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## Journal of Development Economics

Volume 101, March 2013, Pages 133-147

# The economic impact of Special Economic Zones: Evidence from Chinese municipalities

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<https://doi.org/10.1016/j.jdeveco.2012.10.009>

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### Abstract

The paper exploits a unique Chinese municipal dataset to assess the impact of Special Economic Zones on the local economy. Comparing the changes between the municipalities that created a SEZ in earlier rounds and those in later waves, I find that the SEZ program increases foreign direct investment not merely through firm relocation, and does not crowd out domestic investment. With dense investment in the targeted municipality the SEZ achieves agglomeration economies and generates wage increases for workers more than the increase in the local cost of living. The effects are heterogeneous: for zones created later the benefits are smaller while the distortions in firm location behavior are larger than those for the early zones. Municipalities with multiple SEZs experience larger effects than those with only one SEZ.



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## JEL classification

O16; O47; F21; R10

## Keywords

Special Economic Zone; Foreign direct investment; TFP growth; Factor price

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† I am indebted to Oriana Bandiera and Timothy Besley for their guidance. I thank Eric Verhoogen, two anonymous referees, Joshua Angrist, Robin Burgess, Rajeev Dehejia, Greg Fischer, Maitreesh Ghatak, Henrik Kleven, Guy Michaels, Gerard Padró i Miquel, Albert Park, Steve Pischke, Mark Schankerman, Cheng-gang Xu and Alwyn Young for their comments. Seminars at the LSE, the RES UK Conference, the University of Oxford, the HKUST, and the Nanyang Technological University Singapore made helpful comments to improve the work. I am also grateful to Junxin Feng for support with the data collection, and to the LSE STICERD members as well as Ruixue Jia for helpful discussions. All errors remain my own.

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