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Facilitating Development: The Role of Business Groups

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Abstract

A defining characteristic of developing countries is the inadequacy of basic services normally required to support organized economic activity. One way in which the private sector acts to facilitate development is through investments orchestrated by agglomerations of firms called business groups. Such groups dominate the landscape of virtually all developing countries. Our study of plant location decisions in India shows that group-affiliates are more likely to (profitably) locate in less-developed states than unaffiliated firms; the magnitude of this â€œgroup effectâ€ is large and significant. Furthermore, this result is stronger for more recent location decisions that are less likely to have been driven by political economy considerations. We suggest that this is because the scale and scope of groups, and the *de facto* property rights enforcement within groups in environments where legal enforcement is lacking, permit them to overcome some of the difficulties that impair production in underdeveloped regions.

Keywords

Asia; India; business groups; location decisions

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