

**Supplementary Appendix Table I: Variable Definitions and Sources**

Variable	Abbreviation	Definition
<b>Panel A: Country-Industry Level</b>		
Value Added Growth	$GROWTH_{ic}$	Annual change of log value added in industry $i$ in country $c$ over the 1980-1989 period. The variable is originally expressed in US dollars. We deflate the data using the US manufacturing PPI (from the Federal Reserve Bank of St. Louis Economic Databases). <i>Source: United Nations Industrial Development Organization (UNIDO) Industrial Statistics, 2005.</i>
Industry Share in Manufacturing	$SHARE_{ic}$	Share of industry $i$ in country $c$ in total manufacturing value added in 1980. No data is available for Mexico. <i>Source: UNIDO Industrial Statistics.</i>
<b>Panel B: Industry Level</b>		
External-Finance Dependence	$EXTFIN_i$	Industry dependence on external financing. The variable is the industry-level median of the ratio of capital expenditure minus cash flow to capital expenditure for U.S. firms averaged over the 1980-1989 period. <i>Source: Klingebiel, Kroszner, Laeven (forthcoming), who follow Rajan and Zingales (1998). Original source: COMPUSTAT.</i>
Capital Growth (Investment Opportunities)	$CAPGR_i$	Annual change of log real capital stock in industry $i$ in the US over the 1980-1989 period. <i>Source: NBER-CES Manufacturing Industry Database (Bartelsman and Gray, 1996).</i>
Sales Growth	$SALESGR_i$	Annual change of log shipments in industry $i$ in the US over the 1980-1989 period. <i>Source: NBER-CES Manufacturing Industry Database (Bartelsman and Gray, 1996).</i>
Value Added Growth	$VAGR_i$	Annual change of log value added in industry $i$ in the US over the 1980-1989 period. <i>Source: NBER-CES Manufacturing Industry Database (Bartelsman and Gray, 1996).</i>
Estimated World-Average Opportunities	$GLOPP_i$ ( $RGLOPP_i$ )	Estimated industry value added growth at the U.S. level of financial development (estimated world-average industry opportunities). These estimates are obtained in two steps: - Step 1: Regress $GROWTH_{ic}$ on country dummies, industry dummies, and industry dummies interacted with country-level financial development (as a control for industry-specific effects of financial underdevelopment). See Equation (15) in the main text. - Step 2: Obtain $GLOPP_i$ as predicted $GROWTH_{ic}$ for a country $c$ with a level of financial development equal to the U.S. See Equation (16) in the main text. $RGLOPP_i$ differs from $GLOPP_i$ only in that Step 1 is based on a robust-regression approach (a weighted iterative least squares method that assigns lower weight to influential observations).
Human Capital Intensity	$HCINT_i$	Average years of schooling of workers in industry $i$ in the US in 1980. This variable is reconstructed at the 3-level ISIC using the exact methodology as in Ciccone and Papaioannou (2005). <i>Source: Integrated Public Use Microdata Series.</i>
Intangible-Asset Intensity	$INTANG_i$	Industry dependence on intangible assets. Defined as the industry-median of the ratio of intangible assets to net fixed assets for U.S. firms averaged over the 1980-1989 period. <i>Source: Claessens and Laeven (2003). Original source: COMPUSTAT.</i>

### Panel C: Country Level

Financial Development	$FD_c$	Domestic credit to the private sector relative to GDP. Domestic credit refers to financial resources provided through loans, purchases of non-equity securities, trade credits, and other accounts receivable establishing a claim for repayment. We use the natural logarithm of the average of the variable over the period 1980-1989. <i>Source: World Bank World Development Indicators Database (2005).</i>
Bank Credit	$BANKCR_c$	Domestic bank credit relative to GDP. Domestic credit provided by the banking sector includes credit to the central government. The banking sector includes monetary authorities and deposit money banks, as well as other banking institutions like savings and mortgage loan institutions and building and loan associations. We use the natural logarithm of the average of the variable over the period 1980-1989. <i>Source: World Bank World Development Indicators Database (2005).</i>
Market Capitalization	$MCAP_c$	Market capitalization as a percentage of GDP. We use the natural logarithm of the average of the variable over the period 1980-1989. <i>Source: World Bank World Development Indicators Database (2005).</i>
Income	$GDP_c$	Real per capita GDP. We use the natural logarithm of the variable in 1980. <i>Source: Penn World Tables 5.6 Edition</i>
Property Rights	$PROP_c$	Index of property rights protection on a scale from 1 to 5; higher values indicate higher protection. The index refers to the median over the 1995-1999 period. <i>Source: Index of Economic Freedom (Heritage Foundation) 2005 edition.</i>
Schooling	$SCH_c$	Average years of schooling of the population aged 25 and over in 1980. <i>Source: Barro and Lee (2001).</i>
Legal Ineffectiveness	$LAWINEF_c$	Inverse index of the effectiveness of the legal system, based on the number of days to resolve a payment dispute through courts (calendar days to enforce a contract of unpaid debt worth 50% of the country's GDP per capita). <i>Source: Djankov, McLiesh and Shleifer (forthcoming).</i>
Legal Origin	$LEGOR_c$	A set of dummy variables that identifies the legal origin of the Company law or Commercial Code of each country. There are five legal families: English (Common Law), French (Civil Law), German (Civil Law), Nordic (Civil Law) and Socialist. <i>Source: La Porta, Lopez-de-Silanes, Shleifer and Vishny (1999).</i>

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The Table reports variable definitions and sources for all variables used in the paper and the Supplementary Appendix. The first column reports the variable name, the second column gives the variable abbreviation in the text and the Tables, and the third column reports detailed variable definition and sources. Panel A reports the country-industry level variables; Panel B reports the industry-level variables and Panel C reports the country-level variables. Table I and Supplementary Appendix Table II report the values of all industry-level variables. The Supplementary Appendix Table III reports the values of the country-level variables for all sample countries.

**Supplementary Appendix Table II: (Additional) Industry-Level Variables**

ISIC	Industry Name	School-Skill Intensity ( <i>HCINT</i> )	Intangibility ( <i>INTANG</i> )
311	Food products	11.26	0.75
313	Beverages	11.97	0.75
314	Tobacco	11.51	0.49
321	Textiles	10.40	0.21
322	Wearing apparel, except footwear	10.19	0.53
323	Leather products	10.14	0.33
324	Footwear, except rubber or plastic	10.26	0.53
331	Wood products, except furniture	10.79	1.20
332	Furniture, except metal	10.76	0.49
341	Paper and products	11.69	0.20
342	Printing and publishing	12.79	4.54
351	Industrial chemicals	12.70	0.96
352	Other chemicals	13.03	0.96
353	Petroleum refineries	13.20	0.02
354	Petroleum and coal products	11.92	0.02
355	Rubber products	11.73	0.46
356	Plastic products	11.68	0.46
361	Pottery, china, earthenware	11.24	0.05
362	Glass and products	11.48	0.05
369	Other non-metallic mineral products	11.66	0.05
371	Iron and steel	11.43	0.11
372	Non-ferrous metals	11.55	0.11
381	Fabricated metal products	11.58	0.31
382	Machinery, except electrical	12.27	0.25
383	Machinery, electric	12.36	0.77
384	Transport equipment	12.35	0.24
385	Professional & scientific equipment	12.52	0.90
390	Other manufactured products	11.35	2.29

The Table reports values for each 3-digit ISIC manufacturing industry for human capital intensity (*HCINT*) and intangible-asset-intensity (*INTANG*). The Supplementary Appendix Table I gives details on the construction and sources of these industry-level measures.

**Supplementary Appendix Table III: Country-Level Variables**

Country	Country code	Financial Development Measures			<i>Y</i>	<i>SCH</i>	<i>PROP</i>	<i>LAWINEF</i>	<i>LEGOR</i>
		<i>PRIVCR</i>	<i>BANKCR</i>	<i>MCAP</i>					
1 Australia	AUS	34.58	46.23	48.26	12520	10.02	5	157	British
2 Austria	AUT	79.53	104.16	12.14	10509	8.43	5	374	German
3 Burundi	BDI	10.53	23.71	.	480	.	2	512	French
4 Belgium	BEL	29.38	65.33	42.55	11109	7.85	5	112	French
5 Bangladesh	BGD	11.32	21.30	1.73	1085	1.68	2	365	British
6 Bolivia	BOL	17.75	25.09	.	1989	4.00	3	591	French
7 Barbados	BRB	38.69	44.86	.	6379	6.84	3	.	British
8 Central African Republic	CAF	10.26	17.82	.	706	0.74	.	660	French
9 Canada	CAN	67.53	74.82	51.25	14133	10.23	5	346	British
10 Chile	CHL	63.58	86.29	31.59	3892	5.96	5	305	French
11 China	CHN	66.49	67.06	.	972	3.61	2	241	Socialist
12 Côte d'Ivoire	CIV	38.14	44.88	4.85	1790	.	3	525	French
13 Cameroon	CMR	27.07	25.36	.	1194	1.73	2	585	French
14 Colombia	COL	34.30	32.54	2.90	2946	3.94	3	363	French
15 Costa Rica	CRI	20.12	39.38	.	3717	4.70	3	550	French
16 Cyprus	CYP	66.43	78.07	.	5295	6.53	3	.	British
17 Germany	DEU	83.11	97.49	23.38	11920	8.41	5	184	German
18 Denmark	DNK	45.70	57.52	32.22	11342	9.16	5	83	Scandinavian
19 Ecuador	ECU	23.08	24.98	.	3238	5.40	3	388	French
20 Egypt, Arab Republic	EGY	31.67	108.43	4.67	1645	2.21	3	410	French
21 Spain	ESP	75.28	102.54	28.34	7390	5.15	4	169	French
22 Finland	FIN	61.98	59.33	27.57	10851	8.33	5	240	Scandinavian
23 Fiji	FJI	24.83	31.51	.	3609	6.01	3	.	British
24 France	FRA	93.70	105.90	31.07	11756	6.77	4	75	French
25 United Kingdom	GBR	61.54	65.20	95.42	10167	8.17	5	288	British
26 Greece	GRC	42.13	85.71	7.96	5901	6.56	4	151	French
27 Hungary	HUN	49.89	98.03	.	4992	8.81	4	365	Socialist

28	Indonesia	IDN	18.83	17.83	1.25	1281	3.09	3	570	French
29	India	IND	28.26	50.72	8.73	882	2.72	3	425	British
30	Ireland	IRL	43.68	53.71	.	6823	7.61	5	217	British
31	Iran, Islamic Rep.	IRN	33.18	64.11	.	3434	1.93	1	545	French
32	Iceland	ISL	36.84	40.08	.	11566	7.11	5	.	Scandinavian
33	Israel	ISR	63.86	151.25	15.45	7895	9.12	4	585	British
34	Italy	ITA	52.28	87.83	17.73	10323	5.32	4	1390	French
35	Jamaica	JAM	30.72	62.55	21.26	2362	3.60	4	202	British
36	Jordan	JOR	63.45	91.24	44.59	3384	2.93	4	342	French
37	Japan	JPN	155.93	223.48	140.19	10072	8.23	5	60	German
38	Kenya	KEN	30.09	47.39	5.78	911	2.46	3	360	British
39	Korea, Rep.	KOR	55.08	59.46	61.18	3093	6.81	5	75	German
40	Kuwait	KWT	81.31	82.79	48.94	20018	4.29	5	390	French
41	Sri Lanka	LKA	19.85	44.98	6.43	1635	5.18	3	440	British
42	Luxembourg	LUX	104.35	104.67	333.45	11893	.	5	.	French
43	Mexico	MEX	93.70	50.16	8.84	6054	4.01	3	421	French
44	Morocco	MAR	23.36	61.64	2.36	1941	.	4	240	French
45	Malta	MLT	50.18	49.12	.	4483	5.84	3	.	French
46	Mauritius	MUS	27.55	58.75	.	3988	4.50	.	.	French
47	Malawi	MWI	3.55	37.12	.	554	2.41	3	277	British
48	Malaysia	MYS	76.34	101.55	84.25	3799	4.49	4	300	British
49	Netherlands	NLD	83.83	122.12	56.87	11284	7.99	5	48	French
50	Norway	NOR	63.84	81.25	19.97	12141	8.28	5	87	Scandinavian
51	New Zealand	NZL	33.64	39.72	30.72	10362	11.43	5	50	British
52	Pakistan	PAK	28.21	50.83	6.26	1110	1.74	4	395	British
53	Panama	PAN	54.50	68.08	.	3392	5.91	3	355	French
54	Philippines	PHL	32.37	43.81	19.72	1879	6.06	4	380	French
55	Papua New Guinea	PNG	22.65	25.45	.	1779	0.92	3	295	British
56	Poland	POL	3.74	5.85	.	4419	8.65	4	1000	Socialist
57	Portugal	PRT	67.89	92.27	16.64	4982	3.27	4	320	French
58	Senegal	SEN	36.09	46.94	.	1134	1.92	4	485	French
59	Singapore	SGP	97.18	83.18	106.98	7053	3.65	5	69	British
60	Sweden	SWE	87.46	107.11	55.95	12456	9.47	4	208	Scandinavian

61 Swaziland	SWZ	20.78	16.18	.	3057	3.12	4	.	British
62 Trinidad and Tobago	TTO	44.97	40.70	7.73	11262	6.60	5	.	British
63 Turkey	TUR	17.90	35.16	3.80	2874	2.80	4	330	French
64 Uruguay	URY	47.46	64.08	.	5091	5.75	3	620	French
65 Venezuela, RB	VEN	49.82	49.75	3.19	7401	4.93	3	445	French
66 South Africa	ZAF	68.84	89.76	136.59	3496	4.82	3	277	British
67 Zimbabwe	ZWE	19.85	42.49	11.41	1206	2.82	3	350	British

The Table provides the values of all the country level variables employed in the empirical analysis. Supplementary Appendix Table I gives detailed variable definitions and sources.

PRIVCR is domestic credit to the private sector relative to GDP, averaged over the period 1980-1989.

BANKCR is domestic bank credit (including credit to the central government) relative to GDP, averaged over the period 1980-1989.

MCAP is stock market capitalization as a percentage of GDP, averaged over the period 1980-1989.

Y is real PPP-adjusted per capita GDP in 1980.

PROP is an index of property rights protection, ranging from 1 to 5, with higher values indicate better protection. The index refers to the median in the 1995-1999 period.

SCH is average years of schooling of the population aged 25 and over in 1980.

LAWINEF is an index of the de-facto inefficiency of the legal system, based on the number of days to resolve a payment dispute through courts.

Legal Origin identifies the legal family of the Company Law or Commercial Code of each country.

**Supplementary Appendix Table IV:  
Descriptive Statistics**

Panel A: Industry-Level Variables

	observations	mean	25% perc.	median	75% perc.	Min	Max
<i>CAPGR</i>	28	0.012	-0.006	0.009	0.026	-0.025	0.060
<i>EXTFIN</i>	28	0.269	0.050	0.215	0.415	-0.450	1.140
<i>SALESGR</i>	28	0.045	0.027	0.043	0.066	-0.006	0.089
<i>VAGR</i>	28	0.049	0.029	0.047	0.067	-0.006	0.126
<i>HCINT</i>	28	11.636	11.252	11.616	12.306	10.138	13.204
<i>INTANG</i>	28	0.644	0.155	0.460	0.760	0.020	4.540

Panel B: Country-Level Variables

	observations	mean	25% perc.	median	75% perc.	Min	Max
<i>PRIVCR</i>	67	46.31	24.83	38.69	63.86	3.55	155.93
<i>BANKCR</i>	67	63.86	40.08	58.75	86.29	5.85	223.48
<i>MCAP</i>	44	39.14	7.08	20.62	48.60	1.25	333.45
<i>Y</i>	67	5735.76	1879	3988	10323	480	20018
<i>SCH</i>	63	5.44	3.12	5.32	7.85	0.74	11.43
<i>LAWINEF</i>	58	355.03	208	348	440	48	1390
<i>PROP</i>	65	3.80	3	4	5	1	5

Panel A reports descriptive statistics for the industry-level variables. Panel B reports descriptive statistics for the country-level variables. Supplementary Appendix Table I gives detailed variable definitions and sources. Table I and Supplementary Appendix Table II report the values of all industry-level variables. Supplementary Appendix Table II reports the values of the country-level variables for all sample countries.

**Supplementary Appendix Table V:  
Correlation Structure**

Panel A: Industry-Level Variables

Capital Growth	<i>CAPGR</i>	1					
External Finance	<i>EXTFIN</i>	0.4157*	1				
Sales Growth	<i>SALESGR</i>	0.7975*	0.4008	1			
VA Growth	<i>VAGR</i>	0.7636*	0.2185	0.9605*	1		
School Intensity	<i>HCINT</i>	0.5061*	0.4169	0.3170	0.2804	1	
Intangibility	<i>INTANG</i>	0.2600*	0.1235*	0.4100*	0.3664*	0.2395*	1

Panel B: Country-Level Variables

Financial Development	<i>FD</i>	1					
GDP p.c.	<i>Y</i>	0.6319*	1				
Schooling	<i>SCH</i>	0.4046*	0.7811*	1			
Legal System Inefficiency	<i>LAWINEF</i>	-0.4548*	-0.4379*	-0.6207*	1		
Property Rights Protection	<i>PROP</i>	0.4632*	0.6976*	0.5799*	-0.5647*	1	

Panel A reports correlations between the main industry-level variables. The correlations are based on 28 industry observations (3-digit ISIC). Panel B reports correlations between the main country-level variables. The correlations are based at a maximum of 67 country observations. \* denotes that the correlation is significant at the 5% confidence level. Supplementary Appendix Table I gives detailed variable definitions and sources for all variables. Table I and Supplementary Appendix Table II report the values of all industry-level variables. Supplementary Appendix Table III reports the values of the country-level variables for all sample countries.



**Supplementary Appendix Table VI:  
Financial Development, Investment Opportunities, and Industry Growth  
Additional Determinants of Industry Growth**

	OLS	Robust	OLS	Robust	OLS	Robust
	(1)	(2)	(3)	(4)	(5)	(6)
<i>SHARE80<sub>i,c</sub></i>	-0.1988 (3.86)	-0.0822 (3.56)	-0.1885 (3.73)	-0.0709 (3.07)	-0.2149 (3.69)	-0.0734 (2.99)
Finance X Invest. Opport. [ <i>FD X CAPGR</i> ]	0.3877 (3.72)	0.3471 (5.26)	0.3828 (3.51)	0.3666 (5.41)	0.3529 (3.39)	0.3223 (4.79)
Property Rights X Intangibility [ <i>PROP X INTANG</i> ]	-0.0007 (0.41)	0.0001 (0.94)				
Finance X Intangibility [ <i>FD X INTANG</i> ]			-0.0036 (1.65)	-0.0018 (1.04)		
Schooling Interaction [ <i>SCH X HCINT</i> ]					0.0020 (2.06)	0.0009 (1.90)
adj. R-squared	0.343	0.461	0.299	0.450	0.312	0.459
Countries	64	64	66	66	62	62
Observations	1589	1589	1589	1589	1534	1534
Industry Fixed-Effects	Yes	Yes	Yes	Yes	Yes	Yes
Country Fixed-Effects	Yes	Yes	Yes	Yes	Yes	Yes

The dependent variable is the annual growth rate of value added at the industry-country level for the period 1980-1989. *SHARE<sub>i,c</sub>* indicates the industry share in total value added in manufacturing in 1980. The Finance X Investment Opportunities interaction is the product of industry-level investment opportunities (*CAPGR*) and country-level financial development (*FD*).

The Property Rights X Intangibility interaction in columns (1)-(2) is the product of industry-level dependence on intangible assets (*INTANG*) and a country-level measure of property rights protection (*PROP*). This interaction follows Claessens and Laeven (2003), who argue that countries with well-protected property rights experience faster growth in intangible-intensive industries.

The Finance X Intangibility interaction in columns (3)-(4) is the product of industry-level dependence on intangible assets (*INTANG*) and a country-level financial development (*PRIVCR*). This interaction follows Braun (2003), who argues that financially developed countries experience faster value added growth in intangible-intensive industries.

The schooling interaction in columns (5)-(6) is the product of industry-level human capital intensity (*HCINT*) and country-level average years of schooling (*SCH*). This interaction follows Ciccone and Papaioannou (2005), who argue that human capital rich (high schooling) countries experience faster growth in schooling-intensive industries.

Odd-numbered columns report OLS estimates. Even-numbered columns report robust regression results based on an iterative least squares method that assigns lower weights to influential observations. All specifications include country and industry fixed effects. Absolute values of t-statistics based on robust standard errors are reported in parenthesis below the coefficients. Supplementary Appendix Table I gives detailed variable definitions and sources. Table I and Supplementary Appendix Table II report the values of all industry-level variables. Supplementary Appendix Table III reports the values of the country-level variables for all sample countries.

**Supplementary Appendix Table VII:  
Alternative Financial Development Measures (Banking Sector, Capital Markets, and Total Finance)**

Financial Development Measure	<i>BANKCR</i>		<i>MCAP</i>		<i>TF</i>			
	OLS	Robust	OLS	Robust	OLS	Robust	OLS	Robust
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Finance X Investment Opportunities [ <i>FD X CAPGR</i> ]	0.2798 (2.63)	0.2731 (3.64)	0.2402 (3.95)	0.1474 (3.82)	0.4294 (3.80)	0.2566 (3.90)	0.2374 (2.86)	0.2294 (4.36)
adj. R-squared	0.282	0.441	0.303	0.478	0.304	0.477	0.283	0.442
Countries	67	67	44	44	44	44	67	67
Observations	1607	1607	1119	1119	1119	1119	1607	1607
Industry Fixed-Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Fixed-Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The dependent variable is the annual growth rate of value added at the industry-country level for the period 1980-1989. The Finance X Investment Opportunities interaction is the product of industry-level investment opportunities (CAPGR) and country-level financial development (FD). In columns (1) and (2) financial development is measured as total (private plus public sector) bank credit to GDP (BANKCR). In columns (3) and (4) financial development is measured as stock market capitalization to GDP (MCAP). In columns (5), (6), (7), and (8) financial development is measured as Total Finance (TF), the sum of private credit to GDP (PRIVCR) and stock market capitalization to GDP (MCAP). In columns (7) and (8) we assume that unavailable stock market capitalization means inexistent stock markets (i.e. MCAP equals zero).

Odd-numbered columns report OLS estimates. Even-numbered columns report robust regression results based on an iterative least squares method that assigns lower weights to influential observations. All specifications include country and industry fixed effects. Absolute values of t-statistics based on robust standard errors are reported in parenthesis below the coefficients. Supplementary Appendix Table I gives detailed variable definitions and sources. Table I and Supplementary Appendix Table II report the values of all industry-level variables. Supplementary Appendix Table III reports the values of the country-level variables for all sample countries.