

Author's Accepted Manuscript

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PII: S0166-0462(17)30163-1
DOI: <http://dx.doi.org/10.1016/j.regsciurbeco.2017.05.001>
Reference: REGEC3259

To appear in: *Regional Science and Urban Economics*

Received date: 11 August 2015
Revised date: 6 April 2017
Accepted date: 3 May 2017

Cite this article as: Zhigang Li, Mingqin Wu and Bin Chen, Is road infrastructure investment in China excessive? Evidence from productivity of firms, *Regional Science and Urban Economics*
<http://dx.doi.org/10.1016/j.regsciurbeco.2017.05.001>

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Is road infrastructure investment in China excessive? Evidence from productivity of firms

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Abstract

China's road investment boom since 1990 has often been criticized as excessive. In this paper, we estimate the return to road investment in China due to manufacturing firms' increased productivity between 1998 and 2007. To address endogeneity in road investment, we estimate the differential impact of road investment on firms with heterogeneous reliance on transport. Although some investment may be inefficient, our finding does not support the claim that road investment in China is excessive overall. The annual rate of return from productivity gains alone amounts to approximately 11%, partly due to positive spatial spillover. We find little return to road investment in inland China around 2000, but this has significantly improved since the mid-2000s. Our findings are robust to controlling for road quality, railroad investment, and variant markups of firms due to market demand and price shocks.

Keywords: Road infrastructure, productivity, China

JEL classifications: H54, O18, R42

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