

**New Approaches to Industrial Policy in Developing Countries**

**PED – 204**

**Course Syllabus: Updated December 6, 2005**

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This course examines industrial policy in developing countries from a micro-economic perspective. The course starts by providing an overview of industrial organization in developing countries and of the basic models/frame-works used in industrial organization. We will then move on to examine and discuss different issues relevant to industrial organization in developing economies, using an analytic approach that emphasizes the incentives and institutional structures faced by firms operating in these environments. In order to do so we will examine articles and case studies on issues such as firms' access to physical, financial and human capital, the importance of institutions, regulation and corporate governance, and specific topics such as small and medium enterprises, business groups etc.

The format of the course will be a mix of discussions and lectures, with most classes involving the professor highlighting some of the important concepts in a topic and students discussing these concepts based on the required readings for the lecture. In addition groups of 2-3 students will be required to sign up to be "lead discussants" for most of the classes (the lead discussant group will present a summary/critique of the required readings for that class and raise questions of interest for the general discussion)

The course meets twice a week:

Tuesday and Thursday 10:10 am – 11:30 am L-332

Office Hours: I will have office hours each Thursday from 5-7pm unless otherwise noted. There will be a signup sheet outside my office door. Students are encouraged to sign up either in small groups or alone. If you are unable to attend my office hours or they are full, please contact me for a different time.

Course Assistant (CA): ??

Prerequisites: Microeconomics and statistics/econometrics at the level of API 101/102 or 109/110 and API 201/202 or 209/210. Students not meeting these prerequisites or with any other concerns should contact the CA or Professor.

Grading: Grades for the course will be assigned based on:

Class Participation/Discussion	30%	
Written Assignments	40%	
Final Paper	30%	(due Monday May 17 <sup>th</sup> )

Class participation will be based on general participation and on the student's lead-discussant role (in groups of 2-3 depending on enrollment) for certain classes. Students will sign up for which class to be a lead-discussant in during the first few classes. There will be 5 short (1-2 pages) written assignments due every two weeks on a topic of the students choice covered during the lecture and will focus on testing a student's basic understanding of the concepts in the lectures and readings. The Final paper will be a 10-15 page writeup on a relevant topic of the student's choice that applies some of the concepts learnt in the course. Examples include examining a particular industry or industrial policy in a specific developing country. Students are not expected to produce a detailed or technical piece but a concise note that examines real world issues using the analytic reasoning and frameworks highlighted in lecture.

Readings: Most of the required readings are available online. Students may also want to consult the following texts placed at the KSG library reserve:

IO and Development:

- UNIDO [African Industry 2000: The Challenge of Going Global](#)
- Roberts, Mark and James Tybout. *Industrial Evolution in Developing Countries: Micro Patterns of Turnover, Productivity and Market Structure*. 1996. New York: Oxford University Press
- Chenery, H; S. Robinson, and M. Syrquin. *Industrialization and Growth: A Comparative Study*. New York. Oxford University Press, 1986.
- Bates, Robert. *Markets and States in Tropical Africa*, Univ. of California Press, 1981.

IO:

- F. M. Scherer. *Industry Structure, Strategy, and Public Policy*. Addison-Wesley, 1996.
- Cabral, L. *Introduction to Industrial Organization*. MIT Press, 2000.
- Carlton, D and Perloff, J. *Modern Industrial Organization*, Addison-Wesley, 1999.

Development:

- Basu, K. *Analytic Development Economics* 1998
- Ray, Debraj. *Development Economics* 1998
- Bardhan, P and C. Udry. *Development Microeconomics* 1999
- Meier, G and Stiglitz. *Frontier of Development Economics: The Future in Perspective* 2001

## Tentative Schedule

Required readings for each lecture/topic are marked with an asterisk. It is important that students **read the required ones BEFORE each lecture** since they will be expected to be aware of and discuss main aspects of the readings. In doing these readings students should focus on the main questions raised, methodology employed, and answers provided by the authors. Students are encouraged to raise and discuss critical issues about the readings and evaluate them in light of analytic frameworks and field realities.

### **I. Industrial Organization and Growth – a broad overview (1-2 lectures)**

The purpose of this section is to provide a broad introduction to industrial policy/organization and related development/growth aspects in developing countries.

\* Reynolds, L. G., "The Spread of Economic Growth to the Third World: 1850-1980," *Journal of Economic Literature*, September 1983: pp. 941-980. (JSTOR)

\* Murphy, Kevin, Andrei Shleifer and Robert Vishny (1989), "Industrialization and the Big Push", [Journal of Political Economy](#), 97(5): 1003-1026. (JSTOR)

\* William Easterly "The Quest for Growth", November 16, 1998  
<http://www.worldbank.org/research/growth/notes1.html>

\* Chapter 4 (pgs 62-77) in Bates, Robert. (1981). *Markets and States in Tropical Africa*, Univ. of California Press (book on reserve)

\* Dani Rodrik, [Development Strategies for the Next Century](#), February 2000.  
<http://ksghome.harvard.edu/~drodrik.academic.ksg/devstrat.PDF>

Chenery, H; S. Robinson, and M. Syrquin. *Industrialization and Growth: A Comparative Study*. New York. Oxford University Press, 1986. (chapters 4 and 7 may be of particular interest - book on reserve)

Dani Rodrik, [Growth Strategies](#), a paper for the *Handbook of Economic Growth*, revised September 2003.  
<http://ksghome.harvard.edu/~drodrik.academic.ksg/growthstrat10.pdf>

Dani Rodrick, "Institutions, Integration, and Geography: In Search of the Deep Determinants of Economic Growth, February 2002. <http://www.pupress.princeton.edu/chapters/s7518.pdf>

### **II. An overview of some basic concepts in IO (1-2 lectures)**

The Structure-Conduct-Performance Paradigm, the Firm and Profit Maximization, Monopoly, Perfect Competition, Oligopoly and Monopolistic Competition.

\* Chapter 1 (pgs 1-15) in Scherer, *Industry Structure, Strategy, and Public Policy*.

\* Pages 15-29 (basic micro), 69-78 (monopoly), 85-94 (perfect competition) in Cabral, *Introduction to Industrial Organization*. In general students may find Chapters 1-7 useful.

The above texts have also been placed on reserve

### III. The Demographics & Nature of Firms in LICs (1-2 lectures)

A summary of some of the basic features of and obstacles facing firms in low-income countries.

\* Chapter 1 (pgs 1-17) in [African Industry 2000: The Challenge of Going Global](#) 2000, UNIDO< students will also find other chapters of interest such as chapter 3 (pgs 33-44).

\* World Development Report 2002, Overview “Building Institutions for Markets”,  
chpt 3 on firms: [http://econ.worldbank.org/files/2407\\_61606\\_03\\_ch3.pdf](http://econ.worldbank.org/files/2407_61606_03_ch3.pdf)  
focuses on how governance structures look like  
chpt 4 on finance: [http://econ.worldbank.org/files/2408\\_61606\\_04\\_ch4.pdf](http://econ.worldbank.org/files/2408_61606_04_ch4.pdf)  
useful survey on importance of finance  
chpt 7 on competition [http://econ.worldbank.org/files/2411\\_61606\\_07\\_ch7.pdf](http://econ.worldbank.org/files/2411_61606_07_ch7.pdf)  
focuses on nature on competition.

\* Chapters 3&4 of UNIDO Industrial Development Report: <http://www.unido.org/doc/5156>  
full report: [http://www.unido.org/userfiles/hartmany/12IDR\\_full\\_report.pdf](http://www.unido.org/userfiles/hartmany/12IDR_full_report.pdf)

\* Tybout. "[Manufacturing Firms in Developing Countries: How Well do They do and Why?](#)" (in *Journal of Economic Literature*, March, 2000) (JSTOR)

\* Jere R. Behrman; Anil B. Deolalikar. "... Of The Fittest? Duration of Survival of Manufacturing Establishments in a Developing Country" *The Journal of Industrial Economics*, Vol. 38, No. 2. (Dec., 1989), pp. 215-226. (JSTOR)

\* Introduction and Summary (pgs 1-8) in “Investment Climate Around the World: Voices of the Firms from the World Business Environment Survey” Geeta Batra , Daniel Kaufmann , Andrew H. W. Stone.  
Data & a powerpoint overview at [http://www.worldbank.org/privatesector/ic/ic\\_ica\\_resources.htm](http://www.worldbank.org/privatesector/ic/ic_ica_resources.htm)

Francis Teal. *The Ghanaian manufacturing sector 1991-1995: firm growth, productivity and convergence*. WPS/98.17 <http://www.csae.ox.ac.uk/workingpapers/pdfs/9817text.PDF>

Bob Sutcliffe. 2001. *100 Ways of Seeing an Unequal World*. Palgrave Macmillan

Roberts, Mark and James Tybout. *Industrial Evolution in Developing Countries: Micro Patterns of Turnover, Productivity and Market Structure*. 1996. New York: Oxford University Press

Robert E. Lipsey. “Internationalized Production in Developed and Developing Countries and in Industry Sectors (ITI)” – NBER working paper <http://papers.nber.org/papers/w6405>

### IV. Macro/Trade-based IO literature (2-3 lectures)

An overview of the large macro/trade-based literature on industrial policy. While the focus of this class is on approaches that emphasize industrial policy from a more micro-economic perspective i.e. making the firm the center of the analysis, it is useful to examine more macro and trade-based industrial policies in light of how they influence the micro Industrial structure. While we cannot do justice to this vast literature in a few lectures, the purpose is to provide an overview or relevant issues such as import substitution, export promotion, foreign-direct investment in terms of their effect of firms.

#### **General overviews:**

\* Rodrik, D., "Trade and Industrial Policy Reform in Developing Countries: A Review of Theory and Evidence," chap. 45 in *Handbook of Development Economics, Volume 3B*, Holland: Elsevier Science, 1995 (reading pack)

\* Tybout "[Plant- and Firm-level Evidence on the 'New' Trade Theories](#)" ( in E. Kwan Choi and James Harrigan, ed., *Handbook of International Trade*, Oxford: Basil-Blackwell, 2003, and NBER Working Paper No. 8418). <http://dsl.nber.org/papers/w8418.pdf>

\* Melo A. 2001 "Industrial policy in Latin America at the turn of the century." IADB, Research Department WP No 459 <http://www.iadb.org/res/publications/pubfiles/pubWP-459.pdf>

Young, Alwyn. "The Tyranny of Numbers: Confronting the Statistical Realities of the East Asian Growth Experience." *Quarterly Journal of Economics* (August 1995): 641-80.

Carliner, G. "Industrial Policies for Emerging Industries," *Strategic Trade Policy and the New International Economics*, ed. Paul Krugman, MIT Press, 1992

### **Import substitution:**

\* Bruton, Henry J., "A Reconsideration of Import Substitution," in *Journal of Economic Literature*, June 1998 (JSTOR)

\* Bell, M., Ross-Larson, B, and Westphal, L. (1984) "Assessing the performance of infant industries," *Journal of Development Economics*, 16:101-128 (HOLLIS)

\* Irwin, Douglas A. "Interpreting the Tariff-Growth Correlation in the Late Nineteenth Century." *American Economic Review* (Papers & Proceedings) 92 (May 2002) (reading pack)

Irwin, Douglas A (2002). Did Import Substitution Promote Growth in the Late Nineteenth Century? NBER Working Paper No 8751.

Irwin, Douglas A, "Did Late Nineteenth Century US Tariffs Promote Infant Industries: Evidence from the Tinplate Industry," *Journal of Economic History* (June 2000), <http://papers.nber.org/papers/w6835>

### **Export Promotion:**

\* Panagariya, "Evaluating the case for export subsidies" Policy Research Working Paper 2276, World Bank, January 2000 -<http://econ.worldbank.org/docs/1030.pdf>

\* Radelet S. 1999 "Manufactured exports, export platforms, and economic growth." Cambridge, MA: HIIID. Mimeo <http://www.cid.harvard.edu/caer2/htm/content/papers/confpubs/paper43/paper43.pdf>

\* Clerides, Sofronis, Saul Lach and James Tybout. "Is Learning by Exporting Important? Micro-Dynamic Evidence from Colombia, Mexico and Morocco." *Quarterly Journal of Economics*, August 1998, pp. 903-947. (JSTOR)

\* Kenneth L. Sokoloff (UCLA) "Exports and Manufacturing Productivity in East Asia: A Comparative Analysis with Firm-Level Data" <http://sticerd.lse.ac.uk/dps/eid2003/Sokoloff.pdf>

Pach, H. (1992) Learning and Productivity change in developing countries, in: G.K. Helleiner, ed., *Tariff Policy, Industrialization and Development*. Oxford Clarendon Press.

Giles J, Williams C. 2000, "Export led-growth: a survey of the empirical literature and on non-causality results, part I, in *Journal of International Trade and Economic Development*, 9(3) (HOLLIS)

### **FDI promotion:**

\* Bolstron, M. "The Economics of International Investment Incentives," OECD. <http://www.oecd.org/dataoecd/55/1/2487874.pdf>

\* Gordon Hanson, "Should Countries Promote Foreign Direct Investment?" paper for the G24, University of Michigan, 2001. <http://ksghome.harvard.edu/~drodrik.academic.ksg/g24-hanson.pdf>

Luiz R De Mello Jr. [Foreign direct investment in developing countries and growth: A selective survey](#)  
The Journal of Development Studies. London: Oct 1997. Vol. 34, Iss. 1; p. 1 (Harvard Library E-resources)

## **V. Firm Access to Financial Capital (2 lectures)**

Examine the environment, problems faced, and importance of access to financial capital for firms in LICs.

### **Macro:**

\* Rajan, R. and Zingales, L. (1998) "Financial Dependence and Growth," [American Economic Review](#), 88 (3), 559-586. (JSTOR)

\* Jeffrey Wurgler, Financial markets and the allocation of capital<sup>\*1</sup>, *Pages 187-214* [Abstract](#) | [PDF \(197 K\)](#)  
JFE Volume 58, Issue 2, (2000) (JSTOR)

\* Levine, Ross. "Financial Development and Economic Growth: Views and Agenda," *Journal of Economic Literature*, June 1997, 35(2), pp. 688-726. (JSTOR)

\* Jack Glen, Brian Pinto "Debt or Equity? How Firms in Developing Countries Choose. IFC WP No. 22 (July 1994) (upto Page 40 only <http://www2.ifc.org/economics/pubs/dp22/dp22.pdf>

\* Fisman, R and I. Love. Trade Credit, Financial Intermediary Development, and Industry Growth, *Journal of Finance*, 2003. (HOLLIS)

Peter Blair Henry, Do stock market liberalizations cause investment booms?<sup>\*1</sup>, *Pages 301-334* JFE Volume 58, Issues 2, (2000) (HOLLIS)

### **Firm-level:**

\* Banerjee, Abhijit and Esther Duflo (2002), "[Do Firms Want to Borrow More? Testing Credit Constraints Using a Directed Lending Program](#)," [http://econ-www.mit.edu/faculty/download\\_pdf.php?id=434](http://econ-www.mit.edu/faculty/download_pdf.php?id=434)

\* Paulson, A. and Townsend, R, (2001), "Entrepreneurship and Financial Constraints in Thailand," working paper, Northwestern University. <http://cier.uchicago.edu/papers/Paulson/PaulsonTownsend1.pdf>

\* Banerjee, Abhijit and Kaivan Munshi (2002), "[How Efficiently is Capital Allocated? Evidence from the Knitted Garment Industry in Tirupur](#)," <http://web.mit.edu/14.771/www/tirupur10.pdf> mimeo, MIT.

\* Arne Bigsten, Paul Collier, Stefan Dercon, Marcel Fafchamps, Bernard Gauthier, Jan Willem Gunning, Måns Söderbom, Abena Oduro, Remco Oostendorp, Cathy Pattillo, Francis Teal, and Albert Zeufack. *Credit constraints in manufacturing enterprises in Africa*. WPS/2000.24  
<http://www.csae.ox.ac.uk/workingpapers/pdfs/20-24text.pdf>

\* Oyen, L and J. Levitsky. Financing of Private Enterprise Development in Africa. UNIDO  
[http://www.unido.org/userfiles/PuffK/PSD\\_TWP4.pdf](http://www.unido.org/userfiles/PuffK/PSD_TWP4.pdf)

Burgess, Robin And Rohini Pande(2003), "[Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment](#)," <http://www.econ.yale.edu/~rp269/website/dobanksmatterjune20.pdf> mimeo, Yale.

McMillan, J. and C. Woodruff (1999) "Interfirm Relationships and Informal Credit in Vietnam", *Quarterly Journal of Economics*, 114: 1285-1320.

Morduch, Jonathan (1999), "The Microfinance Promise," [Journal of Economic Literature](#), Vol. 37 (4), pp. 1569-1614. (JSTOR)

Arne Bigsten, Paul Collier, Stefan Dercon, Marcel Fafchamps, Bernard Gauthier, Jan Willem Gunning, Anders Isaksson, Abena Oduro, Remco Oostendorp, Cathy Pattillo, Mans Soderbom, Francis Teal and Albert Zeufack. *Rates of return on physical and human capital in Africa's manufacturing sector* WPS/98.12 <http://www.csae.ox.ac.uk/workingpapers/pdfs/9812text.pdf>

## **VI. Firm Access to Human Capital (2 lectures)**

Examine the environment and importance of human capital (both workers and entrepreneurs) in LICs.

### **Education and skills:**

\* Temple, J., 2001. Generalizations that aren't? Evidence on education and growth. *European Economic Review* 45, 905-918. (JSTOR)

\* Pritchett, L., 2001. Where Has All the Education Gone? *World Bank Economic Review* 15, 367-91. <http://80-www.wber.oupjournals.org.ezp2.harvard.edu/>

\* Patricia Jones. *Are manufacturing workers really worth their pay?* CSAE WPS/94.12 <http://www.csae.ox.ac.uk/workingpapers/pdfs/9412text.pdf>

\* Arne Bigsten, Paul Collier, Stefan Dercon, Marcel Fafchamps, Bernard Gauthier, Jan Willem Gunning, Anders Isaksson, Abena Oduro, Remco Oostendorp, Cathy Pattillo, Mans Soderbom, Francis Teal and Albert Zeufack. *Rates of return on physical and human capital in Africa's manufacturing sector*. CSAE WPS/98.12 <http://www.csae.ox.ac.uk/workingpapers/pdfs/9812text.pdf>

\* Nina Pavcnik What Explains Skill Upgrading in Less Developed Countries? (ITI) NBER w7846 Aug 2000 <http://dsl.nber.org/papers/w7846.v5.pdf>

George Psacharopoulos and Harry Anthony Patrinos : "Returns to Investment in Education: A Further Update" [http://econ.worldbank.org/files/18081\\_wps2881.pdf](http://econ.worldbank.org/files/18081_wps2881.pdf)

Frazer, G "Learning the Master's Trade: Apprenticeship and Human Capital in Ghana" 2003 – working paper.

Foster, Andrew D. and Mark R. Rosenzweig (1993) "Information, Learning, and Wage Rates in Low-Income Rural Areas," [The Journal of Human Resources](#), Vol. 28 (4), 759-790. (JSTOR)

Yang Yao. [Rural industry and labor market integration in eastern China](#) *Journal of Development Economics*, Volume 59, Issue 2, August 1999, Pages 463-496 (HOLLIS)

### **Entrepreneurship; Labor regulation**

\* Leff, N, 1979 "Entrepreneurship and Economic development: The problem revisited" *Journal of Economic Literature* 17: 46-64. (JSTOR)

\* McMillan, J. and C. Woodruff "The Central Role of Entrepreneurs in Transition Economies" *Journal of Economic Perspectives*, Summer 2002, Vol 16(3) pp. 153-70. <http://80-puck.ingentaselect.com.ezp1.harvard.edu/vl=17676279/cl=30/nw=1/rpsv/cw/aea/08953309/contp1.htm>

Desai, M and P. Gompers, J., "Institutions, Capital Constraints and Entrepreneurial Firm Dynamics: Evidence from Europe," NBER working paper <http://papers.nber.org/papers/w10165.pdf>

\* Botero, Juan, Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer, "The Regulation of Labor," mimeo, 2003. <http://dsl.nber.org/papers/w9756.pdf>

\* Timothy Besley and Robin Burgess. "Can Labor Regulation Hinder Economic Performance? Evidence from India". September 2003 <http://econ.lse.ac.uk/staff/rburgess/wp/indreg.pdf>

David Morawetz Employment Implications of Industrialisation in Developing Countries: A Survey *The Economic Journal*, Vol. 84, No. 335. (Sep., 1974), pp. 491-542.

## **VII. Firm Access to Technology (2 lectures)**

Examine the importance of technology in LICs.

### **Broad:**

\* S. Lall. The technological structure and performance of developing country manufactured exports, 1985-98', *Oxford Development Studies*, 28(3), 2000. <http://www2.qeh.ox.ac.uk/RePEc/qeh/qehwps/qehwps44.pdf>

\* Pack and Westphal, "Industrial strategy and technological change: theory versus reality," *Journal of Development Economics*, 22:87-128 (HOLLIS)

\* Simón Teitel. Technology creation in semi-industrial economies, *Journal of Development Economics* 16 (1984) *Pages 39-61* (HOLLIS)

Alberto Melo, The Innovation Systems of Latin America and the Caribbean, IADB Research Department, Working Paper #460 – <http://www.iadb.org/res/publications/pubfiles/pubWP-460.pdf>

Linsu Kim, "The Dynamics of Technological Learning in Industrialization," Discussion Paper Series #2000-7, Institute for New Technologies at the United Nations University (INTECH) <http://www.intech.unu.edu/publications/discussion-papers/2000-7.pdf>

Lall, S. "Technological Change and Industrialization in Asian Newly Industrializing Economies: Achievements and Challenges," in Kim and Nelson, eds. *Technology, Learning and Innovation*. Cambridge University Press, 2000

### **Firm-level:**

\* Arne Bigsten, Paul Collier, Stefan Dercon, Marcel Fafchamps, Bernard Gauthier, Jan Willem Gunning, Abena Oduro, Remco Oostendorp, Catherine Pattillo, Måns Söderbom, Francis Teal and Albert Zeufack. *Do African Manufacturing Firms Learn from Exporting?* WPS/2002-09 <http://www.csae.ox.ac.uk/workingpapers/pdfs/2002-09text.pdf>

\* Beata Smarzynska Javorcik "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers Through Backward Linkages" <http://sticerd.lse.ac.uk/dps/eid2003/Javorcik.pdf>

\* Yung Whee Rhee. The catalyst model of development: Lessons from Bangladesh's success with garment exports, *World Development*. Vol. 18. No. 2. 1990. (HOLLIS).

\* Ricardo Hausmann, Dani Rodrik. "Economic Development as Self-discovery" NBER Working Paper No. w8952 (2002). <http://papers.nber.org/papers/w8952.pdf>.

Khan, Faruk. (2003). "Technology Transfer with Competitive Markets in the South" <http://www.williams.edu/Economics/khan/techt092003.pdf>.

Haddad, Mona, and Ann E. Harrison. 1993. "Are There Positive Spillovers from Direct Foreign Investment? Evidence from Panel Data for Morocco." *Journal of Development Economics* 42: 51–74.

Marcel Fafchamps, Said El Hamine and Albert Zeufack. *Learning to export: evidence from Moroccan manufacturing*. WPS/2002-02 <http://www.csae.ox.ac.uk/workingpapers/pdfs/2002-02text.pdf>

**VIII. Institutions & Regulation – Corporate governance (2-3 lectures)**

Examine the importance of institutions, regulations and corporate governance issues as they relate to firms in low-income countries.

**Institutions & Regulation:**

\* Hall, R.E. and Jones C. E. 1999 “[Why Do Some Countries Produce So Much More Output per Worker than Others?](#)”. *Quarterly Journal of Economics*, February 1999, Vol. 114, pp. 83-116 also NBER Working Paper No. W6564, June. (reading pack)

\* David Dollar (World Bank) "Investment Climate and Firm Performance in Developing Economies" <http://sticerd.lse.ac.uk/dps/eid2003/Dollar.pdf>

\* Intro to Brunetti, Aymo, Gregory Kisunko and Beatrice Weder. "Institutional Obstacles to Doing Business: Region-by-Region Results from a Worldwide Survey of the Private Sector." April 1997. World Bank Policy Research Working Paper No. 1759. Washington, D.C.: The World Bank.

Full report <http://www.worldbank.org/html/dec/Publications/Workpapers/WPS1700series/wps1759/wps1759.pdf>

\* Shleifer, A. S. Djankov, R. La Porta, and F. Lopez-de-Silanes (2002), "The Regulation of Entry," *Quarterly Journal of Economics* (reading pack)

\* S. Johnson, J. McMillan & Woodruff. "Property Rights and Finance", *American Economic Review*, December 2002. (reading pack)

\* Arne Bigsten, Paul Collier, Stefan Dercon, Marcel Fafchamps, Bernard Gauthier, Jan Willem Gunning, Abena Oduro, Remco Oostendorp, Cathy Pattillo, Mans Soderbom, Francis Teal and Albert Zeufack. *Contract flexibility and dispute resolution in African manufacturing*  
<http://www.csae.ox.ac.uk/workingpapers/pdfs/9920text.pdf>

Frye, Timothy; and Andrei Shleifer, "The Invisible Hand and the Grabbing Hand," *American Economic Review*, May, 1997.

Geeta Batra and Syed Mahmood. [Direct Support to Private Firms: Evidence on Effectiveness](#) November 18, 2003 WB working paper# 3170 [http://econ.worldbank.org/files/31316\\_wps3170.pdf](http://econ.worldbank.org/files/31316_wps3170.pdf)

**Corporate Governance:**

\* Shleifer, Andrei and Robert Vishny, "A Survey of Corporate Governance," *Journal of Finance*, 52(2):737-83, June, 1997. (JSTOR)

\* La Porta, R., Lopez-de-Silanes, F., and Shleifer, A., and Vishny, R. (2000), "Investor Protection and Corporate Governance," [Journal of Financial Economics](#), 58 (1-2), 3-27. (reading pack)

\* Johnson, S. and T. Mitton (2001) "[Cronyism and Capital Controls: Evidence from Malaysia](#)," *Journal of Financial Economics*, Volume 67, Issue 2, February 2003, Pages 351-382. (HOLLIS)

Fisman, Ray (2001) "Estimating the Value of Political Connections" *American Economic Review* , September 2001 A longer version is on the web at: <http://www.gsb.columbia.edu/faculty/rfisman/Conn2.pdf>

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and Vishny, R. (1998), "Law and Finance," [Journal of Political Economy](#), 106 (6), 1113-1155.

Simon Johnson, Peter Boone, Alasdair Breach and Eric Friedman . “Corporate governance in the Asian financial crisis, [Journal of Financial Economics](#), 58 (1-2), *Pages 141-186* (HOLLIS)

### **IX. Small and Medium Enterprise (SMEs) (2 lectures)**

Examine the nature and importance of, and issues faced by SMEs in low-income countries.

#### **Issues & Obstacles:**

\* Mirjam Schiffer; Beatrice Weder. “Firm size and the Business Environment: Worldwide Survey Result” IFC Discussion paper # 43.

[http://ifcln1.ifc.org/ifcext/economics.nsf/AttachmentsByTitle/dp43/\\$FILE/dp43.pdf](http://ifcln1.ifc.org/ifcext/economics.nsf/AttachmentsByTitle/dp43/$FILE/dp43.pdf)

\* Aslund, A and S. Johnson [Small Enterprises and Economic Policy](#), Working Paper, April 2003.

[http://web.mit.edu/sjohnson/www/attach/Small Enterprises and Economic Policy April 22 2003.pdf](http://web.mit.edu/sjohnson/www/attach/Small%20Enterprises%20and%20Economic%20Policy%20April%2022%202003.pdf)

\* Hallberg, K. 1999. Small and medium scale enterprises: A framework for intervention. Working paper, Small Enterprise Unit, Private Sector Development Department, The World Bank, Washington, DC.

[http://wbln0018.worldbank.org/html/FinancialSectorWeb.nsf/\(attachmentweb\)/SME\\_Framework\\_Paper/\\$FILE/SME\\_Framework\\_Paper.pdf](http://wbln0018.worldbank.org/html/FinancialSectorWeb.nsf/(attachmentweb)/SME_Framework_Paper/$FILE/SME_Framework_Paper.pdf)

\* Levitsky, J. Support Systems for SMEs in Developing Countries. A Review. UNIDO

<http://www.unido.org/userfiles/PuffK/levitsky.pdf>

Hallberg, K (September 2000) A Market-Oriented Strategy For Small and Medium-Scale Enterprises FC Discussion Paper No: 40

Snodgrass, D. and T. Biggs (1996) Industrialization and the Small Firm: Patterns and Policies. International Center for Economic Growth.

#### **Growth:**

\* Sleuwaegen, L. , M. Goedhuys [Growth of firms in developing countries, evidence from Côte d'Ivoire](#) *Journal of Development Economics*, Volume 68, Issue 1, June 2002, *Pages 117-135* (HOLLIS)

\* Woodruff, C [Can Any Small Firm Grow Up?: Entrepreneurship and Family Background in Mexico](#) working paper. <http://www2-irps.ucsd.edu/faculty/cwoodruff/entrep.pdf>

\* Michael A. McPherson. Growth of micro and small enterprises in southern Africa, *Pages 253-277* *Journal of Development Economics* vol 48 issue 2. (HOLLIS)

\* McKenzie, D. and C. Woodruff (2002) “Is there an Empirical Basis for Poverty Traps? Evidence from Mexican Microenterprises”, mimeo.

<http://www2-irps.ucsd.edu/faculty/cwoodruff/PovertyTraps%20Aprilr.pdf>

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Part of paper (on promoting SMEs) Qian, Y and J. Wu, "[China's Transition to a Market Economy: How Far across the River?](#)" , in Nicholas C. Hope, Dennis Tao Yang, and Mu Yang Li, editors, *How Far Across the River: Chinese Policy Reform at the Millennium*, Stanford University Press, 2003, pp. 31-63.

<http://elsa.berkeley.edu/~yqian/98-7.pdf>

IADB, 1995, Enterprise development strategy. Small and medium sized enterprises, Washington, DC: Sustainable Development Department, IADB: document GN-1885.corr <http://www.iadb.org/sds/doc/759eng.pdf>

Jean O. Lanjouw, and Peter Lanjouw. Rural Nonfarm Employment: A Survey.  
[http://econ.worldbank.org/files/288\\_wps1463.pdf](http://econ.worldbank.org/files/288_wps1463.pdf)

## **X. Clusters & agglomeration economies (1-2 lectures)**

Introduce and examine aspects of industrial policy that focuses on developing clusters of firms.

### **Agglomeration economies:**

\* Gordon Hanson, "Scale Economies and the Geographic Concentration of Industry," NBER Working Paper, No. 8013 <http://dsl.nber.org/papers/w8013.pdf>

\* Wen, M. Relocation and agglomeration of Chinese industry, Journal of development Economics, 74 (2004) Pages 329-347 (HOLLIS)

\* Lall, S.; Z. Shalizi; U. Deichmann Agglomeration economies and productivity in Indian industry Journal of Development Economics, In Press (HOLLIS)

### **Clusters:**

\* Ketels, C. (2003) The Development of the cluster concept – present experiences and further developments. (reading pack)

\* Hubert S. and K. Nadvi: Clustering and Industrialization: Introduction, World Development. Volume 27, Issue 9 Pages 1503-1514 (HOLLIS) – This entire volume is on clusters so students may want to look at it.

\* Dorothy McCormick. African Enterprise Clusters and Industrialization: Theory and Reality, World Development. Volume 27, Issue 9 Pages 1531-1551 (HOLLIS)

\* Humphrey, J. and Schmitz, H. "Principles for Promoting Clusters and Networks of SMEs," UNIDO, <http://www.unido.org/userfiles/RussoF/Humphrey.pdf>

Porter, M. E. *The Competitive Advantage of Nations*. New York: Free Press, 1990. chapter 3

Porter, M E. 1998. Clusters and the new economics of competition. *Harvard Business Review*: 77-90.

Altenburg, T and J Meyer-Stamer. 1999. How to promote clusters: Policy experiences from Latin America. *World Development* 27: 1693-713.

Nadvi, K.. Collective Efficiency and Collective Failure: The Response of the Sialkot Surgical Instrument Cluster to Global Quality Pressures, World Development. Volume 27, Issue 9 Pages 1605-1626 .

Nadvi, K. "Industrial Clusters and Networks: Case studies of SME growth and Innovation," UNIDO, <http://www.unido.org/userfiles/RussoF/Nadvi.pdf>

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Ceglie G, Dini M. 1999 "SME cluster and network development in developing countries: the experience of UNIDO." <http://www.unido.org/userfiles/RussoF/Giopaper.pdf>

Bergman, E M and E J Feser. 1999. Industrial and Regional Clusters: Concepts and Comparative Applications. Morgantown, WV: Regional Research Institute, West Virginia University.  
Book is available chapter-wise at <http://www.rr.i.wvu.edu/WebBook/Bergman-Feser/contents.htm>

## **XI. Business Groups & Family Firms (2 lectures)**

Examine the role and nature of business and family groups in LICs.

\* Stijn Claessens, Simeon Djankov and Larry H. P. Lang. The separation of ownership and control in East Asian Corporations\*, *Journal of Financial Economics*, 58. *Pages 81-112* (HOLLIS)

\* Khanna, T. and J. Rivkin. 2001. "Estimating the Performance Effects of Business Groups in Emerging Markets." *Strategic Management Journal*. 22: 45-74. (HOLLIS)

<http://80-www3.interscience.wiley.com.ezp1.harvard.edu/cgi-bin/jissue/76501750>

\* Khanna, Tarun, and Krishna Palepu. "Is Group Affiliation Profitable in Emerging Markets? An Analysis of Diversified Indian Business Groups." *Journal of Finance* 55, no. 2 (April 2000): 867-891. (HOLLIS)

\* Keister, L. 1998a. "Engineering Growth: Business Group Structure and Firm Performance in China's Transition Economy." *American Journal of Sociology* (104), 404-40. (JSTOR)

\* Fisman, Raymond, and Tarun Khanna. "Facilitating Development: The Role of Business Groups." Harvard Business School Working Paper Series, No. 98-076, 1998.

[http://www-1.gsb.columbia.edu/faculty/rfisman/Facilitation\\_Development.pdf](http://www-1.gsb.columbia.edu/faculty/rfisman/Facilitation_Development.pdf)

\* Bertrand, M., Mehta, P. and Mullainathan, S (2002), "Ferretting Out Tunneling: An Application to Indian Business Groups," [Quarterly Journal of Economics](#), 117(2), 121-148. (reading pack)

Hoshi, T., A. Kashyap, and D. Scharfstein. 1991. "Corporate Structure, Liquidity, and Investment: Evidence from Japanese Industrial Groups." *Quarterly Journal of Economics* (106), 33-60.

Khanna, Tarun, and Yishay Yafeh. "Business Groups and Risk Sharing Around the World." Harvard Business School Working Paper Series, No. 01-041, 2000.

Guillen, M. 1997. "Business Groups in Economic Development." *Academy of Management Proceedings*.

Ganovetter, M. "Business Groups and Social Organization". Handbook of Economic Sociology, 2003.

La Porta, R., Lopez-de-Silanes, F., and Shleifer, A. (1999), "Corporate Ownership Around the World," [Journal of Finance](#), 54(2), 471-517.

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## **XII. Miscellaneous Topics (1 lecture)**

Time permitting we may examine other topics of interest such as the role of reputation, rent-seeking and corruption etc. in low-income country firms/industries.

Pranab Bardan, "Corruption and Development: A Review of Issues," JEL September 1997

Woodruff, C, S. Johnson, D. Kaufmann and J. McMillan, "Why do Firms Hide?: Bribes and Unofficial Activity after Communism", June 2000, *Journal of Public Economics*, (76)3, pp.495-520.

John McArthur and Francis Teal . *Corruption and Firm Performance in Africa* WPS/2002-10  
<http://www.csae.ox.ac.uk/workingpapers/pdfs/2002-10text.pdf>

Tirole, Jean (1996), "A Theory of Collective Reputations (With Applications to the Persistence of Corruption and to Firm Quality)," [Review of Economic Studies](#), Vol. 63 (1), pp.1-22.

Banerjee, Abhijit and Esther Duflo, "Reputation Effects and the Limits of Contracting: A study of the Indian Software Industry," [Quarterly Journal of Economics](#), Vol. 115 (3), pp. 989-1017, 2000.

Banerjee Abhijit, Kaivan Munshi, Dilip Mookherjee and Debraj Ray (2001) Inequality, Control Rights and Rent Seeking: Sugar Cooperatives in Maharashtra, *Journal of Political Economy*, 109