

## "China's Economic Slowdown: A Firm-Level Perspective?"

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### Abstract

This paper studies why GDP growth in China has fallen substantially over the last two decades. To this end, we leverage two novel data sets. First, a data set based on tax information for a selection of firms, labeled the Tax Data. Second, a new panel data set – the Inspection Data - covering close to all incorporated firms in China. The tax data have high-quality information on inputs and value added but the data are not representative. To overcome this problem, we use the Inspection Data to create weights for firms in the Tax Data. Using the resulting simulated data set we document that productivity growth has indeed fallen relative to the period before 2008. We study the sources of the reduction in aggregate productivity growth. We decompose TFP growth to incumbents, entry, and exit. Preliminary results suggest that the contribution from exit is significant but has not varied much over time. Instead, the main driver is a decline in the average TFP growth for incumbents. Using these data we estimate a Hopenhayn model incorporating entry, exit, and incumbent growth. We use this model to quantify the drivers of the decline in TFP. This allows us to quantify the contribution of changes in barriers to entry versus changes in general TFP growth affecting all firms.