

COMPETITION AND THE WELFARE GAINS FROM TRANSPORTATION INFRASTRUCTURE: EVIDENCE FROM THE GOLDEN QUADRILATERAL OF INDIA

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Abstract

A significant amount of resources is spent every year on the improvement of transportation infrastructure in developing countries. In this paper, we investigate the effects of one such large project, the Golden Quadrilateral in India. We do so using a model of internal trade with variable markups. In contrast to the previous literature, our model incorporates several channels through which transportation infrastructure affects welfare. In particular, the model accounts for gains stemming from improvements in the allocative efficiency of the economy. We calibrate the model to the Indian manufacturing sector and find real income gains of 2.7%. We also find that allocative efficiency accounts for 7.4% of these gains. The importance of allocative efficiency varies greatly across states, and can account for up to 18% of the overall gains in some states. The remaining welfare gains are accounted for by changes in labor income, productive efficiency, and average markups that affect states' terms of trade. (JEL: F15, H54, O18, O22, R42)

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