. Urban industrial diversity can also enhance firm productivity. Using the 2004 China manufacturing census data, we test simultaneously the effects of urban size and industrial diversity on firm productivity, controlling for localization economies and human capital externalities. We find that productivity increases with city size--but at a diminishing rate, and the city size effect becomes negative for cities with population over two million. Firms also benefit from industrial diversity, and the strength of such benefit increases with city size but decreases with firm size.