

Channels of Interprovincial Risk Sharing in China

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Summary

This paper decomposes consumption risk sharing among provinces in China over the 1980-2007 period. We find that 9.4 percent of the shocks to gross provincial product are smoothed by the interprovincial fiscal transfer system. This system also cushions a relatively large fraction of the province-specific shocks in the coastal provinces of China. Using a variety of indicators, we explore non-fiscal channels of consumption risk sharing. We find that the migration of rural labor to urban areas and the remittance of migrant wages play important roles in promoting interprovincial consumption risk sharing in the inland provinces of China. In contrast, the extent of risk sharing through financial intermediaries and the capital markets is very limited. These factors have resulted in a low degree of risk sharing among Chinese provinces, especially over the last decade.