ENTREPRENEURSHIP AND CITIES: EVIDENCE FROM THE POST-COMMUNIST WORLD (SUMMARY)

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ENTREPRENEURSHIP AND CITIES: EVIDENCE FROM THE POST-COMMUNIST WORLD

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Principal Topic

While attributing urban success to more abundant supply of entrepreneurship, more recent studies on entrepreneurship have shifted their focus to examining cross-city variation in entrepreneurial activity. Despite a growing number of spatial-oriented studies of entrepreneurship worldwide to our best knowledge no empirical evidence exists on the determinants of cross-city variation in entrepreneurship in the context of the Former Soviet Union (FSU) states. Estrin and Mickiewicz (2010) show that transition economies generally exhibit lower rates of entrepreneurship than observed in most developed and developing market economies. This difference is even more pronounced for the FSU compared to Central and Eastern Europe. This paper investigates variation in entrepreneurial activity across FSU cities, attempting to bridge the city-level gap in spatial-oriented empirical research.

Method

We undertake a panel data study of how various socio-economic, demographic, spatial characteristics of the city as well as country-specific characteristics affect entrepreneurial activity in 98 cities of Russia, Ukraine, Belarus, Moldova, Georgia, Armenia and Azerbaijan during the period of 1995-2008. We utilize a unique dataset collected from the Offices of National Statistics in above countries with financial assistance of Global Development Network as a part of a larger project called “Cities: An Analysis of the Post-Communist Experience” during 2009-2010. We use the System Generalised Method of Moments (SYS GMM) estimator to estimate our model that allows to address a number of econometric problems.

Results and Implications

We find that heterogeneity in entrepreneurial activity across FSU cities is largely explained by the rate of unemployment, with the latter having a push effect on entrepreneurship. This is compatible with the general perception of the nature of entrepreneurial activity in these countries being necessity-driven. We also find a reverse relationship between per resident income and a number of small and medium-sized businesses conforming to the earlier finding that entrepreneurship is often seen as an alternative for employment in lower-income countries. Our results suggest the importance of concentration of higher-education institutions in cities which may provide some indirect evidence for the importance of agglomeration economies in terms of higher concentration of knowledge which may lead to intensified exchange of knowledge and ideas driving further opportunity-based entrepreneurship.

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