

## China economy: Top of the heap

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**Economic growth in China fell below 8% last year, but the national dip glosses over several regional shifts: the country's poorest and most remote provinces moved up the growth rankings as the populous central provinces slid. While the rise of bustling inland regions such as Sichuan has received plenty of attention in recent years, impoverished economies such as Guizhou stole some of the limelight in 2012.**

That year, the favoured municipalities of Tianjin and Chongqing maintained their position at the top of the growth charts, while expansion in the eastern provinces remained sluggish. However, churn was evident in-between. The underdeveloped agricultural provinces of Guizhou and Yunnan outperformed Shaanxi and Sichuan, which boast stronger industrial bases.

The impoverished provinces of Gansu and Qinghai crept into the top ten, while all of the central provinces—with the exception of Anhui—fell out of the top half. Inner Mongolia, which had dominated the provincial league tables for most of the late 2000s, languished below the top ten at 13th.

### Real GDP growth

(% change)

	2012
Tianjin	13.8
Chongqing	13.6
Guizhou	13.6
Yunnan	13.0
Shaanxi	12.9
Sichuan	12.6
Gansu	12.6
Qinghai	12.3
Anhui	12.1

Jilin	12.0
Xinjiang	12.0
Tibet	11.8
Inner Mongolia	11.7
Ningxia	11.5
Fujian	11.4
Hubei	11.3
Hunan	11.3
Guangxi	11.3
Jiangxi	11.0
Shanxi	10.1
Jiangsu	10.1
Henan	10.1
Heilongjiang	10.0
Shandong	9.8
Hebei	9.6
Liaoning	9.5
Hainan	9.1
Guangdong	8.2
Zhejiang	8.0
Beijing	7.7
Shanghai	7.5

## Rise up

The churn at the top partly reflects the impact of enhanced government support. The "Go West" policy was put in place more than a decade ago to push economic development into the country's interior, in an attempt to address the widening inequality between the rich coast and the poor hinterland. In the past several years, these efforts have borne fruit for Sichuan, Chongqing and Shaanxi in particular.

Armed with favourable government incentives, local officials in these areas made the most of the development gap between their regions and the eastern coast, luring manufacturers and increasingly advanced industries further inland, where land and labour costs were cheaper. However, these three provinces were also able to capitalise on other advantages: an established industrial presence, sizeable metropolitan centres with a more highly skilled labour pool than other parts of western China and accessible natural resource endowments. The allure of the large regional market was an additional draw.

By contrast, until recently the poorest of the inland provinces remained largely out of the story. Even with favourable incentives, these regions were too remote—and their populations too sparse and poor—to attract even domestic investors. The dynamic shifted in 2011, after the central authorities reversed course on their massive lending binge of 2009-10. The poorest provinces were less affected by tightened credit conditions, as the central government maintained its commitment to raising growth rates in the region. As such, loans and investment continued to feed their expansion.

A building frenzy ensued in Guizhou as infrastructure was built up in the mountainous province, including several airports and an expansive expressway network. Long developed as part of the west-east electricity transmission project to supply the eastern province of Guangdong, it was soon tapped for energy and resources to supply its booming neighbour, Chongqing. This activity pushed Guizhou up the growth rankings, and in the first quarter of

2012 it tied briefly with Tianjin as China's fastest-growing region.

The long-neglected provinces of Gansu and Qinghai were also propelled into the top ten last year. From a small base, investment has been increased in infrastructure, as well as emerging sectors such as wind and solar. The impact of the investment surge was particularly pronounced on Qinghai's economy, as it is highly dependent on such inflows; investment amounts to 88% of its GDP. Amid wider troubles in the solar industry, Qinghai has ambitious plans to double its installed solar capacity from 2012 levels this year. Extensive plans for resource extraction are also planned for the near term.

Gansu's local government also has grand plans. In addition to its designation as a demonstration zone for renewable energy, its capital, Lanzhou, was recently selected to be a "New Area". This distinction was previously granted to the glittering Pudong in Shanghai, Binhai in Tianjin and Liangjiang in Chongqing, although Lanzhou's distance from major water transport routes puts it at a significant disadvantage to the others. In March 2013 a "civilisation inheritance and innovation" zone was established in Gansu in an effort to boost tourism. Most importantly, its development plan calls for around Rmb200bn (US\$31.7bn) to be allocated for road and rail links between its main cities and neighbouring regions between 2011 and 2015.

The west and the rest

In the east, by contrast, concerns about the overheated property market spurred the national government to keep house purchasing restrictions in place, reining in a main driver of investment in the region. Investment growth in central provinces has mellowed as well, as local officials found it increasingly difficult to secure funding for new projects. In turn, growth cooled in the region.

This is set to continue. The central government has kept the national growth target low for 2013, encouraging local governments to follow suit. Nearly one-half of the provinces have set real GDP growth targets below those for 2012, with the rest leaving their goals unchanged. This was partly spurred by the fact that the previous targets proved hard to meet; Guangdong, for example, has missed its target for the past three years.

But this also leaves provinces with the breathing room needed to promote other drivers of growth. The slowdown in investment is allowing domestic consumption to expand its share of the economy. The majority of eastern provinces saw the proportion of private consumption in GDP creep upwards in 2008-12, in contrast to most central and western provinces, which saw their ratios dip. In 2012 urban disposable income growth in the central provinces was robust, remaining largely above the national average at over 13%. This also sets the stage for rebalancing in the region. Such a development might be considered more laudable than topping the growth charts.

Economist Intelligence Unit

**Source:** Economist Intelligence Unit