Interregional Input-Output Linkages and Relatedness as Drivers of Regional Diversification: Evidence from United States Counties

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This paper examines the role of interregional input-output linkages and relatedness on industrial diversification of U.S. counties between 1998 and 2017. The hypothesis is that flows of intermediate goods and services among regions are a vehicle for the diffusion of external capabilities, upon which regional economies can thrive and diversify. Interregional linkages may also relax the role of relatedness, as external knowledge is likely to be unfamiliar, which provides opportunities for new and unrelated recombinations. To proxy interregional input-output linkages of counties we use a county centrality measure derived from the national input-output network. We find a positive relationship between county centrality and industrial diversification, where the latter is measured by the entry of new industry specializations. The results also show, that the impact of relatedness is weakened, if local industries are strategically interconnected within the whole input-output network. Interregional linkages via local industries that are prominently positioned within the national production system appear to stimulate regional diversification in general and unrelated diversification in particular.