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Yang Zhou

West Virginia University, ygzhou@mix.wvu.edu

Joshua C. Hall

West Virginia University, jhall23@mail.wvu.edu

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# **The Impact of Marketization on Entrepreneurship in China: Recent Evidence**

*Yang Zhou*

*Joshua C. Hall*

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# The Impact of Marketization on Entrepreneurship in China: Recent Evidence

Yang Zhou \*

Joshua C. Hall †

West Virginia University

West Virginia University

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## Abstract

While marketization has been linked to provincial-level economic growth in China, how marketization leads to growth has not been explored. We hypothesize that marketization creates an environment that encourages entrepreneurship, which manifests itself in economic growth. While this argument is not new, it has not been explored in the Chinese context. We fill this gap by empirically testing the relationship between marketization and measures of entrepreneurship across Chinese provinces. Our primary measures of entrepreneurship are level changes in the number of “private enterprises” and “self-employed individuals”. We find that higher levels of marketization are positively related to higher levels of entrepreneurship. These positive effects are largely driven by three areas of marketization. “Government and market” drives both measures of entrepreneurship, while “Legal frameworks” influences only private enterprises and “ownership structure” influences self-employment.

**JEL Codes:** L26, P25, P37

**Keywords:** entrepreneurship, marketization, economic freedom, regional science, China

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\*College of Business & Economics, Department of Economics, 1601 University Ave., PO Box 6025, Morgantown, WV 26506-6025, USA; Email: ygzhou@mix.wvu.edu

†College of Business & Economics, Department of Economics, 1601 University Ave., PO Box 6025, Morgantown, WV 26506-6025, USA; Email: joshua.hall@mail.wvu.edu

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# 1 Introduction

Beginning with Reform and Opening-up in 1978, China has enjoyed substantial economic development through a freer economic environment and has become the second largest economy in the world ([World Bank, 2017](#)). Since 1978, China’s average annual growth rate is almost 10%, though the growth has been slowing down in recent years ([National Bureau of Statistics of China, 2017](#)). Economic performances, however, differs across regions within China. In 2015, among the 31 province level regions in the Mainland China, Tianjin Municipality has the highest Gross Domestic Product (GDP) per capita at 106,905 CNY. Gansu Province has the lowest GDP per capita at 26,117 CNY. Meanwhile, though under the control of the same Party at the national level, economic institutions—especially the extent of marketization—varies across provinces. Institutions, including property rights protection and contract enforcement, not only have a fundamental influence on the economic performance of a regime ([North, 1990](#)), but also have a close associations with entrepreneurship ([Boettke et al., 2009](#); [Acs et al., 2015](#)).

In this paper, we empirically test the relationship between marketization, or what some have called economic freedom, and measures of entrepreneurship across Chinese provinces, using the newest data on marketization from 2008 to 2014 obtained from [Fan et al. \(2017\)](#). Identifying the net changes of number of enterprises in the private sectors as our measure of entrepreneurship, we use a panel approach with province and year fixed effects. The results show that entrepreneurship within a province is positively related to its overall marketization. We further analyze marketization by its five component parts. Among the five areas, we find that three of them play a role in promoting entrepreneurship. “Legal frameworks” contributes to the growing number of new private enterprises with more than eight employees, while “the development of non-state economy (ownership structure)” is the main driver of the development of self-employed individuals (firms with no more than eight employees). “Government and market” plays a positive role in promoting both measures of entrepreneurship.

The remainder of our paper proceeds as follows. Section 2 discusses the recent literature related to China’s entrepreneurship and the well-developed literature on marketization and entrepreneurship. Section 3 describes our data, while Section 4 discusses our empirical approach. Section 5 presents and discusses the results, and we conclude in Section 6.

## 2 Chinese Entrepreneurship and Marketization

There is a growing literature on entrepreneurship in China that has been empirically linked to many factors such as personal attributes, regional growth, and the institutional environment. For example, with survey data for the 2004-2005 academic year from seven cities in China, [Djankov et al. \(2006\)](#) studied the influence of individual characteristics, family background, social networks, values, beliefs, and perceptions of the institutional environment on individuals' decisions to become an entrepreneur. While they discuss institutional perceptions in their paper, they do not control for the actual institutional environment across the cities. They do find that perceptions about how positive the government is towards entrepreneurship are positively related to entrepreneurship.

[Qian \(2010\)](#) investigates the geographic distribution of talent and its association with innovation, entrepreneurship and regional economic performance in China. Talent is defined in the paper as human capital and creative class, both of which are associated with entrepreneurship. Focusing on the time period from 1997 to 2004, the author finds evidence that the presence of a university is the single most important contributor to the talent distribution observed across China, and consequently regional entrepreneurship and economic performance.

[Lu and Tao \(2010\)](#) use survey data on life-histories for 2,854 respondents from twenty cities in China, and find strong support for a good institutional environment being positively related to the development of private entrepreneurial activities. Their measure of institutions is a binary variable regarding the legality of private-ownership businesses. They find that the institutional environment has statistically significant interactions with the personal attributes of would-be entrepreneurs, implying that the determinants of entrepreneurship are structurally changed by private-ownership businesses being legal. More recently, [Song and Winkler \(2014\)](#) study the entrepreneurship statistics of 31 Chinese provinces from 2005 to 2010 using a panel approach, focusing on the relationship between entrepreneurial activities and regional supply and demand factors. They find that technology and employment have positive impacts on regional entrepreneurial activities, which highlights the importance of technology to the development of entrepreneurship.

While all of these studies tell us something about entrepreneurship in China, they do not link entrepreneurship to economic institutions or do so in a very limited way (as in [Lu and Tao \(2010\)](#)). Given the larger literature relating economic institutions to entrepreneurship across coun-

tries (Nyström, 2008; Bjørnskov and Foss, 2008; Gohmann, 2012; Stenholm et al., 2013; Bjørnskov and Foss, 2013; Thai and Turkina, 2014; Kuckertz et al., 2016) and within countries (Kreft and Sobel, 2005; Hall and Sobel, 2008; Gohmann et al., 2008; Powell and Weber, 2013; Gohmann et al., 2013; Coomes et al., 2013), the need for a more formal look at the relationship between provincial-level institutions of market-oriented policies and entrepreneurship is needed. Marketization, or economic freedom, is thought to lead to higher levels of positive sum entrepreneurship (such as opening a business) as economic freedom gives individuals the freedom to bring new ideas, products, and organizations to the market (Kreft and Sobel, 2005). From the opposite side, the absence of economic freedom encourages individuals to engage in non-productive entrepreneurship not oriented towards the market (Baumol, 1990; Coyne et al., 2010). Given China's unique transition to a more market-oriented economy, and the great diversity in economic outcomes across provinces, it is important to explore whether marketization differences across provinces help to explain the differences in entrepreneurship across provinces.

The publication of the most recent edition of a provincial marketization index by Fan et al. (2017), representing the degree of economic freedom in different provinces, presents an opportunity to bring another institutionalist perspective to the study of regional economic performance and entrepreneurship in China. This index is published intermittently, and the latest one for years 2008 - 2014 is the 2017 report (Fan et al., 2017). It has been widely linked to the study of Chinese trade (Lu et al., 2009) and growth (Fan et al., 2011), and there is also a growing but still small literature linking Chinese provincial regional entrepreneurship with it. For example, using provincial panel data from 1998 to 2003, Zhou (2011) creates a regional deregulation index using the NERI Index and defines the numbers (rather the changes of them) of private enterprises and self-employed individuals as the measures of entrepreneurship. Zhou (2011) finds that entrepreneurship and deregulation are positively correlated at the provincial level. With the help of a firm-level data set including 1946 Chinese entrepreneurial firms in 1996 and the NERI Index, Zhou (2014) further investigates the relationship between entrepreneurial activities and two institutional indexes constructed from the NERI Index, "legal protection of property rights" and "market development". His results reveal that there are positive correlations between the institutional indexes and entrepreneurial activities. It is important to note that Zhou (2014) measures entrepreneurial performance by the return on capital and firm profit margins.

More recently, using provincial-level panel data from 1997 to 2008, [Hasan et al. \(2015\)](#) defines small business development as the percentage change in small firms (defined as firms with fewer than 300 employees) and the percentage changes in their total output. This paper is closest to ours in terms of measuring entrepreneurship, although they primarily focus on the effect of banking structure on small business development. However, in conducting their analysis they find evidence of marketization promoting small business growth. Specifically, they find that the overall Marketization Index has a positive (albeit, weak) influence on the growth in number of small businesses, with the main drivers being “development of non-state economy”, “factors market development”, and “legal frameworks”.

None of these studies using the NERI Index mentioned above employs the most recent version, thereby missing the last several years of continued market development. In this paper, we investigate the relationship between marketization (economic freedom) and the development of entrepreneurship in China, employing the newest systematically provincial economic institutions index by [Fan et al. \(2017\)](#) and using two different definitions of entrepreneurship (following [Deskins and Ross \(2016\)](#)).

### 3 Data

The data sets used in this study come from two sources. The first data set includes the annual marketization index of 31 provincial regions in the mainland China from 2008 to 2014. This is from the latest *Marketization of China's Provinces: NERI Report 2016* ([Fan et al., 2017](#)). This data set has a similar structure as that of the *Economic Freedom of the World: Annual Report* by Fraser Institute ([Gwartney et al., 2016](#)). For an overview of this data set and the literature on the effects of economic freedom, [Hall and Sobel \(2008\)](#) provide a good overview. The latest NERI Index includes a total index, constituted of 18 components in 5 major areas. We will now further explain the index, including all its areas and components, in detail.

#### 3.1 NERI Index

The latest NERI Index takes Year 2008 as the base year, when all the components are scaled from 0 to 10: the higher the grade of a component is, the better the region performs in terms of

marketization. The grades from 2009 to 2014 employ those in 2008 as the baselines, with the same methodology. Thus, some of the components in the later years may be smaller than 0 or greater than 10, while most of the grades still fall between 0 and 10.

The five major areas of the NERI Index are: (1) “relationship between government and market”, the size of the government in the regional economy; (2) “development of non-state economy (ownership structure)”, concerning the growth of the non-state sector and provincial-level reform of state enterprises; (3) “goods market development”, trade barriers and the regional-level price control; (4) “factors market development”, the development of mechanisms of allocation of resources including capital and labor; and (5) “legal frameworks”, includes data on the setting-up of a legal framework for property-rights protection and contract enforcement.

The “relationship between government and market” area has three components: the role of market in resources allocation, using (1 - government expenditure as share of GDP) to indicate it; reducing the intervention to firms by government, by the survey data of firms on “the convenience of the administrative examination and approval procedures”; and reducing the size of government, using the employees in public administration, social security and social organization as share of the total population as the indicator of the size of government.

The “development of non-state economy (ownership structure)” area has three components: the share of non-state sectors’ in contributions to industrial value-added; the share of non-state sectors’ in fixed assets investment; and the share of non-state sectors’ in urban employment.

The “goods market development” area has two components: price controls, which is largely time-invariant<sup>1</sup> in the index, measuring the share of goods with prices decided by the government; and reducing the trade barriers and local protection, which is from survey data.

The “factors market development” area has six components: the marketization of the financial sector, indicated by the share of deposits in private banks to total; the marketization of credit allocation, indicating the share of credit allocated to non-state sectors; the supply of technical staff; the supply of administrative staff; the supply of skilled workers; and the marketization of technological achievements. The third to the fifth components are measured by survey data, and the last component is measured by the ratio of technology market order flow to the number of local

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<sup>1</sup>Given their methodology and the data available, this component has the same value for every province from 2008 to 2013; it changed in 2014.



science and technology staff.

“Legal frameworks” has four components: intermediate institutions such as law firms, accounting offices, and independent auditing offices; assistance to firms from guilds; defense of the rule of law in markets; and intellectual property rights protection. The first three components are from survey data, while the last one is measured by the ratio of patterns approved to the number of science and technology staff.

The details of the time trends of the marketization index and its areas are shown in Figure 1. The “government and market” area is the only one of the five which decreased from 2008 to 2014 for the country as a whole. In the seven years of the post Supreme Crisis period, Chinese government has been imposing more and more intervention to the market. As Higgs (1997) suggests, crisis is a great opportunity for government to expand. The “development of non-state economy (ownership structure)” area has been increasing over the seven years: the general trend of privatization process in China is still positive. “Goods market development” does not change much over the seven years, while “factors market development” and “legal frameworks” have risen considerably.

### 3.2 NBSC Data

All other data used in the empirical analysis – measures of entrepreneurship and control variables – were directly accessed or calculated based on data from the National Bureau of Statistics of China (NBSC).<sup>2</sup> It is the best available and most widely used source of Chinese province-level data. Since the data of each region is calculated and reported by the same statistical method, any potential systematic bias should not matter because our focus is on the relative difference.

The measures of entrepreneurship in every province are the annual changes of the numbers of the “private enterprises” and “self-employed individuals”. In looking at annual changes we are following Deskins and Ross (2016). As Figure 2 shows, the total numbers of the two main types of private enterprises in China have been increasing over the last seven years investigated. The control variables include the ratio of the value added by industry to GDP (%), the ratio of the amount of foreign trade to GDP (%), the portion of the population with a post-secondary degree (%), and the gross dependency ratio (%) due to China’s unique one-child policy. These variables shall control most of basic economic patterns across different provinces over time.

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<sup>2</sup><http://data.stats.gov.cn/english/>

Table 1 displays summary statistics and data sources. The average total marketization index of a province in the last seven years is 5.82, with the minimum as -0.30 and the maximum as 9.95. The scores of the five different areas vary considerably. The average level changes of private enterprises and self-employed individuals are both positive. Although most provinces have positive growth of entrepreneurship as defined, the negative minimum of the change of self-employed individuals indicates that some provinces have decreased growth of self-employed individuals in the last years.

## 4 Empirical Models

The empirical model used is indicated in Equation (1), a panel approach with province and year fixed effects

$$EN_{nt} = \beta_1 EI_{nt} + \beta_2 X_{nt} + P_n + Y_t + \mu_{nt} \quad (1)$$

where  $EN_{nt}$  is the measure of entrepreneurship for province  $n$  in year  $t$ .  $EI_{nt}$  are the economic institutions variables (the marketization index and its areas) of province  $n$  in year  $t$ , and  $X_{nt}$  are the control variables of economic performances of province  $n$  in year  $t$ .  $P_n$  is the province fixed effect, which controls for the variations across provinces.  $Y_t$  is the year fixed effect, which controls for the variations over time.  $\mu_{nt}$  is the error term.

Our primary interests are the estimators of the coefficients for the economic institutions,  $\beta_1$ . As explained in the data section, the “development of non-state economy (ownership structure)” area captures the size of private economy from three different perspectives. Although none of these three components is directly related to our measures of entrepreneurship, they might boost the correlation between the measures of entrepreneurship and the total marketization index. Thus, we calculate a “modified marketization index”, which is the arithmetic mean of the other four areas excluding the “ownership structure”.

Therefore, using the same empirical formula, we have nine models with different marketization indexes included for each measure of entrepreneurship. The first model only includes the “modified marketization index”. The second model uses the original total index instead. The third model includes the four areas used in the “modified marketization index”. As shown in Table 1, the modified marketization index does not deviate from the original one very much. The fourth model

includes all the five areas of the total index. Each of the fifth to the ninth models includes only one area of the five as the economic institutions variable, in order to investigate the exact relationship between each area and the entrepreneurship. These nine models shall jointly provide evidences of the effects of the marketization to the entrepreneurship development across Chinese provinces over time.

## 5 Results

Table 2 displays the results for measuring entrepreneurship by the level changes of the number of private enterprises. Model 1 only includes the modified marketization index as the economic institutions variable. The results suggests that the overall marketization level (economic freedom) of a province is positively related to the development of entrepreneurship. Model 2 only includes the total marketization index as the economic institutions variable, and the result verifies the findings of Model 1. The only difference between the two indexes is whether ownership structure is included, which does not influence the overall correlation between entrepreneurship development and marketization level.

Model 3 includes the four areas of the modified marketization index. However, among these four areas, “legal frameworks” is the only one that is statistically significant. The higher the adherence to the “rule of law” a province has, the more new private enterprises it has. Similarly, Model 4 includes all five areas and provides similar evidence for the importance of “rule of law” as that of Model 3. Model 4 also suggests positive effects of “government and market” to the development of entrepreneurship: smaller governments promote entrepreneurship. Models 5 - 9 in Table 3 jointly verify the evidences found in Models 3 and 4 in Table 2 by inserting each of the five areas one at a time. Again, “legal frameworks” and “government and market” are the two areas having statistically significant effects to the development of entrepreneurship, while the other areas do not have any statistically significant impact.

Table 4 shows the results for measuring entrepreneurship by the level changes of the number of the self-employed individuals. Model 1 in Table 4 suggests a significantly positive correlation between the overall marketization level and the development of entrepreneurship, which is verified by Model 2. Models 3 and 4 display the detailed areas of the index in Models 1 and 2, respectively.

Model 3 indicates that only “government and market” has a statistically significant effect to the development of entrepreneurship. However, in Model 4, this significance goes away once “ownership structure” is included. With respect to self-employment, “government and the market” seem to be closely related to “ownership structure.” Models 5 - 9 in Table 5 jointly provide further verification of the findings from Models 3 and 4 in Table 4. Among the five areas, both the “government and market” and the “ownership structure” have statistically positive effects to the development of entrepreneurship.

It is interesting to note that “government and market” has positive effects to both the large firms (“private enterprises”) and the small ones (“self-employed individuals”). However, the core institutional environment of the “rule of law” is the other driving factor of more net new large firms, while “privatization” is the main reason for the new set-ups of new small businesses. The idea that the rule of law is necessary for the types of investment that cause smaller firms to grow to become larger firms would be consistent with our results.

## 6 Conclusion

In this paper, we empirically test the relationship between marketization and measures of entrepreneurship across Chinese provinces. Using the newest data from the National Bureau of Statistics of China Annual Data by Province Database and the index of marketization by [Fan et al. \(2017\)](#), we find statistically positive effects of different marketization indexes to the development of entrepreneurship in China. Measuring entrepreneurship by the annual changes of “private enterprises” and “self-employed individuals”, the results reveal that the level of overall marketization is positive related to the level of entrepreneurship. Among the five areas, the “legal frameworks” plays an important role in promoting new private enterprises, and the “ownership structure” is essential for the development of new self-employed individuals. Meanwhile, the “government and market” has positive effects to entrepreneurship by both measures.

The evidence found in this paper give three main policy implications. First, for larger private enterprises the institutional environment does seem to matter. In particular, the more “rule of law” a region has the higher the growth of larger private enterprises. Second, privatization seems to be the main driving factor of the the growth rate in self-employed individuals. Third, smaller

governments promote the development of entrepreneurship according to both measures.

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## Tables and Figures

Table 1: Summary Statistics

Statistic	Mean	St. Dev.	Min	Max
Marketization Index	5.82	1.93	-0.30	9.95
Modified Marketization Index	5.71	1.97	-0.90	10.09
Ownership Structure	6.27	2.30	0.94	10.38
Government and Market	5.99	2.43	-6.75	9.65
Goods Market Development	7.62	1.38	1.46	9.79
Factors Market Development	4.62	2.23	-1.21	12.23
Legal Frameworks	4.61	3.52	-0.70	16.19
Private Enterprises Change (k)	45.86	51.00	0.60	418.30
Self-employed Individuals Change (k)	103.34	118.66	-224.70	852.30
Post-secondary Ratio (%)	9.86	6.00	1.57	39.30
Foreign Trade to GDP (%)	31.02	37.12	3.58	169.88
Industry Value Share (%)	39.98	9.74	7.19	53.04
Dependency Ratio (%)	36.25	7.10	19.30	61.55

Notes: Table values reflect yearly averages of 31 provincial regions from 2008 to 2014. Thus, the total observations for every variable is 217. The marketization indexes are from the NERI Report (Fan et al. 2017), and all the other data is from NBSC. All the NBSC data, with the exception of post-secondary and age composition data in 2010, was obtained from the National Bureau of Statistics of China (NBSC) Annual Data by Province Database at: <http://data.stats.gov.cn/english/easyquery.htm?cn=E0103>. Post-secondary and age composition data in 2010 is not available in that database and was obtained from the 2010 census from NBSC, available online at: <http://www.stats.gov.cn/tjsj/pcsj/rkpc/6rp/indexch.htm>.

Table 2: Private Enterprises - Level Changes (k) - Without Pop&GDP

	Model 1	Model 2	Model 3	Model 4
Modified Marketization Index	12.505*** (4.444)			
Marketization Index		13.322** (5.369)		
Government and Market			6.199 (3.998)	8.858* (4.504)
Goods Market Development			-8.244 (6.738)	-7.352 (6.762)
Factors Market Development			-2.739 (3.273)	-2.252 (3.290)
Legal Frameworks			6.006*** (2.050)	4.987** (2.198)
Ownership Structure				-8.899 (6.989)
Post-secondary Ratio (%)	-1.602 (1.615)	-1.413 (1.617)	-2.364 (1.634)	-2.436 (1.632)
Foreign Trade to GDP (%)	-0.403 (0.356)	-0.468 (0.354)	-0.253 (0.357)	-0.139 (0.367)
Industry Value Share (%)	0.384 (1.024)	0.294 (1.027)	0.793 (1.027)	0.978 (1.035)
Dependency Ratio (%)	0.275 (1.116)	0.262 (1.122)	0.726 (1.125)	0.781 (1.124)
Province FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
R <sup>2</sup>	0.061	0.052	0.097	0.106
Num. obs.	217	217	217	217

Notes: \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Robust standard errors in parentheses.

Table 3: Private Enterprises - Level Changes (k) - Without Pop&GDP

	Model 5	Model 6	Model 7	Model 8	Model 9
Government and Market	7.899** (3.635)				
Goods Market Development		-7.944 (6.935)			
Factors Market Development			2.842 (2.909)		
Legal Frameworks				6.274*** (1.879)	
Ownership Structure					-6.749 (6.012)
Post-secondary Ratio (%)	-1.001 (1.606)	-0.873 (1.620)	-0.836 (1.621)	-2.211 (1.632)	-0.960 (1.626)
Foreign Trade to GDP (%)	-0.482 (0.356)	-0.571 (0.356)	-0.574 (0.357)	-0.354 (0.353)	-0.534 (0.362)
Industry Value Share (%)	0.384 (1.037)	0.227 (1.044)	0.128 (1.040)	0.480 (1.017)	0.220 (1.044)
Dependency Ratio (%)	0.491 (1.134)	0.270 (1.139)	0.118 (1.140)	0.345 (1.107)	0.191 (1.137)
Province FE	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y
R <sup>2</sup>	0.044	0.026	0.024	0.077	0.025
Num. obs.	217	217	217	217	217

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Robust standard errors in parentheses.

Table 4: Self-employed Individuals - Level Changes (k)- without Pop&GDP

	Model 1	Model 2	Model 3	Model 4
Modified Marketization Index	24.964*			
	(14.490)			
Marketization Index		36.580**		
		(17.348)		
Government and Market			27.606**	15.433
			(13.182)	(14.785)
Goods Market Development			-2.697	-6.778
			(22.218)	(22.199)
Factors Market Development			-0.514	-2.744
			(10.793)	(10.799)
Legal Frameworks			1.902	6.569
			(6.761)	(7.215)
Ownership Structure				40.748*
				(22.945)
Post-secondary Ratio (%)	-6.478	-6.572	-6.057	-5.724
	(5.267)	(5.224)	(5.389)	(5.359)
Foreign Trade to GDP (%)	1.617	1.600	1.750	1.229
	(1.159)	(1.145)	(1.177)	(1.206)
Industry Value Share (%)	5.389	5.356	5.972*	5.123
	(3.339)	(3.319)	(3.386)	(3.399)
Dependency Ratio (%)	3.548	3.575	4.515	4.263
	(3.640)	(3.624)	(3.709)	(3.689)
Province FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
R <sup>2</sup>	0.050	0.058	0.066	0.083
Num. obs.	217	217	217	217

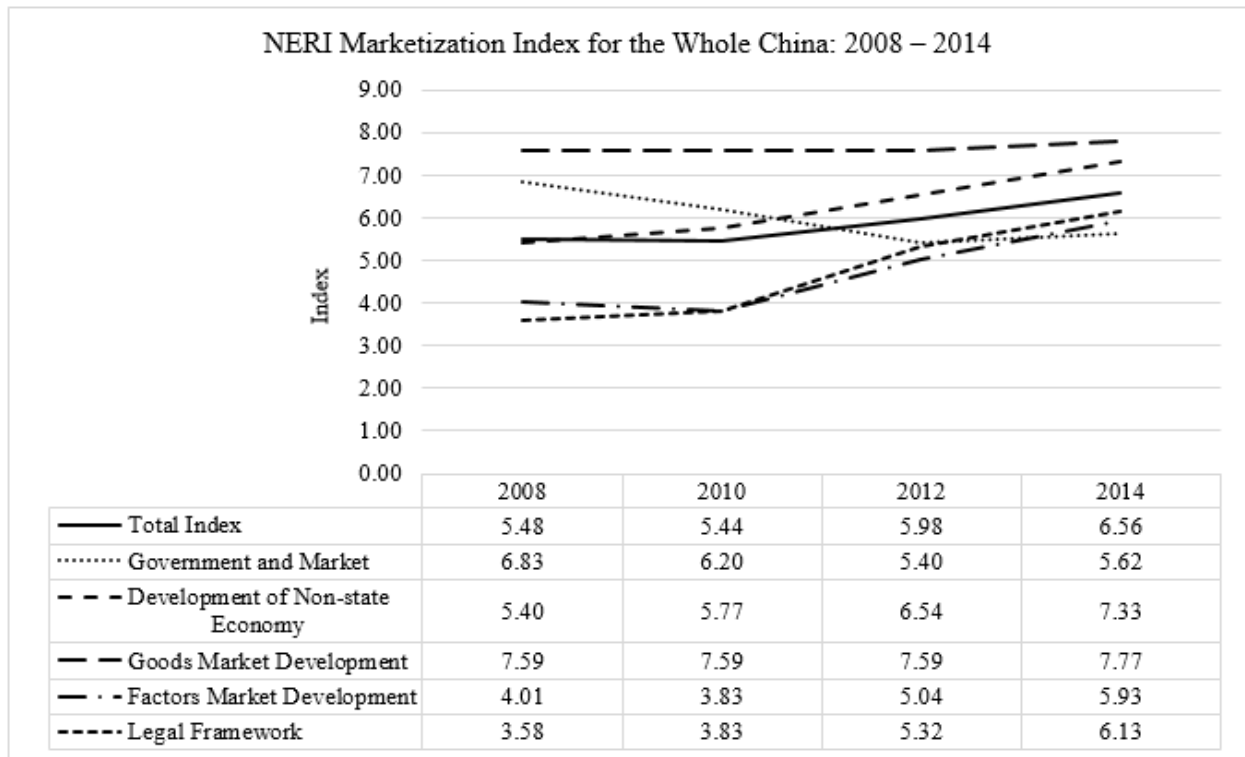
\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Robust standard errors in parentheses.

Table 5: Self-employed Individuals - Level Changes (k)- without Pop&GDP

	Model 5	Model 6	Model 7	Model 8	Model 9
Government and Market	28.335** (11.651)				
Goods Market Development		-1.181 (22.385)			
Factors Market Development			10.005 (9.351)		
Legal Frameworks				5.997 (6.216)	
Ownership Structure					46.619** (19.081)
Post-secondary Ratio (%)	-5.623 (5.148)	-4.858 (5.230)	-5.026 (5.210)	-6.208 (5.399)	-3.626 (5.162)
Foreign Trade to GDP (%)	1.675 (1.141)	1.197 (1.149)	1.341 (1.147)	1.442 (1.169)	0.619 (1.147)
Industry Value Share (%)	5.844* (3.323)	4.838 (3.371)	4.925 (3.342)	5.184 (3.363)	3.979 (3.313)
Dependency Ratio (%)	4.457 (3.635)	3.392 (3.676)	3.123 (3.665)	3.527 (3.662)	3.378 (3.608)
Province FE	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y
R <sup>2</sup>	0.065	0.034	0.040	0.039	0.066
Num. obs.	217	217	217	217	217

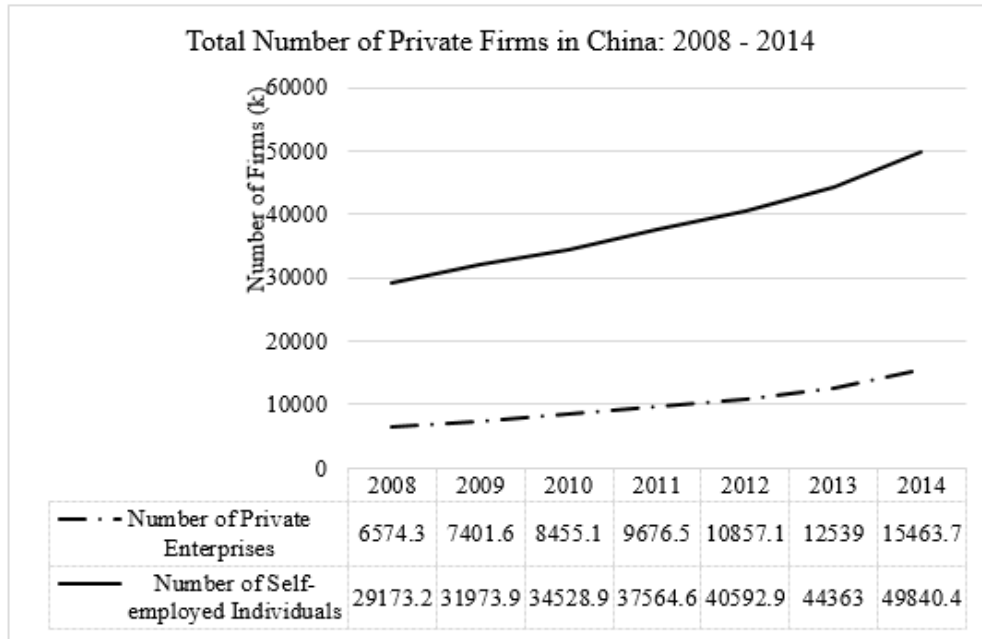
\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Robust standard errors in parentheses.

Figure 1: NERI Marketization Index for the Whole China: 2008 - 2014



Sources: NERI Index of Marketization of Chinas Provinces (Fan et al., 2017).

Figure 2: Total Number of Private Firms in China: 2008 - 2014



Sources: National Bureau of Statistics of China (NBSC) Annual Data by Province.