Industrial clusters in the long run: Evidence from Million-Rouble plants in China

ABSTRACT

We identify the negative spillovers exerted by large, successful factories on other local production units in China. A short-lived cooperation program between the U.S.S.R. and China led to the construction of 156 "Million-Rouble plants" in the 1950s. The identification exploits the ephemeral geopolitical context and exogenous variation in location decisions due to the relative position of allied and enemy airbases. We find a rise-and-fall pattern in counties hosting a factory. The analysis of production and technological linkages shows a large cluster of non-innovative establishments along the production chain of the Million-Rouble plants, which limits technological spillovers across industries in the long-run and stifles entrepreneurial supply.