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Abstract

The impact of agglomeration economies in African urban development has not been clearly measured yet. To inform the debate on their existence and their intensity, there is a need for empirical studies providing new evidence on agglomeration effects in the African region. In this research we contribute in bridging this gap by investigating, through a structural estimation approach, the impact of agglomeration economies and forward linkages on the localization of French affiliates in Africa. Using a sample of French subsidiaries in Africa, we compare the theoretically derived measure of market potential with the standard form used by geographers and with a measure of local demand. Our results show that Market Potential matters for location choice. However, the semi-elasticity estimates suggest that the intensity of demand linkages in Africa is lower than what has been observed in the European Union. Moreover, their effects seem to be insignificant when we consider the spillover variables. These spillover effects have a positive and significant impact on location which suggests that agglomerations effects are at play throughout Africa.

Keyword: Agglomeration Economies, Location of Firms, Market Potential.

JEL Classification: F12, F15, R30, R32, R34.

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1 Introduction

Foreign direct investment (FDI), one of the most powerful expression of the globalization process, has dramatically impacted the world economy in the last twenty years. While described as the poorest continent of the globe and representing from 1990 to 2015 only 1.10 to 4.60% of the total FDI inflows, Africa has not been set aside in these dynamics as the continent has experienced a tremendous increase of the volume of FDI inflows: from 2,845 in 1990 to 54,079 millions of dollars in 2015.[1] Therefore, there is a strong appeal throughout the World and even within Africa for capturing a significant share of these FDI inflows.

There is an extensive literature on what determines the ability to attract FDI inflows. Among several factors, the focus has recently been put on agglomerations effects. This is peculiarly true in the empirical literature based on the New Economic Geography (NEG) which acquired quite a preferential space in the global FDI literature (Head and Mayer, 2004*a*,*b*; Amiti and Javorcik, 2008; Debaere et al., 2010). Various classifications have been proposed for the mechanisms underlying agglomeration economies: on the one hand Marshall (1890) categorizes the agglomeration effects as labor pooling, linkages between intermediate- and final-goods suppliers, and knowledge spill-overs. On the other hand the most currently used methodology proposed by Duranton and Puga (2004) makes the distinction between sharing, matching, and learning effects (Combes and Gobillon, 2015).

Sharing effects include the gains arising from greater variety of inputs and industrial specialization, the common use of local indivisible goods, and risk sharing; matching effects consist in improving either the quality or the quantity of matches between firms and workers; and eventually learning effects involve the generation, diffusion, and accumulation of knowledge. The fact that in the case of FDI, investors often agglomerate close to other investors from the same country of origin is one manifestation of the learning effects (Debaere et al., 2010).

In their analysis of the location decision of U.S. firms in Ireland, Barry et al. (2003) state that investors may show up a tendency to imitate each other's location choice due to uncertainty. Since foreign investors face greater uncertainty in the host country than local firms, they may interpret the presence of firms from their home country as a positive signal of the location's attractiveness.

Firms also cluster for sharing and matching purposes, i.e. to take advantage of the increasing availability of specialized labor and a growing pool of input providers (Debaere et al., 2010). This highlights the role of backward and forward linkages which underline the complementarities

[1] Source: UNCTAD, FDI/MNE database `http://www.unctad.org/fdistatistics` (last access December 29, 2016).

between firms of related production stages (Debaere et al., 2010; Head and Mayer, 2004*b*).

The concentration of upstream firms indicates the accessibility to component suppliers in the region, whereas the concentration of downstream firms and final goods consumers shows the accessibility to markets (Du et al., 2012). After the contribution of Amiti and Javorcik (2008), the insights of the NEG seem to have been well accounted for; agglomerations effects, market and supply access are well integrated in the empirical analysis of FDI determinants (Debaere et al., 2010).

However, one can complain about the geographical bias of the empirical studies based on the NEG: as correctly pointed by Hayakawa and Tsubota (2014), most the existing studies consider developed countries, particularly European countries (Head and Mayer, 2004*a*,*b*; Crozet, 2004), and USA (Hanson, 2005; Redding and Venables, 2004). Nevertheless, thanks to the increasing availability of high quality firm-level data, a rising number of contributions have focused on Asia (with a strong concentration on China (Amiti and Javorcik, 2008; Debaere et al., 2010; Tokunaga and Jin, 2011) and with Hayakawa and Tsubota (2014) examining location choices in East Asian developing countries).

Africa has been left aside by the empirical FDI literature based on the NEG. While, we may acknowledge the contribution made by Bosker and Garretsen (2012) who assess the importance of market access for manufactures in explaining the observed income differences between Sub-Saharan Africa (SSA) countries by using theory-based measures of each SSA country's market access, we can fairly state that, so far, most of the analyzes of the entry or the location of firms in Africa have been performed through non-structural estimations based on ad-hoc specifications (Asiedu, 2002, 2006; Sanfilippo, 2010). These contributions make only a poor account of the impact of agglomeration economies.

Yet, more empirical evidence on agglomeration economies in Africa is critically needed. The impact of agglomerations economies in African urban development has not been clearly measured (McGranahan et al., 2009; World Bank, 2008). However, one may suspect that agglomeration economies in Africa are less important than those in Asia and in OECD countries (Collier, 2006). Indeed, while Dar-es-Salaam, Nairobi and Addis Ababa are large, fast growing cities that may capture agglomeration economies (Freire et al., 2015), most of cities in Africa have too few inhabitants to benefit from scale economies, which reduces urban productivity gains and economic growth (Freire et al., 2015). Actually, the African region is the one in which agglomeration economies seem to be the weakest despite some large urban conurbations (Collier, 2006; Page, 2008).

Models of structural transformation generally explain urban development by the shift of labor from rural to urban areas following the transformation from agriculture to industry and

services (Freire et al., 2015). The problem is that, for some researchers, this development model does not appear as the most relevant to explain the urbanization process in about a dozen countries whose growth has been merely induced by natural resource exploitation. In these countries, urbanization growth is not associated with an increasing manufacturing share of GDP but most likely driven by the income effect of natural resources endowments (Freire et al., 2015; Gollin et al., 2016). Hence, some of the African cities are described as "consumption cities" where the economies are based essentially on non-tradable services; in contrast to "production cities" that are more dependent on manufacturing and where agglomeration effects are more substantial (Gollin et al., 2016).

To inform the debate about the existence and the intensity of agglomeration economies in Africa, there is a need of empirical studies providing new evidence on agglomeration effects in the African region. In this research, we aim to contribute in bridging this gap by investigating, through a structural estimation approach, the impact of agglomeration economies on the localization of French affiliates in Africa. Consequently, we follow closely the approach of Head and Mayer (2004*a*) to perform an empirical investigation to determine whether these firms tend to locate "where the markets are".

Head and Mayer (2004*a*) base their structural estimations on a theoretical model of location choice under monopolistic competition. Their theoretical framework is essentially based on the concept of forward linkages. Using a sample of Japanese firms, they show that market potential matters for location choice but cannot account entirely for the tendency of firms in the same industry to agglomerate. Like them, we derive the firm's location choice probabilities as a function of production costs and a demand variable closely linked to the measure of "Market Potential". The Market Potential is a weighted sum of the demand arising from various locations. That concept allows to capture the fact that producers locate where demand is highest and serve smaller markets via exporting.

While Head and Mayer (2004*a*) brought a significant contribution at that time, since then some studies have extended the existing literature. Amiti and Javorcik (2008) consider the importance of supplier access in addition to market access in determining foreign entry in China. They also consider spatial aspects which were overlooked in Head and Ries (1996). Moreover, they design their measures of market and supplier access in order to take into account the varying degrees of inter-industry linkages. Debaere et al. (2010) even extend on Amiti and Javorcik (2008). In addition to forward and backward linkages and to the regular agglomeration effects that are captured by the number of South Korean affiliates in nearby industries, they use input-output tables to investigate the extent to which the presence of South Korean upstream or downstream affiliates in nearby industries increases the probability that a South Korean multinational will

invest in a particular Chinese region.

The challenge with these contributions is that they used comprehensive data sets that cover a comprehensive set of manufacturing industries at a highly disaggregated level. Such a procedure cannot be replicated for an African continent characterized by the paucity of disaggregated data at a sector or industrial level. Moreover, computing supplier access would require to compile an input-output matrix which is quite impossible at the level of the African continent. Considering supplier access would only make sense if one considers a single country. But, we do not have enough data in our database to do so.

This paper is organized as follows: in the next section we present the model. We start this section by deriving the profit equation of foreign affiliates from the consumer optimization problem. Through this derivation, we present the formal definition of the Krugman Market Potential (KMP). We derive our econometric specification by performing a monotone transformation of the profit equation. Then, we present the cross-country trade equation that we use to estimate the unknown parameters in the expression of the Market Potential. We describe the data and finally we present and discuss the empirical results afterward.

2 Model and estimation strategy

After the derivation of the demand in subsection 2.1, the presentation of the model follow closely Head and Mayer (2004*a*) in subsection 2.2. Then, in subsection 2.3 we present a modified version of the trade equation which is used in Head and Mayer (2004*a*) to estimate the unknown parameters that are present in the expression of the Market Potential.

2.1 The Consumer Optimization Problem

To derive the profit equation for foreign affiliates we assume a utility function "à la Dixit Stiglitz", with a CES specification. q_{ij}^k denotes the quantity of good k from region i consumed by a customer located in region j. We assume that each region produces unique product varieties and that each region $r = 1, \ldots, R$ produces n_r products. Then, the utility of a representative consumer located in region j is

$$U_j = \left(\sum_{i=1}^{R} \sum_{k=1}^{n_i} \left(q_{ij}^k \right)^{\frac{\sigma-1}{\sigma}} \right)^{\frac{\sigma}{\sigma-1}} \tag{1}$$

We assume symmetric varieties k: all products exported from region i sell for the same price p_{ij} in region j, $p_{ij} = p_i \tau_{ij}$. The trade cost factor τ_{ij} includes all transaction costs associated with moving goods across space and national borders. Then, the consumer problem can be simplified

as follows: the representative consumer in region j maximizes

$$U_j = \left(\sum_{i=1}^{R} n_i \left(q_{ij} \right)^{\frac{\sigma-1}{\sigma}} \right)^{\frac{\sigma}{\sigma-1}}, \tag{2}$$

subject to the budget constraint

$$Y_j = \sum_{i=1}^{R} n_i p_{ij} q_{ij} \tag{3}$$

where Y_j denote the expenditure in a representative industry in region j.

This yields the following demand curve:

$$q_{ij} = \frac{p_{ij}^{-\sigma}}{\sum_{i=1}^{R} n_i p_{ij}^{1-\sigma}} Y_j \tag{4}$$

2.2 The Profit equation for foreign affiliates

Substituting the mill price $p_i = c_i \frac{\sigma}{\sigma-1}$ into equation (4), we obtain the quantity that a firm producing in region i will deliver to each destination j:

$$q_{ij} = \frac{\sigma - 1}{\sigma} \frac{\left(c_i \tau_{ij} \right)^{-\sigma}}{P_j^{\sigma-1}} Y_j, \tag{5}$$

with $P_j = \left(\sum_{i=1}^{R} n_i \left(c_i \tau_{ij} \right)^{1-\sigma} \right)^{\frac{1}{\sigma-1}}$. The gross profit earned in each importing region j for a firm producing in region i is

$$\pi_{ij} = \left(p_i - c_i \right) \tau_{ij} q_{ij} = \frac{\left(c_i \tau_{ij} \right)^{1-\sigma}}{\sigma P_j^{\sigma-1}} Y_j. \tag{6}$$

The gross profit is an increasing function of the expenditure of country j. However, it also depends on the costs of the representative firm relative to its competitors from all the R regions. In the numerator, we see that profits are decreasing in local (region i) production costs. Lower trade costs to reach region j also raise profits. The effect of trade costs is moderated by σ the elasticity of substitution, therefore the notation $\phi_{ij} = \tau_{ij}^{1-\sigma}$ (phi-ness) to measure the access of exporters from i to market j ("freeness of trade"). The denominator includes the characteristics of competing suppliers. It contains a factor σ, capturing the idea that competition is fiercer and profits lower when varieties are less differentiated from each other.

Summing the gross profits earned in each market and subtracting the fixed costs F_r necessary

to establish an affiliate k in region r, we obtain the aggregate net profit Π_r:

$$\Pi_r(k) = \frac{c_r(k)^{1-\sigma}}{\sigma} \sum_{j=1}^{R} \phi_{rj} \frac{Y_j}{P_j^{\sigma-1}} - F_r = \frac{c_r(k)^{1-\sigma}}{\sigma} \mathrm{MP}_r - F_r, \tag{7}$$

with

$$\mathrm{MP}_r = \sum_{j=1}^{R} \phi_{rj} \frac{Y_j}{P_j^{\sigma-1}}$$

MP_r is the KMP (Krugman, 1992). The KMP aggregates the expenditures of all regions while adjusting for region r's access ϕ_{rj} and for competition from firms located in other regions, $P_j^{\sigma-1}$. HMP_r, Harris Market Potential (Harris, 1954), can be derived from MP_r by setting $P_j^{\sigma-1} = 1$ and $\phi_{rj} = 1/d_{rj}$: $\mathrm{MP}_r = \sum_{j=1}^{R} \frac{Y_j}{d_{rj}}$. The aggregate profit equation suggests that firms face a tradeoff between low production costs and high market potential. When a firm chooses its location, the only relevant information is the ordering of the profits. Invariant fixed costs do not affect the profit ordering of regions and can therefore be omitted. Thus, we suppose that fixed costs do not differ across locations ($F_r = F \ \forall \ r$)

Following Head and Mayer (2004*a*), we make the following transformation of the profit function:

$$V_r(k) = -\ln c_r(k) + (\sigma - 1)^{-1} \ln \mathrm{MP}_r \tag{8}$$

We also formalize the cost term as a Cobb-Douglas function with constant returns, using labor at cost w_r and other inputs (such as land and intermediates) at cost υ_r. Labor's share is α, and A_r represents total factor productivity. Therefore, log marginal costs are given by

$$\ln c_r(k) = \alpha \ln w_r(k) + (1 - \alpha) \ln \upsilon_r(k) - \ln A_r(k) \tag{9}$$

Substituting (9) into (8), we get

$$V_r(k) = -\alpha \ln w_r(k) + (\sigma - 1)^{-1} \ln \mathrm{MP}_r - (1 - \alpha) \ln \upsilon_r(k) + \ln A_r(k). \tag{10}$$

We observe wages w_r and will calculate MP_r using a trade equation. We do not observe υ_r and A_r, and they may be captured with several proxies. Therefore, we rather consider the following specification

$$V_r(k) = -\alpha \ln w_r(k) + (\sigma - 1)^{-1} \ln \mathrm{MP}_r - (1 - \alpha) \ln \nu_r(k) + \ln \Phi_r(k) + \varepsilon_r(k). \tag{11}$$

where $\nu_r(k)$ and $\Phi_r(k)$ represent observable proxies of other inputs and of TFP and $\varepsilon_r(k)$ is a random term capturing the effect of unobserved components of operating profits.

An implication of this set-up is that firms will choose to locate in the region r that offers the highest profit among the set Ω of all possible locations:

$$\mathrm{P}\left(\mathrm{aff}_r(k)=1\right)=\mathrm{P}\left(V_r(k)>V_s(k)\right), \quad \forall r\neq s,\ s\in\Omega \tag{12}$$

where $\mathrm{aff}_r(k)$ is a dummy variable equal to 1 if the Multinational Entreprise (MNE) chooses to locate the affiliate k in region r and 0 otherwise.

We first estimate Equation (11) using a discrete choice model with a univariate extreme value marginal distribution of the $\varepsilon_r(k)$ errors. Decisions to implant an affiliate in a region are supposed to be independent from one another in this setting. Therefore, we can use a conditional logit model (CLM) to find out the probability for each region to host a French affiliate. The conditional logit model will assess how the features of the regions affect affiliates' likelihood of choosing them as a location. In this regard, it is more appropriate than the multinomial logit which rather focuses on the role of individual characteristics in matching with certain categories of a dependent variable (Delbecque et al., 2014).

Then, we estimate Equation (11) with a mixed logit model. The mixed logit is a highly flexible model that can approximate any random utility model (Train, 2009). The mixed logit avoids the limitations of standard logit by allowing for random taste variation, unrestricted substitution patterns (relaxation of the Independence of Irrelevant Alternatives (IIA) assumption), and correlation in unobserved factors over time. While the mixed logit model has been known for many years, it has only become fully applicable since the advent of simulation. Improvements in computer speed and in the understanding of simulation methods have allowed the full power of mixed logits to be utilized.

Finally, we will also estimate Equation (11) using a linear probability model (LPM). The major advantage of the linear probability model is its interpretability. In the linear probability model the coefficients of regression represent the marginal effects of the regressors on the probability of a French subsidiary to locate in a African region. Over the logit models, and especially the mixed logit the LPM has also the advantage of the computing speed. The LPM model has the disadvantage that the predicted values may be less than zero or greater than one. However, we are less interested in this predicated probability than in the estimated effect of independent variables. These estimated effect from LPM is similar to the computed marginal effect obtained from a non linear estimated model.[2] Eventually, the LPM allows to control for country's ob-

[2]The computation of these marginal effects from non linear models may be somewhat cumbersome.

servable and unobservable characteristics (with a country fixed effect) common to all regions belonging to the same country.

2.3 The Trade Equation

While, comparatively to the atheoretical Harris measure, the Krugman market potential has the advantage of being rigorously derived from theory, its use is quite challenging. Indeed, its calculation requires estimates of the unknown parameters ϕ_{rj} and $P_j^{\sigma-1}$. The problem is that we generally do not observe trade flows between regions. Inter-regional trade flows are only observed for few countries. Statistics Canada provides estimates of shipments for each Canadian province to another Canadian province as well as shipments between each province and the rest of the world (imports and exports). Statistics Canada also provide estimates of exports from each province to each state, as well as imports into each province from each state (McCallum, 1995; Helliwell, 1996; Anderson and van Wincoop, 2003). The U.S. Commodity Flow Survey (CFS) provides the total tonnage and value of commodity flows within the United States, within-state and cross-state shipments (Hillberry, 1998; Anderson and van Wincoop, 2003). Finally, the French Ministry of Transports database on commodity flows includes both inter- and intra-regional flows and is originally available at a very detailed industry level. Its source and construction is similar to the U.S. CFS (Combes et al., 2005).

This kind of detailed data of interregional trade flows is not available for the African continent. Thus, we follow Head and Mayer (2004*a*) by relying instead upon trade between nations to estimate the parameters that determine trade costs. Hence, we reinterpret equation (5) as giving the quantity exported by a representative firm in country I to country J. The aggregate value of country I's exports to country J, X_{IJ}, is given by the quantity exported by a representative variety firm from I multiplied by the price and the number of varieties from I:

$$X_{IJ} = p_{IJ} q_{IJ} n_I = n_I \frac{c_I^{1-\sigma} \phi_{IJ} Y_J}{P_J^{\sigma-1}}, \tag{13}$$

Taking natural logs and grouping variables according to subscripts,

$$\ln X_{IJ} = \ln \left(n_I / c_I^{\sigma-1} \right) + \ln \left(Y_J / P_J^{\sigma-1} \right) + \ln \phi_{IJ}. \tag{14}$$

we estimate the first two terms using exporter and importer fixed effects, EX_I and IM_J. Bilateral market access (ϕ_{IJ}) is modeled with the following function:

$$\phi_{IJ} \quad = \quad d_{IJ}^{-\delta} \exp \left[- \left(\beta_J - \lambda L_{IJ} - \alpha_1 \mathrm{ETH}_{IJ} - \alpha_2 C_{IJ} - \alpha_3 \mathrm{COL}_{IJ} \right) B_{IJ} \epsilon_{IJ} \right] \tag{15}$$

.

We extend the specification of the market access function adopted by Head and Mayer (2004*a*) by accounting for social and cultural links that are relevant to explain trade connections within Africa. Hence, besides L_{ij} which takes the value of one for pairs of countries that share a common official language, and zero otherwise, we extend the expression : ETH_{IJ} takes the value of 1 when a language is spoken by at least 9% of the population in both countries I and J (ethnic language), and $\text{COL}_{ij} = 1$ if countries I and J had a common colonizer.

Thus, the estimated equation will be

$$\begin{aligned} \ln X_{IJ} &= \text{EX}_I + \text{IM}_J - \delta \ln d_{IJ} - \beta_J B_{IJ} + \lambda L_{IJ} B_{IJ} + \alpha_1 \text{ETH}_{IJ} B_{IJ} \\ &+ \alpha_2 C_{IJ} B_{IJ} + \alpha_3 \text{COL}_{IJ} B_{IJ} + \epsilon_{IJ}. \end{aligned} \tag{16}$$

The estimated parameters on trade costs and importers' fixed effects are then used to construct the market potential variable $\text{MP}_i = \sum_{j=1}^{R} \phi_{ij} Y_j / P_j^{\sigma-1}$. The expressions of inter- and intraregional access are

$$\hat{\phi_{ij}} = d_{ij}^{-\hat{\delta}} \exp\left(-\hat{\beta}_J + \hat{\lambda} L_{IJ} + \hat{\alpha_1} \text{ETH}_{IJ} + \hat{\alpha_2} C_{IJ} + \hat{\alpha_3} \text{COL}_{IJ}\right)$$

when $i \in I$, $j \in J$, and $I \neq J$

$$\hat{\phi_{ij}} = d_{ij}^{-\hat{\delta}}$$

when i and j belong to the same country, and

$$\hat{\phi_{ii}} = d_{ii}^{-\hat{\delta}} = \left(\frac{2}{3}\sqrt{\text{area}_i/\pi}\right)^{-\hat{\delta}}$$

for intraregional trade.

The other component of market potential calculation is regional-level competition-weighted expenditure. We set $Y_J / P_J^{\sigma-1} = \exp(\text{IM}_J)$ as per equations (15) and (16). We compute $Y_j / P_j^{\sigma-1}$ for each region j of country J by allocating $Y_J / P_J^{\sigma-1}$ to the different regions in proportion to their share of national GDP, i.e. $Y_j / P_j^{\sigma-1} = (\text{GDP}_j / \text{GDP}_J) \exp(\text{IM}_J)$. Finally, we allocate national expenditure to regions according to GDP shares of regions [$Y_j = (\text{GDP}_j / \text{GDP}_J) Y_J$]. National expenditure is calculated using apparent consumption, in the considered industry.

2.4 Estimation strategy and data

We compute the market potential for 8 two digits industrial sectors in the ISIC classification Revision 2 by using the estimates obtained from the trade equation (16). To avoid any simultaneity issue between the contemporaneous location of French firms and the current forward linkages, we construct lagged market potential for 2005. To estimate equation (16) we use bilateral trade data and production data of the Tradeprod database constructed by de Sousa et al. (2012), and available on CEPII's website.[3] The database contains information on bilateral trade flows and industrial production for 26 industrial sectors in the ISIC (International Standard Industrial Classification) classification Revision 2 for the 1980-2006 period.

As previously mentioned, we estimate equation (11) by using a conditional logit model. With such a model we try to explain the location choices of 1,385 French-owned subsidiaries that were installed in 96 regions pertaining in 41 African countries in 2006.[4] The regions considered constitute the first level of administrative divisions of the different African countries except for Burundi, Comores, Cape Verde, Djibouti, the Gambia, Guinea Bissau, Equatorial Guinea, Liberia, Lesotho, Mauritius, Rwanda, Sao Tome and Principe, Swaziland, Seychelles which are small enough to be considered as a single region.

Data on French manufacturing firms are extracted from the 2006 Survey of French Affiliates ("Enquêtes Filiales") organized by French National Treasury. This survey covers two categories of entities: branches and representative offices of french firms (whose headquarters are located in France), and firms affiliated to French multinationals who own more than 10% of their capital. This survey lists more than 4,232 establishments with details on the date of creation, the postal and the physical address, the NAF ("Nomenclature d'activités française") code of the affiliate activity. With these data on French manufacturing firms, we construct for each region the following proxies to try to capture agglomeration effects: the count of french firms from the same industry, the count of French firms having the same parent company, the total count of French firms located in the same region.

As previously mentioned for the market potential variable, we use 1-year lags for all the covariates to avoid any simultaneity issues. This is specially true for the spillover variables. Indeed, using contemporaneous information for them would imply explaining one particular investment by a variable that has been constructed using information on that investment (Delbecque et al., 2014).

Tradeprod's information on trade flows is based on bilateral trade data and methods from

[3] All data can be obtained at `http://www.cepii.fr/CEPII/en/bdd_modele/download.asp?id=5`

[4] There is actually a total of 506 regions corresponding to 55 countries, but 410 of them do not experience the installation of any French affiliate.

BACI, the international trade database of Gaulier and Zignago (2010). BACI builds on the United Nations' COMTRADE data, and benefits from mirror trade flows (reports for both exporting and importing countries) in order to improve the coverage and accuracy of trade data at the most disaggregated international product-level, the 6-digit Harmonized System (HS6) classification.

Tradeprod uses the UNIDO (United Nations Industrial Development Organization) database as its main source of manufacturing production data. UNIDO data sets provide worldwide information for the industrial production at the three and four digits levels. Tradeprod also uses STAN production data to fill some missing data. Extensive details on the Tradeprod database can be found in de Sousa et al. (2012).

Bilateral information on the prevalence of common languages,[5] contiguity and distances are obtained from CEPII's GeoDist database. An interesting contribution of the GeoDist database is to compute internal and international bilateral distances in a totally consistent way (Mayer and Zignago, 2011). Indeed, Mayer and Zignago (2011) have computed the weighted distances using city-level data to assess the geographic distribution of population inside each nation.[6]

It is challenging to obtain data on GDP at a regional level. Only Nigeria and South Africa report such statistics. Therefore, we use regional GDP estimated with nighttime lights data archived the National Geophysical Data Center (NGDC) (Ghosh et al., 2010; Henderson et al., 2012). The remaining variables are defined at the country level. To proxy real wage, we use data on minimum wage from the ILO (International Labour Organization) that we transform in real terms thanks to the PPP (Purchasing Power Parity) exchange rate from the Penn World Table. Data on the Corruption Perception Index are obtained from Transparency International, and those for the Property Rights are from the Heritage Foundation. Finally, we obtained data on the corporate tax rate from the World Development Indicators of the World Bank.

[5]One of the file of the GeoDist database, the dist_cepii dataset contains 2 variables indicating whether two countries, origin and destination, share a common official language, or a common ethnic language, i.e. a language that is spoken by at least 9% of the population in both countries.

[6]Details on the weighted distances formulas are given in Mayer and Zignago (2011, p. 11).

Figure 1: Distribution of French Affiliates in Africa in 2006 (Proportional Symbols)

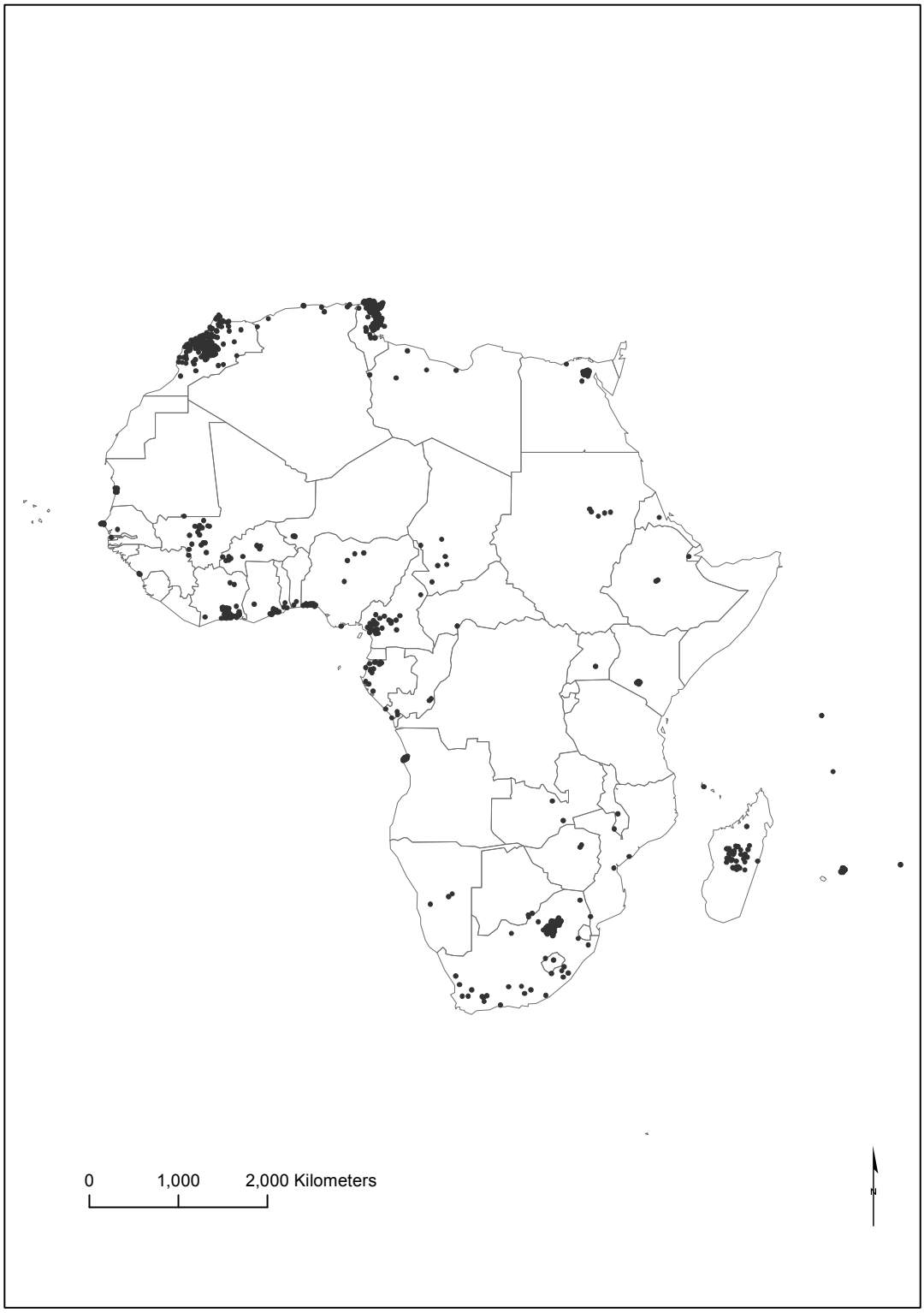

Figure 2: Distribution of French Affiliates in Africa in 2006 (Dot Density)

3 Results

3.1 Trade equations

Table 1: Estimates of border and distance effects: 1980-2006 averages.

Industry name	ISIC code	Border $(-\hat{\beta}_J)$	Distance $(-\hat{\delta})$	Official Language $(\hat{\lambda})$	Ethnic Language $(\hat{\alpha_1})$	Contiguity $(\hat{\alpha_2})$	Same Colonizer $(\hat{\alpha_3})$
Manufacture of Food, Beverages and Tobacco	31	-2.0080	-0.7045	-0.0195	0.2205	1.1385	0.4897
Textile, Wearing Apparel and Leather Industries	32	-1.8882	-0.6306	0.1043	0.2865	0.7256	0.2832
Manufacture of Wood and Wood Products, Including Furniture	33	-2.2752	-0.3289	0.0444	0.1434	0.5776	0.1430
Manufacture of Paper and Paper Products, Printing and Publishing	34	-1.9932	-0.4405	0.1641	0.1988	0.5652	0.2436
Manufacture of Chemicals and Chemical, Petroleum, Coal, Rubber and Plastic Products	35	-1.3079	-0.7916	0.0782	0.3340	1.0209	0.3577
Manufacture of Non-Metallic Mineral Products, except Products of Petroleum and Coal	36	-2.0122	-0.4115	0.0253	0.1083	0.8690	0.2447
Basic Metal Industries	37	-1.0267	-0.4733	0.0424	0.3063	0.8043	0.1963
Manufacture of Fabricated Metal Products, Machinery and Equipment	38	-1.2594	-0.7051	0.1340	0.2399	1.0204	0.4947

We start by estimating trade equations and then evaluate the impact of market potential of location choices. Table 1 summarizes the border, distance, language, contiguity and common colonizer effects estimated for each two-digit industry between 1980 and 2006. Border effects average 1.7214 for all intra-African trade. Expressed as the ratio of cross-border to within-border trade, this number is equivalent to 5.6 which is surprisingly close to the figure obtained by Head and Mayer (2004*a*) for Europe. Because of the higher transaction costs due to poor infrastructure and landlockedness, one might have indeed expected higher border effects for intra-African trade. Distance effects average -0.56; which has the expected sign but is quite low if one refers to the -0.9 average obtained by Disdier and Head (2008) in their meta-analysis of the effect of distance in bilateral trade. Among the two language effects, the official language effect is the weakest; it is even negative for the Food, Beverage and Tobacco industry. The ethnic language effect is stronger and has always the expected sign. The average of the ethnic language effect is 0.2297 which implies that countries sharing an ethnic language would trade 1.26 more. The contiguity and the common colonizer effects have the expected sign and suggest that contiguous countries trade 2.32 more while countries which had the same colonizer trade 1.36 more.

3.2 Location choice results

In line with most of the literature, we first estimate CLMs of location choice. CLMs are appropriate when the choice among alternatives is modeled as a function of the characteristics of the alternative. In addition, it is often used, as in our case with 506 regions, when the number of possible choices is large. It however relies on two restrictive assumptions: (1) IIA and (2) that firm preferences depend on firm's observable characteristics. We then turn to the estimation of a set of mixed logit models. The mixed logit model relaxes the IIA assumption and extends the CLM by allowing some of the parameters in the model to be randomly distributed across firms. Finally, we present results from LPMs. The LPM also relaxes the IIA assumption and has the advantage to provide an immediate indication of the marginal effects of the explanatory variables on the location choice .

Table 2 provides results for six different conditional logit estimations of the location choice of French affiliates. In the first three columns we consider only demand variables and real wage as regressors. The real wage coefficient is positive: this seems to contradict the expectation that multinationals might seek low-wage regions. Yet, such a result is not uncommon in the literature. It may suggest that the wage also picks up the quality/education level of the labour force (Debaere et al., 2010). From columns (1) to (3) we use successively different measures of demand: regional GDP, Harris and Krugman Market Potentials. The explanatory power

of the model with local demand (regional GDP) is the highest, while it seems weaker for the theoretically derived market potential (Krugman Market Potential). At first sight, this might indicate that "theory does not pay". In columns (4) to (6) we use unemployment rate, property rights and corporate tax rate as additional regressors. Results for the unemployment rate do not seem to be robust: negative coefficient with the regional GDP, coefficient insignificant for Harris MP, and positive estimate for Krugman MP. Property rights coefficients are positive as expected. Results for the corporate tax rate are disappointing for columns (4) and (5), but they are positive and significant for column (6). Therefore, even though the model with Krugman Market Potential has the lowest explanatory power, it has the advantage of providing a result for the coefficient of the corporate tax rate that is consistent with intuition.

Table 2: Conditional logit model for firms' regional location choice.

	Specification					
Variables	(1)	(2)	(3)	(4)	(5)	(6)
ln regional area	-0.618***	-0.584***	-0.508***	-0.523***	-0.512***	-0.553***
	(0.016)	(0.015)	(0.015)	(0.019)	(0.018)	(0.018)
ln regional GDP	0.882***			1.140***		
	(0.025)			(0.039)		
ln Harris MP		0.295***			0.343***	
		(0.010)			(0.018)	
ln Krugman MP			0.036***			0.042***
			(0.005)			(0.007)
ln Property right				4.146***	3.195***	2.896***
				(0.189)	(0.168)	(0.176)
ln Corporate tax				2.557***	2.261***	-0.608***
				(0.224)	(0.278)	(0.231)
ln Unemployment				-1.165***	-0.087	0.171**
				(0.076)	(0.073)	(0.079)
ln Real wage	1.314***	1.665***	1.808***	1.600***	1.106***	1.575***
	(0.051)	(0.060)	(0.063)	(0.068)	(0.079)	(0.100)
N observations	513,162	498,394	498,394	376,629	363,027	363,027
N regions	81	79	79	69	67	67
Pseudo R^2	0.228	0.202	0.159	0.269	0.229	0.204

Standard errors in parentheses
*** Significant at 1% level.
** Significant at 5% level.
* Significant at 10% level.

Table 3 displays estimates of the marginal effects of the covariates evaluated at the means.

A 10% increase of the regional GDP yields an increase of the location probability from 1 to 8.38% , while a 10% increase of the Harris (respectively Krugman) Market Potential ranges from about 0.001 to 3% (resp. 0.0004 to 0.6%). Hence, forward linkages are much weaker than those prevailing in the Europe Union where the marginal effects of the demand linkages varies from 3 to 11% according to Head and Mayer (2004*a*). While these demand linkages are positive significant, they are still weaker than these prevailing in European developed economies. Finally, a 1% increase in the Property rights index entails a rise in the probability of location by 0.0085 to 3%.

Table 3: Conditional logit model for firms' regional location choice: Table 2 marginal effects at means

	Specification					
Variables	(1)	(2)	(3)	(4)	(5)	(6)
ln regional area	-0.00064***	-0.00581***	-0.00941***	-0.00383***	-0.00001***	-0.00006
	(0.00019)	(0.00167)	(0.00325)	(0.00045)	(2.89×10^{-6})	(0.00004)
ln regional GDP	0.00092***			0.00837***		
	(0.00025)			(0.00067)		
ln Harris MP		0.00293***			9.14×10^{-6}***	
		(0.00082)			(1.48×10^{-6})	
ln Krugman MP			0.00066***			4.56×10^{-6}*
			(0.00020)			(2.50×10^{-6})
ln Property right				0.03042***	8.5×10^{-5}***	0.00032*
				(0.00196)	(1.33×10^{-5})	(0.00019)
ln Corporate tax				0.01876***	6.02×10^{-5}***	-0.00007
				(0.00067)	(5.44×10^{-6})	(0.00007)
ln Unemployment				-0.00855***	-2.30×10^{-6}	0.00002
				(0.00076)	(1.82×10^{-6})	(0.00002)
ln Real wage	0.00137***	0.01656***	0.03353***	0.01174***	2.94×10^{-5}***	0.00017
	(0.00035)	(0.00411)	(0.01018)	(0.00117)	(6.29×10^{-6})	(0.00011)

Standard errors in parentheses
*** Significant at 1% level.
** Significant at 5% level.
* Significant at 10% level.

In Table 4 we include the count variables capturing the spillover effects arising from the proximity to French affiliates. Their coefficients are positive and significant in all the different specifications; which seem to provide a robust evidence of agglomeration effects. However, they have an adverse effect on the other variables of interest: Harris and Krugman market potentials are no longer significant; the regional GDP coefficient is the only one which is marginally significant. This can be explained by a correlation between these spillover effects and the market potential variables. The inclusion of spillover effects also has an impact on other covariates: while property rights and real wages maintain positive and significant coefficients, the coefficient

of the corporate tax rate becomes insignificant. Nevertheless, we can note that when we use the Krugman MP as a measure of demand, we still obtain the right sign for the coefficient of the corporate tax rate.

Table 4: Conditional logit model for firms' regional location choice.

	Specification					
Variables	(1)	(2)	(3)	(4)	(5)	(6)
ln regional area	0.01494	0.02795	0.04429*	0.02129	0.03539	0.05231**
	(0.02367)	(0.02358)	(0.02570)	(0.02379)	(0.02373)	(0.02591)
ln regional GDP	0.09733**			0.08185*		
	(0.04395)			(0.04437)		
ln Harris MP		0.00143			-0.00726	
		(0.02489)			(0.02519)	
ln Krugman MP			-0.01290			-0.01512
			(0.00974)			(0.00980)
ln Property right	0.77787***	0.66562***	0.49649**	0.71290***	0.58535***	0.42121*
	(0.19512)	(0.20769)	(0.22202)	(0.19541)	(0.20865)	(0.22306)
ln Corporate tax	0.31775	-0.01699	-0.25621	0.32169	-0.03088	-0.22970
	(0.22961)	(0.31254)	(0.26856)	(0.23136)	(0.31386)	(0.27070)
ln Unemployment	0.07642	0.17730*	0.16599*	0.08601	0.17925*	0.15755*
	(0.10247)	(0.09413)	(0.09245)	(0.10250)	(0.09435)	(0.09249)
ln Real wage	0.20696***	0.19279**	0.23418***	0.18657**	0.18068**	0.21978***
	(0.07453)	(0.07957)	(0.08311)	(0.07490)	(0.07974)	(0.08290)
ln (1+French ind)	0.95700***	0.94932***	0.93757***	0.95118***	0.94222***	0.93005***
	(0.04393)	(0.04395)	(0.04441)	(0.04387)	(0.04392)	(0.04437)
ln (1+network)	0.45661***	0.49039***	0.50942***			
	(0.03783)	(0.03706)	(0.03611)			
ln (1+French count)				0.46992***	0.50499***	0.52181***
				(0.03831)	(0.03761)	(0.03645)
N observations	330,270	318,198	318,198	330,270	318,198	318,198
N regions	65	63	63	65	63	63
Pseudo R^2	0.498	0.498	0.498	0.498	0.498	0.498

Standard errors in parentheses
*** Significant at 1% level.
** Significant at 5% level.
* Significant at 10% level.

Here, we do not report the marginal effects at means, as we did for Table 2 because it appears that most of the marginal effects at means implied by Table 4 are not significant. We will come back to the marginal effects with the LPM estimations.

In Table 5, we consider a mixed logit model which has the advantage to relax the assumption of Independence of Irrelevant Alternatives (IIA) implied by the conditional logit model. The results arising from this model are not qualitatively different from tables 2 and 4. The first three columns of Table 5 seem to suggest once more that "theory does not pay". The marginal effect of the measure of demand indeed decreases when we move from column (1) to column (3). It

is higher when we use the purely local measure of demand; it is lower when we use the ad hoc measure of market potential and becomes even negative when we use the measure derived from theory. Hence, once more atheoretical measures seem to convey a higher explanatory power.

The last three columns of Table 5 yield results that are quite similar to the last three columns of Table 4. Once more, the incorporation of the spillover variables reduces the impact of the demand measures which lose their significance. With the two measures of market potential we get insignificant but negative coefficients for the corporate tax rate.

Table 5: Mixed logit model for firms' regional location choice.

Variables	(1)	(2)	(3)	(4)	(5)	(6)
ln regional area	-0.625***	-0.645***	-0.578***	0.021	0.035	0.052**
	(0.016)	(0.016)	(0.017)	(0.024)	(0.024)	(0.026)
ln regional GDP	0.819***			0.082		
	(0.027)			(0.045)		
ln Harris MP		0.286***			-0.015	
		(0.011)			(0.027)	
ln Krugman MP			-0.083***			-0.017*
			(0.015)			(0.010)
ln Property right				0.713***	0.574***	0.419*
				(0.196)	(0.209)	(0.225)
ln Corporate tax				0.321	-0.116	-0.278
				(0.232)	(0.329)	(0.276)
ln Unemployment				0.086	0.152	0.117
				(0.103)	(0.101)	(0.103)
ln Real wage	2.183***	3.429***	3.115***	0.187**	0.290*	0.339**
	(0.170)	(0.214)	(0.215)	(0.082)	(0.164)	(0.156)
ln (1+French ind)				0.951***	0.939***	0.927***
				(0.044)	(0.044)	(0.045)
ln (1+French count)				0.470***	0.507***	0.521***
				(0.038)	(0.038)	(0.037)
N observations	513,162	498,394	498,394	330,270	318,198	318,198
N regions	81	79	79	65	63	63

Standard errors in parentheses
*** Significant at 1% level.
** Significant at 5% level.
* Significant at 10% level.

We now turn to the LPM estimations. Table 6 presents LPM estimation results for specifications without spillover variables or countries fixed effects. However, it systematically includes firm fixed effects. Columns (1) to (3) show the results with only a small set of regressors: logarithms of the regional area, the demand measure, and the real wage. These results are somewhat in line with previous findings: among all the measures of demand, the KMP has the lowest impact on the probability of localization of French subsidiaries. Moreover, the specification with the 'atheoretical' Harris measure has a better fit than the one with Krugman market potential. Similar findings are obtained with the last three columns of Table 6, except that in this case, as we noted with the conditional and mixed logit models, considering Krugman market potential allows to have a negative sign for the corporate tax rate.

Table 6: Linear probability model for firms' regional location choice

	Specification					
Variables	(1)	(2)	(3)	(4)	(5)	(6)
ln regional area	-0.00152***	-0.00172***	-0.00170***	-0.00155***	-0.00173***	-0.00176***
	(0.00004)	(0.00005)	(0.00005)	(0.00005)	(0.00006)	(0.00006)
ln regional GDP	0.00163***			0.00151***		
	(0.00005)			(0.00006)		
ln Harris MP		0.00109***			0.00105***	
		(0.00004)			(0.00005)	
ln Krugman MP			0.00004***			0.00005**
			(0.00001)			(0.00002)
ln Real wage	0.00266***	0.00264***	0.00266***	0.00294***	0.00252***	0.00327***
	(0.00008)	(0.00008)	(0.00009)	(0.00011)	(0.00012)	(0.00013)
ln Property right				0.00675***	0.00859***	0.01012***
				(0.00042)	(0.00043)	(0.00044)
ln Corporate tax				0.00094***	0.00219***	-0.00097***
				(0.00027)	(0.00036)	(0.00036)
ln Unemployment				-0.00083***	0.00021	-0.00010
				(0.00013)	(0.00014)	(0.00014)
Constant	-0.00761***	-0.00258***	0.00648***	-0.03371***	-0.04143***	-0.02818***
	(0.00074)	(0.00067)	(0.00060)	(0.00234)	(0.00252)	(0.00265)
Observations	535,995	522,145	522,145	419,655	405,805	405,805
R-squared	0.00639	0.00640	0.00467	0.00741	0.00801	0.00695
Number of firms	1,385	1,385	1,385	1,385	1,385	1,385
Country FE	NO	NO	NO	NO	NO	NO
Firm FE	YES	YES	YES	YES	YES	YES

Standard errors in parentheses
*** Significant at 1% level.
** Significant at 5% level.
* Significant at 10% level.

Column (6) of Table 6 suggests that an increase of 1% of the Krugman potential, the real wage, the property right index and the corporate tax rate induce respectively an increase of 0.005%, 0.327%, 1.012% and a decrease of 0.097% of the probability of location of a French subsidiary. More generally the marginal effects are more precisely estimated in the LPM: a 10% increase in the regional GDP implies an increase in the location probability from 1.51 to 1.63%. The marginal effects of the Market Potential variables are even lower: for the Harris (respectively Krugman) Market Potential a 10% augmentation entails an increase in the probability of location ranging from 1.05 to 1.09% (respectively from 0.004% to 0.005%). This confirms the previous results where the KMP had the lowest impact of the probability of location. Moreover, once more the results confirm that these demand linkages are much lower than those prevailing in the European Union.

The semi-elasticity of the real wage lies around 0.3%, while the marginal effect of the property rights indicator ranges between 0.675% to 1%. Table 7 displays results of the LMP model with the count of French subsidiaries from the same industry located in the same region and/or country fixed effects. Columns (1) to (3) of Table 7 provide results of the LMP with the count of French affiliates from the same industry, but without country fixed effects. Including this spillover variable induces a boost in the explanatory power of the model as indicated by the increased R^2 values. There is two similarities with previous findings: as before the model with the Harris market potential has a better fit than the one with Krugman market potential; we can also notice that, due to multicollinearity, the inclusion of the spillover variable brings up once more a negative sign on the coefficients of the demand measures.

In columns (2) and (3) of Table 7 it appears that the real wage does not have a significant impact on the location of French firms. Moreover, while in both specifications the coefficient of the corporate tax rate is negative, it is only significant and negative in column (2). In columns (4) to (6), we display results without spillover variables, but with country fixed effects. The inclusion of country fixed effects prevents the identification of the coefficient of the variables defined at the country level. Comparatively to Table 6, the inclusion of country FE induces an increase in the demand and Market Potential variables. The Harris MP has now the highest marginal effect: around 2% increase in probability for a 10% increase. The Krugman MP has a marginal effect very close to that figure and is even higher than the marginal effect arising from the regional GDP. Columns (7) to (9) present results with the aforementioned spillover variable and countries fixed effect. In these three specifications the negative marginal effects of the local demand and of the market potential variables persist. From columns (1) to (3) and (7) to (9), we can notice that the semi-elasticity of the spillover effects range from 2.3 to 2.4%.

However, we find a result in these last three columns that is noteworthy. After controlling

for country fixed and agglomeration effects, we find that the probability for a French affiliate to locate in an African region increases with the size of the region. That suggests that for a similar institutional and macroeconomic context, French firms have the tendency to locate in larger regions. This is consistent with earlier empirical results (Head and Mayer, 2004*a*) and consistent with intuition: we expect larger regions to host more affiliates even in the case where the location of subsidiaries would be purely random (Ellison and Glaeser, 1997). With the specification with spillover variables and Krugman market potential we have also obtained a positive coefficient for the logarithm of the regional area through the conditional and mixed logit models. However, that coefficient is systematically and significantly negative in specifications without spillover variables.

The rationale behind this 'counterintuitive' result might be that, when we do not control for the agglomeration effects, that coefficient picks the adverse effect of poor infrastructure and lack of public services. Indeed, we might suspect that conversely to small capital regions that are favored in terms of infrastructure and public spending, large African regions struggle to get the funding needed to have proper public services and good infrastructure.

Table 7: Linear probability model for firms' regional location choice

	Specification								
Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
ln regional area	-0.0002***	-0.0001*	-0.00004	-0.00114***	-0.00099***	-0.00119***	0.00027***	0.0002***	0.00028***
	(0.0001)	(0.0001)	(0.00006)	(0.00004)	(0.00005)	(0.00004)	(0.00004)	(0.0000)	(0.00005)
ln regional GDP	-0.0010***			0.00183***			-0.00122***		
	(0.0001)			(0.00006)			(0.00007)		
ln Harris MP		-0.0008***			0.00207***			-0.0011***	
		(0.0001)			(0.00007)			(0.0001)	
ln Krugman MP			-0.00019***			0.00193***			-0.00125***
			(0.00002)			(0.00007)			(0.00007)
ln Real wage	-0.0005***	0.0000	0.00005						
	(0.0001)	(0.0001)	(0.00014)						
ln Property right	0.0003	-0.0007	-0.00238***						
	(0.0004)	(0.0004)	(0.00046)						
ln Corporate tax	0.0007**	-0.0014***	-0.00051						
	(0.0003)	(0.0004)	(0.00037)						
ln Unemployment	0.0003**	-0.0002	-0.00030**						
	(0.0001)	(0.0001)	(0.00015)						
ln (1+French ind)	0.0241***	0.0242***	0.02379***				0.02339***	0.0235***	0.02355***
	(0.0002)	(0.0002)	(0.00016)				(0.00013)	(0.0001)	(0.00014)
Constant	0.0062**	0.0153***	0.01378***	-0.00045	-0.00689***	-0.02303***	0.00566***	0.0069***	0.02023***
	(0.0024)	(0.0026)	(0.00277)	(0.00208)	(0.00227)	(0.00255)	(0.00205)	(0.0022)	(0.00255)
Observations	365,721	353,651	353,651	700,810	655,105	655,105	610,742	570,911	570,911
R-squared	0.0688	0.0691	0.06880	0.00267	0.00305	0.00284	0.05118	0.0516	0.05167
Number of firms	1,207	1,207	1,207	1,385	1,385	1,385	1,385	1,385	1,385
Country FE	NO	NO	NO	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Number of Countries				53	48	48	53	48	48

Standard errors in parentheses
*** Significant at 1% level.
** Significant at 5% level.
* Significant at 10% level.

4 Conclusion

In their review of the literature on firms location choices Combes and Gobillon (2015) assert that this literature can be considered as mostly descriptive. They also emphasize that a safer avenue for assessing the role of agglomeration effects on firm location choices would probably be to consider more structural approaches. This statement and this recommendation are particularly relevant for the literature on firm location choices throughout Africa, which has been so far dominated by contributions based on ad-hoc econometric specifications. In this contribution, we follow Combes and Gobillon (2015) recommendation by adopting a structural approach based on the methodology proposed by Head and Mayer (2004*a*).

Our results suggest that demand matters for the choice of location. However, the marginal effects of the demand and Market Potential strongly suggest demand linkages in Africa are weaker than the effects observed in the European Union. Furthermore, the measure of demand inspired by the theory seems to underperform comparatively to the ad-hoc Harris measure of Market potential and even with comparison to local GDP. Yet, estimations with the Krugman MP are noteworthy as they yield a nice result: the coefficient of the corporate tax rate has a negative sign which is consistent with intuition. The effects of the spillover variables are strong, positive and significant. This tends to comfort the idea that agglomeration effects are a strong driver for the location of French firms throughout African regions. Nevertheless, with the inclusion of these agglomeration effects, the effects of the demand and market potential variables seem to wane, possibly because of multicollinearity.

This multicollinearity problem is possibly caused by the way we modeled the spillover variables. Hence, these spillover effects might capture omitted exogenous location attributes. Improving the modeling of agglomeration effects would be the way forward; yet this strategy would face a daunting challenge: the dearth of reliable data at the micro-geographical level. Moreover, as pointed out by Head and Mayer (2004*a*) the spillover variables results might suggest that the forward linkages outlined by Krugman (1991) are not the only drivers of agglomeration. Including both forward and backward linkages as in Amiti and Javorcik (2008) would be an interesting way to reduce the impact of omitted exogenous location characteristic. This would imply reducing the scale of the analysis from a continent to a country level, as we would need for that to rely on a input-output matrix: South-Africa would be a natural candidate in this regard as this is one of the African countries with the most reliable regional data.

Eventually, estimations from the linear probability models outline an interesting result: if we control for country fixed and agglomeration effects, the probability that a french subsidiary locates in an African region increases with the size of the region. This may indicate that for

a similar institutional and geographical environment, French affiliates tend to locate in larger regions. This is in line with intuition: we would indeed expect larger regions to host more affiliates.

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Appendix A: List of African 'Regions'

Table 8: List of African 'Regions'

Code	Region	Code	Region	Code	Region
Algeria		**Angola**		**Burundi**	
DZA-ADF	Ain Defla	AO.BG	Benguela	BDI	Burundi
DZA-ADR	Adrar	AO.BI	Bié	**Côte d'Ivoire**	
DZA-ALG	Alger	AO.BO	Bengo	CI.AG	Agnéby
DZA-ANN	Annaba	AO.CB	Cabinda	CI.BF	Bafing
DZA-ATM	Ain Temouchent	AO.CC	Cuando Cubango	CI.BS	Bas-Sassandra
DZA-BAT	Batna	AO.CN	Cuanza Norte	CI.DE	Denguélé
DZA-BBA	Bourdj Bou Arrer	AO.CS	Cuanza Sul	CI.DH	Dix-Huit Montagnes
DZA-BCH	Bechar	AO.CU	Cunene	CI.FR	Fromager
DZA-BEJ	Bejaia	AO.HL	Huìla	CI.HT	Haut-Sassandra
DZA-BLI	Blida	AO.HM	Huambo	CI.LC	Lacs
DZA-BMR	Boumerdes	AO.LN	Lunda Norte	CI.LG	Lagunes
DZA-BOU	Bouira	AO.LS	Lunda Sul	CI.MC	Moyen-Comoé
DZA-BSK	Biskra	AO.LU	Luanda	CI.MR	Marahoué
DZA-CHL	Chlef	AO.ML	Malanje	CI.MV	Moyen-Cavally
DZA-CNS	Constantine	AO.MX	Moxico	CI.NC	N'zi-Comoé
DZA-DJL	Djelfa	AO.NA	Namibe	CI.SB	Sud-Bandama
DZA-EBY	El Bayadh	AO.UI	Uíge	CI.SC	Sud-Comoé
DZA-EOD	El Oued	AO.ZA	Zaire	CI.SV	Savanes
DZA-ETR	El Tarf	**Benin**		CI.VB	Vallée du Bandama
DZA-GHD	Ghardaia	BEN-ATK	Atakora	CI.WR	Worodougou
DZA-GUE	Guelma	BEN-ATL	Atlantique	CI.ZA	Zanzan
DZA-ILL	Illizi	BEN-BOR	Borgou	**Cameroon**	
DZA-JIJ	Jijel	BEN-MON	Mono	CMR-ADM	Adamoua
DZA-KHN	Khenchela	BEN-OUE	Oueme	CMR-CNT	Centre
DZA-LGH	Laghouat	BEN-ZOU	Zou	CMR-ENO	Extreme-Nord
DZA-MED	Medea	**Botswana**		CMR-EST	Est
DZA-MIL	Mila	BW.CE	Central	CMR-LTT	Littoral
DZA-MSC	Mascara	BW.GH	Ghanzi	CMR-NOR	Nord
DZA-MSL	M'Sila	BW.KG	Kgalagadi	CMR-NOU	Nord-Ouest
DZA-MST	Mostaganem	BW.KL	Kgatleng	CMR-OUE	Ouest
DZA-NAM	Naama	BW.KW	Kweneng	CMR-SOU	Sud-Ouest
DZA-OEB	Oum el Bouaghi	BW.NE	North-East	CMR-SUD	Sud
DZA-ORA	Oran	BW.NW	North-West	**Cape Verde**	
DZA-ORG	Ouargla	BW.SE	South-East	CPV	Cape Verde
DZA-RLZ	Relizane	BW.SO	Southern	**Central African Republic**	
DZA-SAH	Souk Ahras	**Burkina Faso**		CF.AC	Ouham
DZA-SAI	Saida	BFA.BO	Boucle du Mouhoun	CF.BB	Bamingui-Bangoran
DZA-SBA	Sidi bel Abbes	BFA.CA	Cascades	CF.BG	Bangui
DZA-SET	Setif	BFA.CE	Centre	CF.BK	Basse-Kotto
DZA-SKK	Skikda	BFA.CN	Centre-Nord	CF.HK	Haute-Kotto
DZA-TBS	Tebessa	BFA.CS	Centre-Est	CF.HM	Haut-Mbomou
DZA-TIA	Tiaret	BFA.CU	Centre-Sud	CF.HS	Mambéré-Kadéï
DZA-TLM	Tlemcen	BFA.ES	Est	CF.KB	Nana-Grébizi
DZA-TMN	Tamanghasset	BFA.HA	Hauts-Bassins	CF.KG	Kémo
DZA-TND	Tindouf	BFA.NO	Nord	CF.LB	Lobaye
DZA-TOU	Tizi Ouzou	BFA.OU	Centre-Ouest	CF.MB	Mbomou
DZA-TPZ	Tipaza	BFA.PL	Plateau-Central	CF.MP	Ombella-M'Poko
DZA-TSS	Tissemsilt	BFA.SA	Sahel	CF.NM	Nana-Mambéré
		BFA.SU	Sud-Ouest	CF.OP	Ouham-Pendé

Table 9: List of African 'Regions' (continued)

Code	Region	Code	Region	Code	Region
Central African Republic		**Egypt**		**Gabon**	
CF.SE	Sangha-Mbaéré	EG.DQ	Ad Daqahliyah	GA.OM	Ogooué-Maritime
CF.UK	Ouaka	EG.DT	Dumyat	GA.WN	Wouleu-Ntem
CF.VK	Vakaga	EG.FY	Al Fayyum	**Gambia**	
Chad		EG.GH	Al Gharbiyah	GMB	Gambia
TCD-BAT	Batha	EG.IK	Al Iskandariyah	**Ghana**	
TCD-BET	Borkou-Ennedi-Tibesti	EG.IS	Al Isma'iliyah	GH.AA	Greater Accra
TCD-BLT	Biltine	EG.JS	Janub Sina'	GH.AH	Ashanti
TCD-CBG	Chari-Baguirmi	EG.JZ	Al Jizah	GH.BA	Brong Ahafo
TCD-GUE	Guera	EG.KS	Kafr ash Shaykh	GH.CP	Central
TCD-KAN	Kanem	EG.MF	Al Minufiyah	GH.EP	Eastern
TCD-LAC	Lac	EG.MN	Al Minya	GH.NP	Northern
TCD-LOC	Logone Occidental	EG.MT	Matruh	GH.TV	Volta
TCD-LOR	Logone Oriental	EG.QH	Al Qahirah	GH.UE	Upper East
TCD-MCH	Moyen-Chari	EG.QL	Al Qalyubiyah	GH.UW	Upper West
TCD-MKE	Mayo Kebi	EG.QN	Qina	GH.WP	Western
TCD-OUA	Ouaddai	EG.SJ	Suhaj	**Guinea**	
TCD-SLM	Salamat	EG.SQ	Ash Sharqiyah	GIN.BO	Boké
TCD-TND	Tandjile	EG.SS	Shamal Sina'	GIN.CO	Conarky
Comores		EG.SW	As Suways	GIN.FA	Faranah
COM	Comores	EG.WJ	Al Wadi al Jadid	GIN.KA	Kankan
Congo		**Equatorial Guinea**		GIN.KI	Kindia
COG-BOU	Bouenza	GNQ	Equatorial Guinea	GIN.LA	Labé
COG-CVT	Cuvette	**Eritrea**		GIN.MA	Mamou
COG-KOU	Kouilou	ER.AN	Anseba	GIN.NZ	Nzérékoré
COG-LEK	Lekoumou	ER.DK	Debubawi Keyih Bahri	**Guinea Bissau**	
COG-LIK	Likouala	ER.DU	Debub	GNB	Guinea Bissau
COG-NIA	Niari	ER.GB	Gash Barka	**Kenya**	
COG-PLT	Plateaux	ER.MA	Maekel	KE.CE	Central
COG-POO	Pool	ER.SK	Semenawi Keyih Bahri	KE.CO	Coast
COG-SNG	Sangha	**Ethiopa**		KE.EA	Eastern
Congo, DRC		ET.AA	Addis Ababa	KE.NA	Nairobi
ZAR-BAN	Bandundu	ET.AF	Afar	KE.NE	North-Eastern
ZAR-BZA	Bas-Zaire	ET.AM	Amhara	KE.NY	Nyanza
ZAR-EQT	Equateur	ET.BE	Benshangul-Gumaz	KE.RV	Rift Valley
ZAR-HZA	Haut-Zaire	ET.DD	Dire Dawa	KE.WE	Western
ZAR-KIV	Kivu	ET.GA	Gambela Peoples	**Lesotho**	
ZAR-KNS	Kinshasa	ET.HA	Harari People	LSO	Lesotho
ZAR-KOC	Kasai-Occidental	ET.OR	Oromia	**Liberia**	
ZAR-KOR	Kasai-Oriental	ET.SN	Southern Nations, Nationalities and People	LBR	Liberia
ZAR-SHA	Shaba	ET.SO	Somali	**Libya**	
Djibouti		ET.TI	Tigray	LBY.CI	Cirenaica
DJI	Djibouti	**Gabon**		LBY.FE	Fezzan
Egypt		GA.ES	Estuaire	LBY.TR	Tripolitania
EG.AN	Aswan	GA.HO	Haut-Ogooué	**Madagascar**	
EG.AT	Asyut	GA.MO	Moyen-Ogooué	MG.AS	Antsiranana
EG.BA	Al Bahr al Ahmar	GA.NG	Ngounié	MG.AV	Antananarivo
EG.BH	Al Buhayrah	GA.NY	Nyanga	MG.FI	Fianarantsoa
EG.BN	Bani Suwayf	GA.OI	Ogooué-Ivindo	MG.MA	Mahajanga
EG.BS	Bur Sa'id	GA.OL	Ogooué-Lolo	MG.TL	Toliary

Table 10: List of African 'Regions' (continued)

Code	Region	Code	Region	Code	Region
Madagascar		**Namibia**		**Nigeria**	
MG.TM	Toamasina	NA.CA	Caprivi	NG.OG	Ogun
Malawi		NA.ER	Erongo	NG.ON	Ondo
MWI-CNT	Central	NA.HA	Hardap	NG.OS	Osun
MWI-NRT	Northern	NA.KA	Karas	NG.OY	Oyo
MWI-STH	Southern	NA.KH	Khomas	NG.PL	Plateau
Mali		NA.KU	Kunene	NG.RI	Rivers
ML.BA	Bamako	NA.OD	Otjozondjupa	NG.SO	Sokoto
ML.GA	Gao	NA.OH	Omaheke	NG.TA	Taraba
ML.KD	Kidal	NA.OK	Kavango	NG.YO	Yobe
ML.KK	Koulikoro	NA.ON	Oshana	NG.ZA	Zamfara
ML.KY	Kayes	NA.OS	Omusati	**Rwanda**	
ML.MO	Mopti	NA.OT	Oshikoto	RWA	Rwanda
ML.SG	Ségou	NA.OW	Ohangwena	**Sao Tome**	
ML.SK	Sikasso	**Niger**		STP	Sao Tome
ML.TB	Timbuktu	NE.AG	Agadez	**Senegal**	
Mauritania		NE.DF	Diffa	SEN-DKR	Dakar
MR.AD	Adrar	NE.DS	Dosso	SEN-DRB	Diourbel
MR.AS	Assaba	NE.MA	Maradi	SEN-FTC	Fatick
MR.BR	Brakna	NE.NI	Niamey	SEN-KLC	Kaolack
MR.DN	Dakhlet Nouadhibou	NE.TH	Tahoua	SEN-KLD	Kolda
MR.GD	Guidimaka	NE.TL	Tillabéry	SEN-LOU	Louga
MR.GO	Gorgol	NE.ZI	Zinder	SEN-STL	Saint-Louis
MR.HC	Hodh ech Chargui	**Nigeria**		SEN-THI	Thies
MR.HG	Hodh el Gharbi	NG.AB	Abia	SEN-TMB	Tambacounda
MR.IN	Inchiri	NG.AD	Adamawa	SEN-ZGN	Ziguinchor
MR.NO	Nouakchott	NG.AK	Akwa Ibom	**Seychelles**	
MR.TG	Tagant	NG.AN	Anambra	SYC	Seychelles
MR.TR	Trarza	NG.BA	Bauchi	**Sierra Leone**	
MR.TZ	Tiris Zemmour	NG.BE	Benue	SL.EA	Eastern
Mauritius		NG.BO	Borno	SL.NO	Northern
MUS	Mauritius	NG.BY	Bayelsa	SL.SO	Southern
Morocco		NG.CR	Cross River	SL.WE	Western
MAR-CEN	Centre	NG.DE	Delta	**Somalia**	
MAR-CNR	Centre-North	NG.EB	Ebonyi	SO.AW	Awdal
MAR-CSO	Centre-South	NG.ED	Edo	SO.BK	Bakool
MAR-EST	Eastern	NG.EK	Ekiti	SO.BN	Banaadir
MAR-NWT	North-West	NG.EN	Enugu	SO.BR	Bari
MAR-SOU	South	NG.FC	Federal Capital Territory	SO.BY	Bay
MAR-TNF	Tensift	NG.GO	Gombe	SO.GA	Galguduud
Mozambique		NG.IM	Imo	SO.GE	Gedo
MZ.CD	Cabo Delgado	NG.JI	Jigawa	SO.HI	Hiiraan
MZ.GA	Gaza	NG.KD	Kaduna	SO.JD	Jubbada Dhexe
MZ.IN	Inhambane	NG.KE	Kebbi	SO.JH	Jubbada Hoose
MZ.MN	Manica	NG.KN	Kano	SO.MU	Mudug
MZ.MP	Maputo	NG.KO	Kogi	SO.NU	Nugaal
MZ.NM	Nampula	NG.KT	Katsina	SO.SA	Sanaag
MZ.NS	Nassa	NG.KW	Kwara	SO.SD	Shabeellaha Dhexe
MZ.SO	Sofala	NG.LA	Lagos	SO.SH	Shabeellaha Hoose
MZ.TE	Tete	NG.NA	Nassarawa	SO.SO	Sool
MZ.ZA	Zambezia	NG.NI	Niger	SO.TO	Togdheer

Table 11: List of African 'Regions' (continued)

Code	Region	Code	Region	Code	Region
	Somalia		**Togo**		**Zambia**
SO.WO	Woqooyi Galbeed	TG.CE	Centre	ZMB-STH	Southern
	South Africa	TG.KA	Kara	ZMB-WST	Western
ZAF-ECP	Eastern Cape	TG.MA	Maritime		**Zimbabwe**
ZAF-GAT	Gauteng	TG.PL	Plateaux	ZW.BU	Bulawayo
ZAF-KNT	KwaZulu/Natal	TG.SA	Savanes	ZW.HA	Harare
ZAF-MPM	Mpumalanga		**Tunisia**	ZW.MA	Manicaland
ZAF-NCP	Northern Cape	TN.AN	Ariana	ZW.MC	Mashonaland Central
ZAF-NRT	Northern	TN.BA	Ben Arous (Tunis Sud)	ZW.ME	Mashonaland East
ZAF-NWS	North West	TN.BJ	Béja	ZW.MI	Midlands
ZAF-OFS	Free State	TN.BZ	Bizerte	ZW.MN	Matabeleland North
ZAF-WCP	Western Cape	TN.GB	Gabès	ZW.MS	Matabeleland South
	Sudan	TN.GF	Gafsa	ZW.MV	Masvingo
SDN.BA	Bahr el Ghazal	TN.JE	Jendouba	ZW.MW	Mashonaland West
SDN.BL	Blue Nile	TN.KB	Kebili		
SDN.DA	Darfur	TN.KF	Le Kef		
SDN.EQ	Equatoria	TN.KR	Kairouan		
SDN.KA	Kassala	TN.KS	Kassérine		
SDN.KH	Khartoum	TN.ME	Médenine		
SDN.KO	Kordofan	TN.MH	Mahdia		
SDN.NO	Northern	TN.MN	Manubah		
SDN.UP	Upper Nile	TN.MS	Monastir		
	Swaziland	TN.NB	Nabeul		
SWZ	Swaziland	TN.SF	Sfax		
	Tanzania	TN.SL	Siliana		
TZA-ARS	Arusha	TN.SS	Sousse		
TZA-DES	Dar es Salaam	TN.SZ	Sidi Bou Zid		
TZA-DOD	Dodoma	TN.TA	Tataouine		
TZA-IRN	Iringa	TN.TO	Tozeur		
TZA-KIG	Kigoma	TN.TU	Tunis		
TZA-KLM	Kilimanjaro	TN.ZA	Zaghouan		
TZA-LIN	Lindi		**Uganda**		
TZA-MAR	Mara	UGA-BUS	Busoga		
TZA-MBE	Mbeya	UGA-CNT	Central		
TZA-MRG	Morogoro	UGA-EST	Eastern		
TZA-MTW	Mtwara	UGA-KRM	Karamoja		
TZA-MWN	Mwanza	UGA-NIL	Nile		
TZA-PNR	Pemba North	UGA-NRB	North Buganda		
TZA-PSO	Pemba South	UGA-NRT	Northern		
TZA-PWA	Pwani	UGA-STB	South Buganda		
TZA-RUK	Rukwa	UGA-STH	Southern		
TZA-RUV	Ruvuma	UGA-WST	Western		
TZA-SHN	Shinyanga		**Zambia**		
TZA-SNG	Singida	ZMB-CNT	Central		
TZA-TAB	Tabora	ZMB-CPP	Copperbelt		
TZA-TAN	Tanga	ZMB-EST	Eastern		
TZA-ZCN	Zanzibar Central/South	ZMB-LUA	Luapula		
TZA-ZMG	Ziwa Magharibi	ZMB-LUS	Lusaka		
TZA-ZNR	Zanzibar North	ZMB-NRT	Northern		
TZA-ZUR	Zanzibar Urban/West	ZMB-NWS	North-Western		

Table 12: List of African 'Regions' hosting French firms

Region	Country	Cnt firms	Region	Country	Cnt firms
Luanda	Angola	15	Toamasina	Madagascar	3
Atlantique	Benin	2	Koulikoro	Mali	17
Centre	Burkina Faso	4	Nouakchott	Mauritania	8
Hauts-Bassins	Burkina Faso	6	Mauritius		28
South-East	Botswana	3	Central	Malawi	1
Bangui	Central African Republic	4	Southern	Malawi	1
Agnéby	Côte d'Ivoire	1	Maputo	Mozambique	1
Bas-Sassandra	Côte d'Ivoire	1	Sofala	Mozambique	2
Lagunes	Côte d'Ivoire	40	Khomas	Namibia	3
Sud-Bandama	Côte d'Ivoire	1	Niamey	Niger	3
Valle du Bandama	Côte d'Ivoire	2	Federal Capital Territory	Nigeria	1
Centre	Cameroon	9	Kaduna	Nigeria	1
Littoral	Cameroon	23	Kano	Nigeria	2
Nord	Cameroon	1	Lagos	Nigeria	13
Ouest	Cameroon	2	Rivers	Nigeria	1
Kouilou	Congo	4	Khartoum	Sudan	5
Pool	Congo	2	Dakar	Senegal	28
	Comores	1	Kaolack	Senegal	1
	Djibouti	1	Seychelles		2
Alger	Algeria	52	Chari-Baguirmi	Chad	5
Annaba	Algeria	2	Logone Occidental	Chad	1
Bourdj Bou Arrer	Algeria	1	Maritime	Togo	3
Bejaia	Algeria	1	Ariana	Tunisia	23
Oran	Algeria	1	Ben Arous (Tunis Sud)	Tunisia	50
Tlemcen	Algeria	1	Béja	Tunisia	4
Bani Suwayf	Egypt	1	Bizerte	Tunisia	52
Al Iskandariyah	Egypt	1	Gabs	Tunisia	5
Al Jizah	Egypt	1	Gafsa	Tunisia	2
Al Qahirah	Egypt	33	Jendouba	Tunisia	1
Maekel	Eritrea	1	Kairouan	Tunisia	2
Addis Ababa	Ethiopia	3	Mahdia	Tunisia	6
Estuaire	Gabon	12	Nabeul	Tunisia	57
Ogooué-Maritime	Gabon	3	Sfax	Tunisia	28
Greater Accra	Ghana	14	Sousse	Tunisia	222
Ashanti	Ghana	1	Tunis	Tunisia	219
Conarky	Guinea	2	Zaghouan	Tunisia	28
Gambia	Gambia	1	Central	Uganda	1
Nairobi	Kenya	8	Eastern Cape	South Africa	6
Tripolitania	Lybia	5	Gauteng	South Africa	67
	Lesotho	1	KwaZulu/Natal	South Africa	4
Centre	Morocco	103	Mpumalanga	South Africa	1
Centre-North	Morocco	4	Northern	South Africa	1
Centre-South	Morocco	5	North West	South Africa	2
North-West	Morocco	26	Free State	South Africa	1
South	Morocco	3	Western Cape	South Africa	10
Tensift	Morocco	19	Copperbelt	Zambia	1
Antananarivo	Madagascar	31	Lusaka	Zambia	1
Mahajanga	Madagascar	1	Harare	Zimbabwe	2

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