

Abstract:

Combining rich firm and administrative data, this paper examines the incidence and effectiveness of a prominent place-based policy in China: Special Economic Zones. Establishing zones is found to have had a positive effect on capital investment, employment, output, productivity and wages, and to have increased the number of firms in the designated areas. Net entry plays a larger role in generating those effects than incumbents. The special zone program's net benefits over three years are estimated to amount to about US\$15.42 billion. A zone's effectiveness depends crucially on the design of its policies. China's economic zones offer various subsidies for capital investment, and operating in a zone is significantly more beneficial for capital-intensive firms than for more labor-intensive ones.