

Referee report on

Maryyam Haroon and Azam Chaudhry (2014). Where Do New Firms Locate? The Effects of Agglomeration on the Formation and Scale of Operations of New Firms in Punjab. Economics Discussion Papers, No 2014-21, Kiel Institute for the World Economy. <http://www.economics-ejournal.org/economics/discussionpapers/2014-21>

Using a firm level data set for the province of Punjab in Pakistan, the present paper aims to test for the relevance of localization economies (measured by industry employment per district) and urbanization economies (measured by total employment per district for the firm sample) for the total number of newly (2008) established firms as well as the scale of operations (measured by total employment by new entrants in 2008). In additional estimations the establishment are split into 3 categories: small medium and large. Overall, the authors find clear evidence for localization economies but less so for urbanization economies.

There is a very substantial empirical literature on the relevance of localization and urbanization economies as the authors acknowledge and discuss. This literature does indeed focus on developed countries which makes the present paper of interest. My main problem with the paper is that it treats Pakistan and hence the firms in the Punjab as just another country or case. There are however probably a number of reasons why Pakistan is different from the USA or the UK. An obvious reason is the existence (also for the industries investigated) of a large informal sector. This leads to the question if the model by Soubeyran and Thisse (2008) is the right model to study new entrants in a country like Pakistan. The model is also rather loosely connected to the 2 main empirical specifications. Or in other words, it is not clear how equation (10) from the model could lead to equations (11) and, especially, (12). Given that the main selling point of the paper is the fact that the analysis deals with a developing country, it would have been useful to learn more about the Punjab and its districts (how many districts are for instance included?). Are firms free to choose a location in the Punjab or is this regulated somehow by government policy?

The estimations include a number of controls and fixed effects and make sense from a purely econometric point of view but, see above, the 2 main empirical specifications are not well-grounded in theory. It is for instance left unexplained why exactly the same specification (in terms of independent variables) can be used to explain the number of new entrants as well as the scale of operations. Also, one would like to see a benchmark, assuming that employment for the various industries is unevenly distributed across the Punjab districts to begin with is the spatial allocation of new entrants not skewed by definition?

All in all, the paper is well-written and deals with a potential interesting topic but it fails to show what makes the Punjab and its firms special to warrant the paper to be published, I would urge the authors to make it clear, both analytically and empirically, how their case differs from the existing (vast) literature on localization and urbanization economies.