

Discussion: “Firm Entry and Regional Growth Disparities: the Effect of SOEs in China”

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Overview

- ▶ Question: industrial/GDP growth rates are highly heterogeneous across 334 prefectures in China; what explains it?
- ▶ Traditional explanations for regional disparities in China (based on aggregate data):
 - exposure to trade liberalization;
 - industry agglomeration;
 - regional development policies/governance.
- ▶ This paper:
 - Use micro-level data
 - Distortions on resource allocation between SOE and POE (Song, Storesletten and Zilibotti, AER, 2011, TFP gap 1.42-2.3)
 - But also bring in the dimension of firm dynamics dimension and the threshold effect of entry costs role of SOE in deterring NSOE entry (entry costs increases when SOEs are more dominant in the region).

Empirics

Document three key observations that are used to screen the models:

- ▶ Growth is lower in prefectures where initial SOE (output) shares are higher (call them “SOE dominant” regions).
- ▶ NSOE entry is lower in prefectures where SOEs are more dominant
- ▶ NSOE entrants pay lower W , have lower V/L , K , and TFP where SOEs are more dominant

Main idea

- ▶ For some reason, SOE dominance leads to a smaller pool of potential entrants (lower entry wedge $1 - \psi$).
 - e.g. local government charges higher license fee; less labor supply for potential NSOE entrants; labor has a natural preference for working at SOEs for better job security.
 - Assumed in the model, but motivated by the data
- ▶ Less potential entrants means lower demand on labor and lower equilibrium wage
- ▶ The cutoff-level TFP is lower when wage is low, as low productive entrants can “make ends meet”
- ▶ Same outcome for lower entrants' V/L , K .

Questions about empirics

- ▶ What about industry specialization? Empirically, SOEs specialize in more capital-intensive sectors, upstream industries, heavy industries (such as energy, communication, transportation, etc.)
- ▶ Question is whether the documented cross-prefecture relationship between SOE dominance and X (growth, entry, W , V/L , K , TFP) is an outcome of industry specialization across different prefectures.
- ▶ How is firm-specific TFPs measured? Are these Solow residuals? Do they control for endogeneity issues (may consider using OP or ACF method?) labor/capital shares the same for SOE and POEs? [may consider add some evidence]

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- ▶ Model: can we relax the labor rigidity

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