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2006

REPORT ON SCIENTIFIC ACTIVITIES

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Luca d'Agliano

Luca d'Agliano was born in Turin on July 4, 1961.

At the end of the first year of classical high school at the Rosmini Institute in Turin, driven by the wish to widen his horizons, he decided to finish his secondary education under the provisions of the Sevenoaks International Baccalaureate Programme.

In September 1980, he went up to Churchill College, University of Cambridge, where he read philosophy and then economics under Margaret Bray and Frank Hahn.

On taking his Bachelor of Arts degree in 1983, he was awarded a scholarship by the Fondazione Luigi Einaudi, Turin, and was admitted to St. Anthony's College, University of Oxford. Here, under the guidance of Amartya Sen, he studied questions relating to developing countries and welfare economics, concentrating mainly on the analysis of collective agriculture systems and the conflict, typical of such systems, between the ethical value of collective production and the pragmatic need to give individuals the incentive to produce.

The vision and the task that Luca d'Agliano assigned to economics can be gathered from this extract from the research programme submitted by him to the Fondazione Luigi Einaudi in July 1983:

"It is desirable for the study of economics to be continually carried over into practical applications, above all when attempting to solve problems that limit the growth of man's well-being. For this substantially ideological reason, it becomes important to combine close study of purely theoretical matters with a study of the problems afflicting the developing countries in their struggle against poverty, a question that is still far from being resolved, but to which economics should be applied".

Nearly a year later, Luca d'Agliano lost his life in a road accident (June 1984).

The Centro Studi: aims

The Centro Studi Luca d'Agliano was founded in Turin in 1986 by the family of Luca d'Agliano, his friends, and some of his teachers. It is currently located at the Fondazione Luigi Einaudi in Torino and at the University of Milano.

Its aim is to favour a better understanding of the economic problems inherent to development.

Particular emphasis is placed on giving students the opportunity to attend the best universities and so to come in contact with the most distinguished scholars in order that they may acquire a truly international perspective and an intellectual and broad minded approach to the problems of development economics.

The Centro Studi: activities

The activities of the Centro Studi are:

- I) the undertaking of research in development economics. In keeping with an approach similar to that of Luca d'Agliano, such research aims to maintain a close connection between:
 - a) the latest developments in economic theory
 - b) certain fundamental features of development economics, with special emphasis on the conflict between efficiency and equity - fight against poverty
 - c) ethical and philosophical questions assuring the unity and cohesion of points a) and b)
- II) a library and documentation centre on development studies located at the Fondazione Einaudi. This also includes the writings, notes and books that formed the subject-matter of Luca's studies at the Universities of Cambridge and Oxford;
- III) the award of scholarships, prizes and research grants to Italian and foreign students wishing to further their studies in development;
- IV) a series of seminars allowing people from the academic and business world interested in the problems of developing countries to share their work and experiences;

- V) the publication, on its own account or in association with other institutions, of studies and informative material on topics related to developing countries;
- VI) collaboration agreements with other Italian and foreign institutions aimed at furthering the exchange of ideas and the comparison of topics related to development;
- VII) the training of young students and practitioners.

ORGANISATION AS OF DECEMBER 31, 2006

President: Luigi Galleani d'Agliano

Scientific Committee: Riccardo Faini (Chairman), Giorgio Basevi, François Bourguignon, The Lord Dahrendorf, Luigi Donato, Frank Hahn, Judith Heyer, Fabrizio Onida, Amartya Sen, Nicholas Stern, Frances Stewart, Vittorio Valli, Anthony Venables and the Chairman of the Scientific Committee of the Fondazione Luigi Einaudi of Turin, Marcello Carmagnani

Scientific Director: Giorgio Barba Navaretti

Coordination Committee: Giorgio Barba Navaretti, Riccardo Faini, Giovanna Prennushi

Fellows: Roberto Basile, Luigi Benfratello, Giuseppe Bertola, Tito Boeri, Alessandra Casarico, Davide Castellani, Daniele Checchi, Francesco Daveri, Mario Deaglio, Paolo Epifani, Giovanni Facchini, Anna Maria Falzoni, Massimo Florio, Marzio Galeotti, Rodolfo Helg, Eliana La Ferrara, Paolo Manasse, Anna Maria Mayda, Mariapia Mendola, Alessandro Missale, Gianmarco Ottaviano, Carlo Pietrobelli, Roberta Rabbellotti, Fabio Ranchetti, Alessandro Sembenelli, Alessandra Tucci, Alessandro Turrini

Visiting Fellows: Klaus Desmet, Natalie Chen, Miriam Manchin, Anne-Célia Disdier

Post Doctoral Fellows: Gianfranco De Simone, Giulia Felice

Junior Researchers and Doctoral Students: Paola Cassotta, Valeria Groppo, Elisabetta Lodigiani, Angelica Salvi del Pero

Support Staff: Simona Orlando and Chiara Elli

RESEARCH OUTPUT

Summary of Research Areas

AREA	RESEARCH PROJECTS	RESEARCH PARTNERS	FUNDING INSTITUTIONS
<i>Institutions and Poverty in Developing Countries</i>	<ul style="list-style-type: none"> • Poverty and Inequality • Microeconomic Institutions and Poverty in Developing Countries 	<ul style="list-style-type: none"> • The World Bank; • University of Milan; • Bocconi University 	<ul style="list-style-type: none"> • The World Bank; • Institutional funding
<i>International Trade, Factor Mobility and Industrialisation</i>	<ul style="list-style-type: none"> • Trade, Industrialisation and Development • Linking Foreign Direct Investment and Migration • The International Activities of the Firm: Modes and Competitiveness 	<ul style="list-style-type: none"> • CEPR; • Bruegel; • London School of Economics; • Université Libre de Bruxelles; • Paris-Jourdan Sciences Economiques; • Trinity College, Dublin; • University of Rotterdam; • Norwegian School of Economics and Business; • The World Bank; • University of Milan; • University of Turin; • Bocconi University; • Fondazione ENI Enrico Mattei; • ICE, Rome 	<ul style="list-style-type: none"> • The European Commission; • The World Bank; • Compagnia di San Paolo; • Fondazione CRT; • Italian Ministry of Research; • Telecom Italia; • Capitalia; • Camera di Commercio di Torino

All LdA research output can be downloaded from the website www.dagliano.unimi.it.

Institutions and Poverty in Developing Countries

Poverty and Inequality

In 2006, research focused on measuring and explaining poverty and inequality levels and trends in various countries, in the context of the preparation, implementation, and monitoring of country poverty reduction strategies. Country work focused on Bangladesh, Kenya, Nepal, Zambia.

Angelica Salvi del Pero continued to work on inequality between ethnic groups in Nepal. The study uses household data collected in 2003/04 on demographic characteristics, ethnicity, consumption levels, as well as employment and agricultural activities. The study examines consumption inequality across ethnic groups in Nepal and explores the extent to which it is due to differences in the distribution of assets and how much to differences in returns to such assets. Differences in returns would corroborate claims of discrimination against some disadvantaged ethnicities. The analysis detects limited differences in returns, but explores how discrimination may occur in the process of acquiring assets rather than in the returns to these assets. These issues are critical to the policy debate in Nepal today, given the persistence of strong ethnic-based tensions.

Giovanna Prennushi continued to work on Equity and Development as part of the World Bank team that prepared the 2006 World Development Report *Equity and Development*. The report argued that equity, intended as equality of opportunities, is a key ingredient of long-term prosperity. Societies where all members have equal opportunities and can fully deploy their talents and potential are not only fairer, but also tend to perform better in the long run, than societies that in various ways exclude and discriminate against some of their members. After publication and wide dissemination of the report, the focus shifted to exploring its implication for policy in selected countries, notably Cambodia, Chile, Kenya, Uganda, and Zambia.

Microeconomic Institutions and Poverty in Developing Countries

Mariapia Mendola's research has focused on the microeconomic foundations of migration in developing countries, looking at migrants as members of spatially extended families and at the effects of having migrant members on economic decisions taken by household members left behind. She investigated the relationship between determinants and consequences of different forms of labour migration using household data from eight villages in rural Bangladesh. She further worked on a FAO study on the impact of labour migration out of rural areas, disentangling beneficial and detrimental effects of sizeable population movements on the agricultural sector and rural development in migrant-sending regions. She is also studying the temporary aspect of migration, looking at employment prospects of immigrants in host countries and activities migrants choose after returning to their home country.

Extensions and plans for 2007

This area of research will be strengthened in 2007 as several new initiatives are being launched. In addition to completing work begun in 2006, research on growth, poverty, and inequality in Sub-Saharan African countries will be strengthened. This research is motivated by the fact that, while inequality is a significant issue in many African countries, research on trends and determinants has been not fully satisfactory, hampered largely by lack of data. As several new surveys have become available, it is now possible to explore trends over time in more detail than in the past, and explore the extent to which the growth episodes of the 1990s have benefited Africa's poor.

This research will build on and expand a database on poverty and inequality assembled originally at the World Bank under a project on Poverty Dynamics in Africa led by *Paternostro, Christiaensen, and Demery*. Work will be carried out in collaboration with various researchers and leading institutions in this area. A proposal for funding is being prepared. A conference is planned for the fall of 2007 to bring together initial results.

LdA is also launching a new initiative, the Riccardo Faini Doctoral Conference on Development Economics, organised jointly with the Department of Economics of the University of Milan and Bocconi University. The conference honors the memory of Riccardo Faini, who always strived to provide graduate students with opportunities to broaden their views by interacting among each other and engaging with international colleagues. It will provide Ph.D. students working on Development Economics topics an opportunity to present their work, discuss it with senior researchers, and meet colleagues. The first Conference will be held at Gargnano (BS) on September 13 -15, 2007.

International Trade, Factor Mobility and Industrialisation

Trade, Industrialisation and Development

The research network "Trade, Industrialisation and Development" was launched at the beginning of 2003 and completed in 2006. Its objective is to understand the institutional and micro-economic constraints that affect the ability of developing countries to participate effectively in the world economy and to identify conditions that secure industrial development and modernisation, by investigating the interactions between trade, industry, institutions and economic development.

This network, funded with a grant by the European Commission, includes some of the major European research institutes in the field: CEPR; Centro Studi Luca

d'Agliano; Paris-Jourdan Sciences Economiques; European Centre for Advanced Research in Economics and Statistics (ECARES), ULB, Brussels; Centre for Economic Performance; London School of Economics (LSE); Norwegian School of Economics and Business Administration; Tinbergen Institute, Rotterdam; Trinity College, Dublin.

Under this program, in 2006 LdA awarded three post-doctoral fellowship positions at LdA premises in Milan. On September 15 2005 *Miriam Manchin* started to work at Centro Studi Luca d'Agliano as the new RTN TID post-doctoral fellow for one year. She holds a PHD from the Université Catholique de Louvain and her research topics are international trade and trade policy. In July 2006, *Natalie Chen* from the University of Warwick and *Klaud Desmet* from University Carlos III de Madrid were also appointed as short term fellows.

Miriam Manchin has been working on several research papers. She has written a paper together with *Joseph Francois*, the scientist in charge of the network at the Tinbergen Institute, entitled "Institutional Quality, Infrastructure, and the Propensity to Export". She presented the paper during the Third Conference of the Research Training Network in Chianti on the 27-29th of January 2006. She has also been working with *Annette Pelkmans* on a research paper examining the importance of the ASEAN preferential trade agreement for the countries in the region. Apart from these two new papers, she has also revised some of her previous work. One of these papers was entitled "Preference Utilisation and Tariff Reduction in EU Imports from ACP Countries" which is now forthcoming in *World Economy*. Another paper which she revised during this period was jointly written with *Joseph Francois* and *Bernard Hoekman* entitled "Preference Erosion and Multilateral Trade Liberalization" which is forthcoming in the *World Bank Economic Review*. She has also been revising a paper entitled "Border Effects in the Enlarged EU Area. Evidence from Imports to Applicant Countries" which is forthcoming in *Applied Economics*. Moreover, she has been working with *Alex Hijzen* and *Holger Gorg* on the revision of their joint work "Cross-Border Mergers & Acquisitions and the Role of Trade Costs" which is now in the second revision stage at the *European Economic Review* for publication. Finally, she also revised her paper "Determinants of European Cross-Border Mergers and Acquisitions" which is now in the second revision stage at the *European Journal of Political Economy*. During her stay at d'Agliano she presented her papers at a seminar organised by the Vienna Institute for International Economic Studies (wiiw), at the Spring Meeting of Young Economists in Seville, at a World Bank workshop on rules of origin in Hainan, China, at a UN workshop on rules of origin in Rabat, at the European Economic Association Annual Congress in Vienna, at the Department of Economics of the Università degli Studi di Milano, and at an internal seminar of the Centro Studi Luca d'Agliano.

Natalie Chen and *Giovanni Facchini* have started work on a project entitled "Enfranchisement: An Analysis of Immigrants Perceptions". They investigate the

effect that enfranchisement (i.e. the granting of voting rights to immigrants once they gain the citizenship of the host country) has on the reported well-being of migrants. They present a theoretical model to illustrate the various channels through which enfranchisement might affect the well-being of migrants, and then provide some empirical evidence for the predictions of the model using a dataset from the German Socio-Economic Panel (GSOEP), which is a yearly survey-based representative longitudinal study of private households in Germany since 1984. The case of Germany is of particular interest as a new immigration policy was launched in 2000 which aims at making it easier for migrants to gain German citizenship. So far they have found some evidence that the enfranchisement of migrants has affected their well-being through two main economic channels, i.e. the welfare state and the degree of discrimination in the labor market. They also plan to investigate the relevance of other, non-economic channels.

Klaus Desmet and Giovanni Facchini have written a paper entitled “Hub-and-Spoke Free Trade Areas” with *George Deltas*, where they analyse how sequential formation of free trade areas affects the volume of trade between member countries. In a three-country three-good model, if two countries have a free trade area, and both sign a similar agreement with the third, trade between the two decreases, and welfare rises in both. However, if only one of them signs an FTA with the third, a hub-and-spoke pattern arises. If the two spokes have comparative advantage in different goods, trade between the two countries in the initial FTA increases, with welfare rising in the hub and falling in the spoke. They provided evidence consistent with the theoretical model when studying the experience of Israel.

Gianfranco De Simone has been investigating how the emergence of cross-border production sharing and the resulting trade in parts and components are affecting developing countries’ patterns of specialisation and localisation of industrial activities. In a first paper, the author focuses on the changes in both production and trade specialization of Central Eastern European Countries in five sectors where trade in intermediates with EU-15 members is particularly important. By jointly using trade and production data, he is able to outline the ways in which CEECs are moving along the internationally “sliced-up” value chain.

In a second paper, the author goes more in depth in the analysis of emerging trends of localisation of industries. He tries to find out what is the role played by trade in parts and components in determining the redistribution of activities observed across CEECs in the second half of the 1990s.

Linking Foreign Direct Investment and Migration

LdA has been working in this area within two different research projects. The first

one, “Migration of People and Mobility of Firms” to be completed in March 2007, explores the link between foreign direct investment and migration, and is funded by the Fondazione CRT, within its Progetto Alfieri.

The second one is a EC-6th Framework funded research network on "Sustainable Development in a Diverse World", coordinated by the Fondazione Eni Enrico Mattei (FEEM), Milan and of which LdA is part. The main objective of the project is to create a “Network of Excellence” integrating European research capabilities across disciplines and countries in order to provide European society and policy with the instruments and tools for managing cultural diversity as a key element of a new strategy for sustainable development. Several recent works have highlighted how cultural diversity (e.g. different ethnical groups within a given geographic space) may enhance growth. LdA has contributed to the research activities of this network by looking at the importance of diversity on international factor flows. We have considered both migration and capital flows, and their interaction.

Several papers are being prepared under this project, which will be completed in March 2007.

In “Individual Attitudes towards Immigrants: Welfare-State Determinants Across Countries” *Giovanni Facchini* and *Anna Maria Mayda* have taken the point of view of natives and have analysed the determinants of their preferences towards immigrants. In particular, they have highlighted how both labour market and welfare state variables play an important role and they have also analysed the perceptions of natives concerning how the welfare state adjusts to the presence of foreign workers. “Enfranchisement: An Analysis of Individual Preferences” by *Natalie Chen* and *Giovanni Facchini*, carried out jointly under this project and the TID project (see above) focus on the German experience to study the well being of foreign migrants in their new country of residence.

In a related contribution, *Domenico de Palo*, *Riccardo Faini* and *Alessandra Venturini* also take a close look at migrants’ social integration into the host country. To do so, they use the European Community Household panel (ECHP), which devotes a full module to the role and relevance of social relations for both migrants and natives. An innovative feature of this analysis is that it relies on migrants perceptions about their integration rather than – as is typically the case in most opinion surveys – on natives attitudes toward migrants. The main results of the paper can be summarized as follows. First, migrants – particularly from non EU origins - are at a disadvantage in the fields of social relations. Even after controlling for their individual characteristics, such as age, education, family size, and employment status, they tend to socialize less than natives. Second, migrants tend to converge, albeit quite slowly, to the standard of natives. This finding highlights the risks of short term migration, where migrants tend to be constantly marginalized. Third, education has a significant impact on the type of social activities that individuals undertake. More

educated people tend to relate somewhat less with their close neighbourhood, but quite intensively with the broader community. The implication for policy makers concerned about the creation of ethnic enclaves is to promote education among immigrants' community.

Daniele Checchi, Gianfranco De Simone and Riccardo Faini have worked on the relationships between international factor mobility (FDI and Migration) and domestic accumulation of HC in developing countries. In particular, they provide new evidence on how the presence of foreign firms in the domestic economy and the emigration of skilled workers affect school enrolment at home.

Giorgio Barba Navaretti, Giuseppe Bertola and Alessandro Sembenelli have instead carried out an analysis of the link between immigrant employment and offshoring decisions in a large sample of Italian firms. In a theory and evidence contribution they show that in their sample, offshoring is more likely for larger firms, and indicate that the domestic facilities of firms that do offshore some of their production employ both a larger share of skilled personnel and a lower share of migrant workers. In other words, they find evidence that offshoring and immigrant hiring are substitutes.

Frédéric Docquier and Elisabetta Lodigiani have examined the role of migrants' networks in promoting cross border investments has been stressed in the literature, possibly making migration and FDI complements rather than substitutes in the long run. They estimate the magnitude of such business network externalities in dynamic empirical models of FDI funded capital accumulation. They find evidence of strong network externalities, mainly associated to the skilled diaspora.

In "Industry Reallocation in a Globalizing Economy" *Kristian Behrens, Gianmarco I.P. Ottaviano, Giordano Mion* distill the main insights from recent trade models on firm responses to globalisation and also examine the implications for labour mobility. Their primary aim is to assess the economic impact and the welfare implications of the resulting reallocation of resources across firms and countries. In so doing, they bring theory into life through the numerical implementation of a theoretical framework calibrated on European data, which encompasses aspects of economic geography, firm heterogeneity, and firm organizational choices.

In "Freedoms and Regulation: Economic and Legal Aspects of EU Trade in Services", *Giuseppe Bertola and Lorenza Mola* show that interactions between market forces and social and regulatory policies are always problematic when economic integration spans the borders of separate policymaking entities. Specifically, they analyse theoretical and practical conflicts between national regulatory frameworks and international trade opportunities in the services industry. It highlights similarities and differences between the European and global liberalization processes in this and other fields, focusing particularly on provisions regarding posting of workers and mobility of self-employed service suppliers. While

intra-EU and external liberalization processes are both slow and controversial in the services field, the review of their parallel evolution suggests that progress towards efficient integration of markets and policies is possible if synergies between internal and external legal instruments are suitably exploited.

Also within this research area, *Jiahua Che* and *Giovanni Facchini* in “Cultural Differences, Insecure Property Rights and the Mode of Entry Decision” have studied how the interaction between imperfect contractual enforcement and asymmetric information between a local partner and a foreign multinational determine the optimal mode of entry decision in a new market. Particular emphasis has been put on developing a model of joint ventures as organizational structures in which control over a new business initiative is shared between the partners.

LdA is also part of a new EC-6th Framework funded research and training network on “Transnationality of Migrants” (TOM), which involves all the major European institutions carrying out research in this area. Funding from the Marie Curie programme will allow LdA to hire in the next 4 years several early stage and experienced researchers working on migration and we look forward to this new exciting opportunity.

The network includes the University of Rome "Tor Vergata" - CEIS; Centre for Economic Policy Research - CEPR; Université Libre de Bruxelles - ULB; Forum Internazionale ed Europeo di Ricerche sull'Immigrazione - FIERI; Institute for Employment Research - IAB; Centro Studi di Politica Internazionale - CESPI; Université Catholique de Louvain - UCL; Centre for Economic Performance, London School of Economics and Political Sciences - CEP; Université de Genève - UNIGE; Institut National d'Etudes Démographiques - INED; Centro Studi Luca d'Agliano - LdA; University College London - UCL; Hamburg Institute of International Economics - HWWI; Centre for European and Transition Studies, University of Latvia - CETS; University of Turin - Unito.

The International Activities of the Firm: Modes and Competitiveness

In partnership with the Department of Economics of the University of Milan, LdA has been awarded a large research grant for strategic research projects from the Italian Ministry of Research to analyse the international dispersion and fragmentation of the economic activities of firms and the organisational and technological implications of such a pattern. The project started in September 2005

The process of adjustment and restructuring both at the firm and at the industry level is an essential element of European competitiveness, which has been almost completely ignored in discussions of European economic performance.

Heterogeneity of firms plays a key role in the adjustment process, and we are in a much better position to understand the interaction between heterogeneity and adjustment, thanks to recent advances in trade theory. The characteristics of firms entering the international market as exporters or as foreign investors, the way in which they organise their activities, and the relationship between their international and their domestic operations are all issues that affect the international competitiveness of an economy. They need to be analysed by using firm level or industry level data. While we have relatively good data on trade and on the activities of multinationals for several European countries, our knowledge of the growth in outsourcing and off-shoring and its impact on European competitiveness must be further developed. The project lasts for three years and includes several Italian economic departments as well as ICE, the Italian Institute for the promotion of foreign trade.

In a paper completed in 2006, *Giorgio Barba Navaretti, Davide Castellani and Anne-Célia Disdier* analysed the impact of foreign activities of multinational firms on home economies in Italy and France. They find no evidence of a negative effect of outward investment to cheap labour countries. In Italy they enhance the efficiency of home activities, with also positive long term effect on output and employment growth. Also for France it finds a positive effect on productivity and the size of domestic activity, although not as robust and significant.

Giorgio Barba Navaretti, Riccardo Faini, and Alessandra Tucci in “Does Family Control Affect Trade Performance? Evidence for Italian Firms” examine whether the export decision of firms is affected by their ownership structure, specifically it looks at whether family control is an obstacle to entering foreign markets. The underlying assumption is that family firms are risk averse. Risk aversion may be an obstacle to entering foreign markets, as far as these are perceived as more volatile and risky than the domestic one, particularly when such choice entices bearing relatively high sunk costs. We develop an illustrative theoretical model that shows how the combination between high risk aversion and low initial productivity may hinder family firms’ decision to enter foreign markets, particularly distant ones. The empirical analysis, based on a detailed panel data set of Italian firms covering the years from 1995 to 2003, confirms such predictions by showing how the decision on whether to export and where has a negative and robust relationship with the family nature of the firm after controlling for firm heterogeneity in productivity, size and technology.

Luigi Benfratello and Tiziano Razzolini “Firms Productivity and Internationalization Choices: Evidence for a Large Sample of Italian Firms” address the issue of the links between firms’ productivity and internationalisation choices. They estimate different measures of Total Factor Productivity and provide empirical evidence on the positive role exerted by productivity on export and FDI choices. By estimating a multinomial logit model, they also examine the effect on internationalisation choices

of variables other than TFP such as size, R&D propensity, and ICT expenses.

During 2006, the core project has been extended in several directions. With the support of the Camera di Commercio di Torino, a case study of the internationalisation of the automotive sector is being carried out in collaboration with Csil (Centro Studi sull'Industria Leggera).

A parallel analysis in other two European countries, specifically France and Germany is being carried out jointly with CEPR, with funding by Capitalia and Telecom Italia. Specifically, the German team is based at DIW, the German Institute for Economic Research in Berlin. *Mechthild Schrooten* and *Axel Werwatz* will work on the effects of outsourcing of German firms. The French team, based at the newly found Paris School of Economics, is part of the Paris Jourdan Sciences Economiques and includes *Thierry Verdier*, *Gregory Corcos*, *Delphine Irac* and *Giordano Mion*. They also work on the broad internationalization strategies of the firms and on the financing of international activities.

The German and the French teams have already produced several papers which are part of the projects or which provide the analytical framework for their work within the project. *Mechthild Schrooten* has written "Internationalization in the Case of Germany: Evidence from the Macro and Sector Level" This paper shows the general patterns of international integration of the German economy by focusing on exports and outward foreign investment.

Giordano Mion and *Gregory Corcos* have worked with *Massimo Del Gatto* and *Gianmarco Ottaviano* on "Productivity and Firm Selection: Intra-National versus Inter-National Trade". With heterogeneous firms, international trade is predicted to increase aggregate productivity through a selection effect, as import competition drives the least productive firms out of the market. The same theoretical insight applies to intra-national trade between sub-national economies. In this paper, the authors attempt at quantifying the impact of firm selection attributable to both international and intra-national trade. They focus on European economies, breaking up France into 21 regional economies, and including them in a panel comprised of 10 other EU countries. They find that intra-EU trade has a sizeable impact on aggregate productivity, but that intra-national (French) trade has an even greater impact.

Thierry Verdier with *Dalia Marin* has instead analysed the relationship between corporate hierarchies and international trade.

LdA is also participating in the TIEF (The Internationalization of European Firms) project, coordinated by CEPR and Bruegel. New developments in the world economy have increased the competitive pressures on European firms in international as well as in domestic markets. Increasingly, both winners and losers

from globalization can be found within sectors and not only between sectors. TIEF is a two-year initiative of six research centers from six EU. The main aim of the project is to answer policy relevant questions using firm-level trade and FDI data. A workshop and a conference will be held each year and will result in the production of a joint Bruegel-CEPR policy report. Partners of TIEF are: CEPII (France), Hungarian Academy of Sciences (Hungary), LdA (Italy), GEP at the University of Nottingham (UK), Stockholm University (Sweden) and IAW Tübingen (Germany). The National Bank of Belgium (Belgium) and the University of Oslo (Norway) are also partners

Finally, jointly with the University of Turin and with funding from Compagnia di San Paolo, LdA has also created an observatory on the internationalisation of Italian firms. During its first year the observatory focussed on inward FDI. *Luigi Benfratello, Davide Castellani* and *Roberto Basile* analysed whether the attractiveness of Italian regions to inward FDI is below potential and, if so, for what reasons. In their “Attracting Foreign Direct Investment in Europe. Are Italian Regions Doomed?” they showed that Italian regions on average attract 40% less FDI than their potential. This gap is mostly explained by national factors, like the level of bureaucracy and the institutional environment. This paper was presented at a conference in Turin jointly organised by LdA, the Compagnia di San Paolo and ITP (the agency for the promotion of foreign investment in Piedmont), in January 2006.

Giorgio Barba Navaretti has also worked on the Italian edition of his book with Tony Venables and co-authors which provides the basic tools for the teaching and the analysis of the economics of the multinational firm and that will be presented at the University of Milan in June 2007. Finally, *Giorgio Barba Navaretti, Riccardo Faini* and *Alessandra Tucci* with *Matteo Bugamelli* and *Fabiano Schivardi* have completed a policy report on the factors affecting the international competitiveness of Italian firms.

LECTURES, SEMINARS AND CONFERENCES

Title	DATE & LOCATION	ORGANISING PARTNER	FUNDING INSTITUTIONS
Development economics seminar series	May – November 2006 Milan	- Department of Economics, University of Milan	- Institutional funding
Final Conference on Trade, Industrialisation and Development	26-26 th October 2006, Paris, France	- CEPR; - Paris Jourdan Sciences Economiques	- European Commission
Second Annual Meeting of The Network of Excellence “Sustainable Development in a Diverse World”	21-22 nd 2006, Leuven, Belgium	- FEEM; - Katholieke Universiteit	- European Commission
ESF workshop on “Outsourcing, Migration and the European Economy”	September 16 – 17 th 2006, Rome, Italy	- CEPR; - University of Rome “Tor Vergata”	- European Science Foundation (ESF)
First workshops of the project “International Fragmentation of Italian Firms. New Organizational Models and the Role of Information Technologies”	September 14 – 15 th 2006, Rome, Italy	- FIRB; - University of Milan	- Italian Ministry of Education, University and Research; - Capitalia; - Telecom Italia
Summer School on “Outsourcing and International Fragmentation of Production: Implications for Developing Countries”. Lecturers: Giorgio Barba Navaretti, Kei-Mu Yi	June 11 – 14 th 2006, Gargnano, Italy	- CEPR; - PhD in Economics, Universities of Turin and Milan	- European Commission; - University of Milan; - Compagnia di San Paolo
Fourth Luca d’Agliano Lecture in Development Economics: “Employment and Development: Good Jobs, Bad Jobs”, by François Bourguignon	May 22 nd 2006, Turin, Italy	- Fondazione Luigi Einaudi, Turin; - Fondazione Luigi Firpo, Turin	- Compagnia di San Paolo
Preliminary workshop of the “Migration of People and Mobility of Firms” project	May 15 th 2006, Milan, Italy	- University of Milan	- Fondazione CRT
Third Luca d’Agliano Lecture in Development Economics: “Globalization and Underdevelopment in the Pre-Modern Third World” by Jeffrey G. Williamson	March 31 st 2006, Turin, Italy	- Fondazione Luigi Einaudi, Turin; - Fondazione Luigi Firpo, Turin	- Compagnia di San Paolo
Third Conference on Trade, Industrialisation and Development	January 27 - 29 th 2006, San Casciano, Italy	- CEPR	- European Commission
CNR Working Group on International Economics and Development: “International Flows of Goods, Capital and People: Implications for Development and Competitiveness”	January 13-14 th 2006, University of Milan, Italy	- University of Milan; - ICE	- CNR; - MIUR
Conference on “Attrattività e competitività: la sfida per le regioni europee”	January 11 th 2006, Turin, Italy	- ITP; - Compagnia di San Paolo	- Compagnia di San Paolo

Luca d'Agliano Lecture in Development Economics

The Luca d'Agliano Lectures are organised each year also thanks to the generous support of the Compagnia di San Paolo of Turin. The aim of these Lectures is to favour the diffusion of the ideas of some of the most important scholars in the field to a non specialised audience. They also represent an important opportunity for bringing together members of the Scientific Committee of the Centro Studi and many of its former scholars.

The Third and Fourth Lectures were both held in 2006, at the Fondazione Luigi Einaudi in Turin.

The Third Lecture, "Globalisation and Underdevelopment in the Pre-Modern Third World", held by *Jeffrey G. Williamson* (Laird Bell Professor of Economics, Harvard University) on March 31st, examined the causes and mechanisms which suppressed accumulation and growth in the Third World in the period between 1810 and 1940.

The Fourth Lecture, originally scheduled for 2005, had to be postponed and consequently took place on May 22nd. *François Bourguignon* (Chief Economist, the World Bank), lectured on "Employment and Development: Good Jobs, Bad Jobs", focussing on possible options to characterize labour market vulnerability using existing statistical information, examining the "quality" of jobs that different workers have access to and evaluating the implication of labour-market performances for poverty.

The Fifth Lecture, "Does Outsourcing Change Everything?" will be held by *Paul Krugman* on June 11, 2007.

CNR Workshop on "International Economics and Development"

The Italian CNR (National Research Council) working group on "International Economics and Development" is an established network of researchers who meet regularly to discuss a wide range of issues related to international economics, with particular attention to trade and development.

This year's meeting took place at the University of Milan on January 13th and 14th. The workshop, which focussed on "International Flows of Goods, Capital and People: Implications for Development and Competitiveness", was jointly organised with PRIN-Cofin MIUR 2004 project on "The Economic Effects of the International Mobility of Production Factors". Papers covering the following topics were presented: outsourcing and fragmentation of production; migration, brain drain/gain; international capital flows and FDI; multinational enterprises and productivity; trade and firm performance; trade policy implications for poverty in developing countries,

and were selected by a scientific committee comprising *Giorgio Barba Navaretti*, *Riccardo Faini*, *Giorgia Giovanetti*, *Beniamino Quintieri* and *Alessandra Tucci*.

Third and Final Conference on Trade, Industrialisation and Development

This third conference of the “Trade, Industrialisation and Development” research training network was organised by Centro Studi Luca d’Agliano and held in San Casciano (Florence, Italy) on January 27th – 29th. Papers analysing the interactions between trade, industry, institutions and economic development, both from the theoretical and the empirical standpoint were presented. From Centro Studi Luca d’Agliano *Giorgio Barba Navaretti* presented a paper entitled “Investing in Developing Countries and Performance at Home: France and Italy” written jointly with *Davide Castellani* and *Anne-Célia Disdier*, and *Miriam Manchin* presented “Institutional Quality, Trade Preferences and Propensity to Export” written jointly with *Joseph Francois*.

The final conference was hosted by Paris-Jourdan Sciences Economiques, Paris, on October 26-27th 2006. *Alessandra Tucci* presented a paper entitled “Does Family Control Affect Trade Performance? Evidence from Italian Firms” written jointly with *Giorgio Barba Navaretti* and *Riccardo Faini*, and *Gianfranco De Simone* presented “Skilled Migration, Quality of Education and FDI” written jointly with *Daniele Checchi* and *Riccardo Faini*.

Summer School in Trade, Industrialisation and Development

A series of yearly Summer Schools on Trade and Development was first established in 2003 by the Centro Studi Luca d’Agliano, jointly with Centre for Economic Policy Research (CEPR) and the Department of Economics of the Universities of Milan and Turin. The School aims at providing an intensive training course for Ph.D. students and young researchers interested in the major analytical and empirical approaches concerning the issue of trade, development and industrialisation. It is organised as part of the Research Training Network in Trade, Industrialisation and Development funded by the European Commission.

The fifth Summer School was, as always, held at the conference venue of the University of Milan at Palazzo Feltrinelli, Gargnano, Italy, from June 11th to June 16th 2006. This year’s topic was “Outsourcing and International Fragmentation of Production: Implications for Developing Countries”, with *Giorgio Barba Navaretti* (University of Milano; Centro Studi Luca d’Agliano) and *Kei-Mu Yi* (Federal Reserve Bank of Philadelphia) as lecturers. It focussed on the main analytical and empirical approaches to study international fragmentation of production. In particular, it examined whether and how vertical specialization, outsourcing and off-shoring can

play a key-role in promoting trade, industrialisation and development in less advanced countries.

The School was open to 40 doctorate and post-doctorate students in economics and related disciplines from all countries who were selected by a Committee constituted by *Giorgio Barba Navaretti*, *Alessandro Sembenelli*, *Anthony J. Venables* and *Thierry Verdier*.

Preliminary workshop of the “Migration of People and Mobility of Firms” project

A preliminary workshop to discuss the intermediate results of the research project on “Migration and Mobility of Firms” took place on May 15th at the University of Milan. Researchers working on this project met to present and discuss the initial results of their papers.

Workshops on “International Fragmentation of Italian Firms. New Organizational Models and the Role of Information Technologies”

Two workshops of this project, “The Firm and the International Markets” and “The International Firm: Patterns and Modes”, took place on September 14th and 15th respectively on the premises of Capitalia Bank in Rome. Several of the research papers discussed in the research section above were presented at this conference.

Workshop on “Outsourcing, Migration and the European Economy”

This ESF (European Science Foundation) exploratory workshop was organised jointly with the Centre for Economic Policy Research (CEPR) and with the University of Rome “Tor Vergata” at Villa Mondragone (Rome) on September 16th and 17th, with the purpose of bringing together international economists, migration experts, labour economists, business school and industry experts and political scientists to discuss the theoretical underpinnings and the main empirical regularities of the links between trade, FDI, outsourcing and migration, with attention to implications for developing and transition economies.

The workshop was organised by a scientific committee including *Giorgio Barba Navaretti* (University of Milano; Centro Studi Luca d’Agliano), *Simon Evenett* (University of St. Gallen; CEPR) and *Riccardo Faini* (University of Rome “Tor Vergata”; Centro Studi Luca d’Agliano; CEPR).

Second Annual Meeting of “Sustainable Development in a Diverse World”

SUS.DIV second Annual Meeting was organised by Katholieke Universiteit Leuven and it was held in Leuven, Belgium, on 21-22 September 2006. Overall, the purpose of this meeting was to make the network familiar with the different types of research that is being carried out in the network and have a fruitful discussion as a group. The focus was on the following: to help partners obtain a better understanding of the governance of the network; to encourage interaction and exchange ideas as a whole group; to monitor the progress of the network towards its scientific objectives.

Development Economics Seminar series

The Centro Studi d’Agliano also organised a number of seminars in development economics in collaboration with the Department of Economics at the University of Milan

May 5th 2006, “The Impact of the Green Revolution on Rural Subsistence in Ethiopian Northern Highlands”, *Luca Mantovan* (University of Pavia);

May 15th 2006, “Environment, Human Development and Economic Growth”, *Valeria Costantini* (Università di Roma Tre), with *Salvatore Monni*;

May 19th 2006, Development Economics Seminar on “Childhood Nutrition and Subsequent Schooling Attainment: Longitudinal Evidence from Tanzania”, *Cristina Rossi* (University of Rome “Tor Vergata”); with *Harold Alderman and Hans Hoogeveen*,

November 27th 2006, Seminar “Beyond Trade Costs : Firm’s Endogenous Access to International Markets », *Armando José Garcia Pires* (Norwegian School of Economics and Business Administration).

PUBLICATIONS

“Centro Studi Luca d’Aglia Development Studies Working Papers”

The Centro Studi d’Aglia publishes a series of working papers in Development Economics. Their publication is funded by the Banca d’Italia and by the Fondazione Cassa di Risparmio di Torino. The Centro Studi Luca d’Aglia Development Studies Working Papers can be downloaded from the Ld’A website, www.dagliano.unimi.it.

Paolo Epifani is the editor of the series.

The list of working papers published in 2006 is set out below.

209. *Artjoms Ivlevs* (CEDERS; Université de la Méditerranée Aix-Marseille II): “Migration and Foreign Direct Investment in the Globalization Context: The Case of a Small Open Economy”.
210. *Anna Iara* (the Vienna Institute of International Economic Studies; Centre for European Integration Studies, Univ. of Bonn): “Skill Diffusion by Temporary Migration? Returns to Western European Working Experience in the EU Accession Countries”.
211. *Graziella Bertocchi* (Univ. of Modena and Reggio Emilia; CEPR; CHILD; IZA; *Chiara Strozzi* (Univ. of Modena and Reggio Emilia): “The Evolution of Citizenship: Economic and Institutional Determinants”.
212. *Riccardo Faini* (Univ. of Roma Tor Vergata; Centro Studi Luca d’Aglia; IZA; CEPR): “Foreign Aid and Fiscal Policy”.
213. *Anne-Célia Disdier* (INRA-INAPG; UMR Economie Publique); *Keith Head* (Sauder School of Business, University of British Columbia); *Thierry Mayer* (Uni. De Paris Sud; CEP II; PSE; CEPR): “Exposure to Foreign Media and Changes in Cultural Traits: Evidence from Naming Patterns in France”.
214. *Riccardo Faini* (Univ. of Roma Tor Vergata; Centro Studi Luca d’Aglia; IZA; CEPR): “Remittances and the Brain Drain”.
215. *Giorgio Barba Navaretti* (Univ. of Milano; Centro Studi Luca d’Aglia); *Davide Castellani* (Univ. of Urbino; Centro Studi Luca d’Aglia); *Anne-Célia Disdier* (INRA-INAP (UMR Economie Publique); Univ. of Paris 1 – CES): “How Does Investing in Cheap Labour Countries Affect Performance at Home? France and Italy”.

216. **Gustavo Gonzaga** (Department of Economics, Pontifical Catholic University, Rio); **Naércio Menezes Filho** (Department of Economics, University of Sao Paulo); **Cristina Terra** (Graduate School of Economics, Fundação Getulio Vargas): “Trade Liberalization and the Evolution of Skill Earnings Differentials in Brazil”.
217. **Irina Tytell** (International Monetary Fund); **Ksenia Yudaeva** (Centre for Economic and Financial Research (CEFIR); Carnegie Moscow Centre): “The Role of FDI in Eastern Europe and New Independent States: New Channels for the Spillover Effect”.
218. **Massimo del Gatto** (University of Cagliari); **Giordano Mion** (CORE, Université Catholique de Louvain); **Gianmarco I.P. Ottaviano** (University of Bologna; FEEM; CEPR): “Trade Integration, Firm Selection and the Costs of Non-Europe”.
219. **Julian di Giovanni**; **Andrei A. Levchenko** (International Monetary Fund): “Trade Openness and Volatility”.
220. **Antoni Estevadeordal**; **Christian Volpe Martincus** (Inter-American Development Bank): “Specialization and Diverging Manufacturing Structures: The Aftermath of Trade Policy Reforms in Developing Countries”.

BOOKS

G. Barba Navaretti e A.J. Venables, *Le multinazionali nell'economia mondiale*, Il Mulino, 2006.

SCHOLARSHIPS AND PRIZES

Ld'A devotes particular attention to training young students to acquire the background necessary for a professional career in development research, by providing them with financial assistance in the form of scholarships or by including them in their research projects.

A yearly grant of 9.300 Euros is awarded, through the Fondazione Luigi Einaudi in Turin, to young Italian graduates who wish to advance their studies in development economics at the Universities of Cambridge, Oxford or at the London School of Economics. From 2006, thanks to the generous support of one of Luca's close friends, the scholarship will cover two annuities.

In 2006, this scholarship was awarded to *Federica Liberini* who is at present at the University of Warwick where she is completing a Master in Science of Economics.

In the past, scholarships were awarded to: *Giorgio Barba Navaretti* (Oxford, 1985), *Chiara Tuffarelli* (Cambridge, 1986), *Roberta Rabellotti* (Oxford, 1987), *Francesco Daveri* (Oxford, 1988), *Marina Moretti* (Oxford, 1990), *Paolo Craviolatti* (Oxford, 1992), *Gabriella Giacometti* (Warwick, 1993), *Sabina Di Addario* (Oxford, 1994), *Renato Grelle* (Oxford, 1995), *Andrea Finicelli* (Oxford, 1997), *Ilaria Caetani* (LSE, 1998), *Diego Angemi* (Oxford, 1999), *Mattia Nicola Romani* (Oxford, 2000) *Francesco Rampa* (Oxford, 2001), (2002, not awarded), *Luciano Ciravegna* (Oxford 2003), *Giulia Pietrangeli* (LSE, 2004) and *Laura Anselmi* (Oxford, 2005).

Prizes

The Centro Studi's annual prizes are awarded through Churchill College, University of Cambridge, and St. Antony's College, University of Oxford, to students displaying "ability in their studies, particular interest in the problems of developing countries, humanity and altruism".

Prize-winners are listed by institution. A similar prize, assigned to a student from Sevenoaks School (Kent), was discontinued in 1994.

Cambridge (£. 500)

In 2006, the awardee was *Carmen L. Lacambra Segura*, a student at St. Edmunds where she is studying coastal areas and their vulnerability to natural disasters in Latin America. The prize will help towards her field studies in Columbia.

In the past, prizes were assigned to: *C.M. Bramall* and *X.H. Zhang* (1986), *S.V. De S. Gunaratne* and *L.Wang* (1987), *A. Basu*, *H. L. Khong* and *M. Marcel* (1988), *Luis A. V. Catao*, *Lucia Hammer* and *Sue Szabo* (1989), *He Dong*, *R. M. Rimmer* and *A. P. Woods* (1990), *Pingyao Lai*, *Xiao-Feng Liu* and *Asad Sayeed* (1991), *Giancarlo Spagnolo* (1992), *Anu Satyal* (1993), *Gangzhan Fu* (1994), *Samantha Gibson* (1995), *Reehana Rifat Raza* (1996), *Khwima Lawrence Nthara* (1997), *Grace P.C. Mugadza* (1998), *Martin Ruhs* (1999), *Sara Silvestri* (2000), *Rozana Salih* (2001), *Xutian Ma* (2002), *Yuantao Guo* (2003), *Dominic Rohner* (2004) and *Hui Wang* (2005).

Oxford (£. 500)

In 2006, the award went to *Sofya Krutikova* of St. Antony's College for an Extended Essay on "The Impact of Child Labour on Educational Attainment in Adulthood: Evidence from Rural Tanzania".

In the past, prizes were assigned to: *J.R. Scott* (1985), *J. Hoddinot* (1986), *Solomon Soquar* (1987), *Jerome Booth* (1988), *Mamta Murthi* (1989), *Stephen Grant Devereux* (1990), *Nomaan Majid* (1991), *Lucia da Corta* (1992), *Roberto Tibana* (1993), *Riccardo Maggi* (1994), *Sabina Alkire* (1995), *Caterina Ruggieri Laderchi* (1996), *Nancy Collins* (1997), *Mark Wu* (1998), *Diego Angemi* (1999), *Sebastian Silva-Leander* (2000), *Maria Lugo* and *Jesse Kharbanda* (2001), *César Calvo* (2002), (2003, not awarded), *Raphael Espinoza* (2004) and *Neha Kumra* (2005).

Other Prizes

Another, non-annual prize was established in 2003 to further the studies and stages abroad of students from developing countries. Candidates are required to follow Master courses in Development Economics at the Universities of Torino, Pavia or Milano.

In 2006, the prize was granted to *Basel Mansour* (Palestine), who is at the moment attending his Master course in International Cooperation at the Institute for Advanced Studies (IUSS), University of Pavia.

