

# Barriers to Entry and Regional Economic Growth in China

The non-state manufacturing sector has been the engine of China's economic transformation. After exhibiting large regional differences in performance through the mid-1990s, we subsequently observe rapid convergence in terms of new firm start-up rates, productivity, and wages. To analyze the drivers of this behavior, we construct a Hopenhayn (1992) model that incorporates location-specific capital wedges, output wedges, and a novel entry barrier. Using Chinese Industry Census data for 1995, 2004, and 2008, we estimate these wedges and examine their role in explaining differences in performance across prefecture and over time. Entry barriers turn out to be the salient friction for explaining performance differences. We investigate the empirical covariates of these entry barriers and find that barriers are causally related to the size of the state sector. Thus, the downsizing of the state sector after 1997 may have been important in explaining the rapid manufacturing sector growth over the 1995-2008 period. The more recent rise in the state sector may help explain a reversal in performance.

## Loren Brandt

Professor of Economics, University of Toronto



Loren Brandt is the Noranda Chair Professor of Economics and International Trade at the University of Toronto specializing in the Chinese economy. He has been at the University of Toronto since 1987. He is also a research fellow at the IZA (The Institute for the Study of Labor) in Bonn, Germany. He has published widely on the Chinese economy in leading economic journals, and has been involved in extensive household and enterprise survey work in both China and Vietnam. He was co-editor and major contributor to China's Great Economic Transformation, a landmark study that provides an integrated analysis of China's unexpected economic boom of the past three decades. Brandt was also one of the area editors for Oxford University Press' five-volume Encyclopedia of Economic History. His current research focuses on issues of industrial upgrading and innovation in China, inequality dynamics, and China's long run economic growth and structural change.

*Light refreshments will be provided. Please RSVP to [cals@allard.ubc.ca](mailto:cals@allard.ubc.ca). Thank you.*



CENTRE FOR  
ASIAN LEGAL  
STUDIES

November

17

Friday

12:30pm –  
1:30pm

ALLARD HALL  
ROOM 123



**ALLARD**  
SCHOOL OF LAW