COMMUNITY NETWORKS AND THE GROWTH OF PRIVATE ENTERPRISE IN CHINA

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Abstract

This paper focuses on the role played by community networks organized around the birth county, in the growth of private enterprise in China. We develop a model of dynamic increasing returns to entry into entrepreneurship generated by intra-network learning and entry-access spillovers. It generates dynamic predictions for firm entry, sectoral and spatial concentration, and firm size across birth counties with different levels of social connectedness (measured by population density). We validate each of these predictions with unique administrative data that covers the universe of registered firms and provides information on entrepreneurs' birth counties. The rich set of results that we obtain, taken together, allow us to rule out alternative non-network-based explanations. Having validated the model, we estimate its structural parameters and conduct counter-factual simulations, which indicate that entry and (initial) capital stock over the 1995-2004 period would have been 25% lower in the absence of community networks. Implications for misallocation across firms and industrial policy in economies where networks are active are discussed.

Keywords. Community Networks, Entrepreneurship, China, Misallocation, Institutions, Growth and Development, Macroeconomic Implications.


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