

**Financial Development, External Financial Dependence  
— Concentration and Industry Growth**

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Abstract

The purpose of this paper is to examine the effect of financial development on the growth of manufacturing industry in Taiwan, using a panel dataset of industries over the period 1997-2003. In this paper, we explore whether the difference in the relationship between financial development and growth rate is due to the difference in external finance dependence or concentration rate among industries. Using various measurements of financial development and industrial growth, the empirical results of full sample demonstrate that the concentration rate matters, and this finding is also supported for subgroups of high-R&D intensive and low-R&D intensive industries, implying that the causal effect from concentration to growth exists across industries. This is the main contribution of this paper, and it has many implications for the Fair Trade Law. However, the impact of external finance dependence is various as using various samples and measurements of financial development and industrial growth. We also highlight some important factors that affect industry growth contributing to the understanding of the determinants of industry growth.

Keywords: Concentration, External Financial Dependence, Financial Development, Industry Growth, Fair Trade Act.

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