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.

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*Light refreshments will be provided. Please RSVP to cals@allard.ubc.ca. Thank you.*