



上海社会科学院

SHANGHAI ACADEMY OF SOCIAL SCIENCES

# SASS STUDIES

Summer 2018  
Volume 10

## The Situation of Regional Growth Differentiation and the Geographical Pattern of China's New Normal

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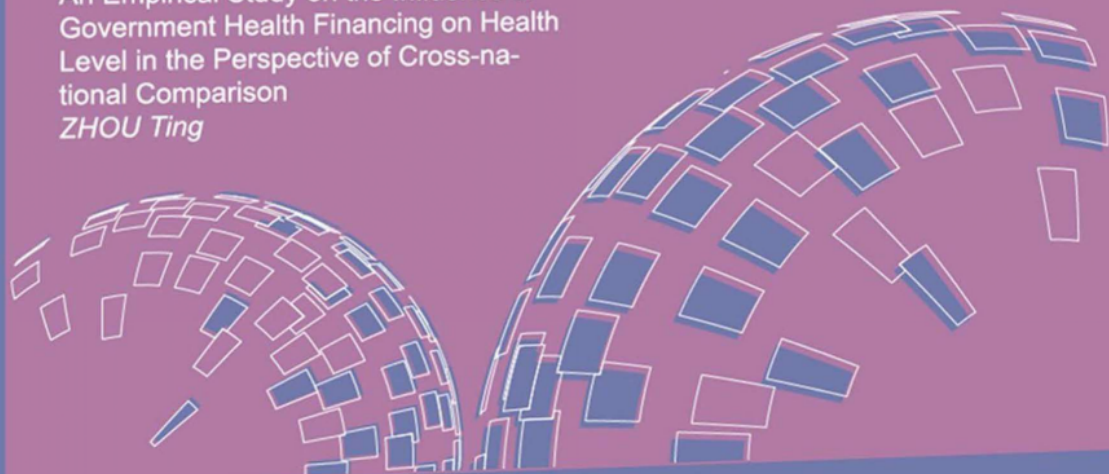
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### 图书在版编目(CIP)数据

区域经济分化态势与经济新常态地理格局:英文/  
盛垒等著. —上海:上海社会科学院出版社, 2018  
ISBN 978-7-5520-2470-8

I. ①区… II. ①盛… III. ①区域经济—研究—英文  
②区域经济地理—研究—英文 IV. ①F061.5 ②F119.9

中国版本图书馆CIP数据核字(2018)第213464号

### 区域经济分化态势与经济新常态地理格局(英文版)

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著者:盛垒等

责任编辑:应韶荃

封面设计:右序设计

出版发行:上海社会科学院出版社

上海顺昌路622号 邮编200025

电话总机021-63315900 销售热线021-53063735

<http://www.sassp.org.cn> E-mail: [sassp@sass.org.cn](mailto:sassp@sass.org.cn)

排版:南京展望文化发展有限公司

印刷:镇江文苑制版印刷有限责任公司

开本:787×1092毫米 1/16开

印张:10

字数:187千字

版次:2018年9月第1版 2018年9月第1次印刷

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ISBN 978-7-5520-2470-8 / F · 548

定价:60.00元

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# The Situation of Regional Growth Differentiation and the Geographical Pattern of China's New Normal

*SHENG Lei,  
QUAN Heng*

**Abstract:** After entering the New Normal, China's regional economy has slowed down in a comprehensive way, with the coexistence of old and new economic growth power. The trend of differentiation between regions has become increasingly prominent, and new features are different from those of the past. In the process of regional economic differentiation, the geographical pattern outlines of China's New Normal becomes clear. Among them, the east coastal provinces achieved high quality development in transformation and take the lead in adapting to the New Normal in the whole country; Some Midwestern areas are still in the development of transformation, the characteristic of New Normal is emerging but not very significant; Resource intensive industries such as the Northeast are still stagnating in the dilemma of transformation and development, and have not yet really entered the new normal development. Areas with much more heavy industries and resource-based

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This paper in Chinese was originally published in Fudan Journal (Social Sciences Edition) 2018 (5).



provinces such as the Northeast region are still stagnant in the dilemma of transformation and development, and haven't yet really entered the New Normal. The reason for such a differentiation is fundamentally because the growth momentum is different significantly between regions in the process of entering the New Normal. In some areas like Northeast region, the old growth momentum is in accelerated decline, and the new one has not yet formed; In many Midwestern provinces, the old one have not decayed completely, while the new momentum is growing up gradually; However, the new momentum is emerging exactly in the Yangtze River Delta and the Pearl River Delta region. Overall, China's economy has not really show a new growth pattern which forced by new momentum. Therefore, it's necessary to facilitate all regions entering the New Normal as quickly as possible by speeding up the transition of new and old growth momentum.

*Keywords:* Regional Growth Differentiation; New Normal; Trend; Geographical Pattern

Since entering the new normal, China's economic growth once registered at double digit rate has slowed down steadily, which also gives rise to "speed anxiety" "transformation confusion" and "pessimistic mindset" across the country.<sup>1</sup> Meanwhile, a still rather vague phenomenon has garnered public attention: China's regional economic landscape has exhibited noticeable differentiation trend. Some regions are sporting vitality with dazzling highlights in transition and upgrade like the southeast coast and Yangtze River Delta region; some regions are staging stunning rise underpinned by great potential in the cases of Chongqing and Guizhou, inland provinces and municipalities in southwest China; some regions are in profound adjustment, lacking growth engine including the old industrial belt region of northeast China. The biggest difference between the current-phase regional differentiation and the past lies in the distress experienced in the shift of economic growth, structural adjustment and transition of new and old growth driver at a time when the Chinese economy goes through a great transformation toward new normal. Thus, it

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<sup>1</sup>Wen Yan, "Lead the New Normal of China's Economic Development and Endeavor to Break New Ground in Marxist Political Economy" [In Chinese], *People's Daily*, June 9, 2017.



has aggravated the complexity of regional differentiation scene, with more diverse elements contributing to the outcome. However, amidst complex regional growth differentiation, regional features and geographic pattern of new normal in China have gradually taken shape. This paper takes an in-depth study of the trend of regional growth differentiation, cause and relations with the new normal of China's economy while examining the regional geographic pattern of China's economic development into the phase of new normal.

### **China's Regional Economic Growth Has Entered A Decelerating Phase**

Today, the world economy is still at the phase of sustained turbulence and energy-saving for the rebound post financial crisis. The overlapping of cyclical transition of world economy and structural adjustment of domestic economy has resulted in China entering in a new normal characterized by slowing-down of growth rate and transition of drivers.<sup>1</sup> China's GDP growth rate has steadily slipped to 6.7% from 10.63% during 2010–2016 timespan as the enlarged economy size, external volatility and internal structural adjustment together set China on a medium-to-high economic growth course from the super-high growth pattern.

The decelerating growth rate marks as one of the key features of new normal of China's economic development. The attendant phenomenon is the slow-down of China's regional economic growth across the board (Table 1). During the "11th Five-Year Plan Period," all provinces, municipalities and autonomous regions recorded double-digit growth rate, with 15 of them exceeding 13%; in the following 5 years, their growth rate dropped below 13% with only 5 of them logging in the growth rate above 11%. Into the 13<sup>th</sup> Five-Year Plan Period, the trend shows no sign of slackening or even reversal. In 2016, most of the regions saw growth rate ease below 8%, with only 3 of them still expanding at double-digit. Besides, with respect to the deceleration range recorded during the two "five-year" periods, 18 of them have seen their GDP growth rate slashed by over 3%, with 3 of them, Inner Mongolia, Liaoning and Jilin, sliding by over 5%, i.e. 7.32%, 6.06% and 5.52% respectively.

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<sup>1</sup>Zhang Zhanbin, "The Shift of Growth Driver under the New Normal of Chinese Economy" [In Chinese], *Frontline*, Vol. 4, 2015.

**Table 1 Growth Rate Change in China's Regional Economy**

		"11 <sup>th</sup> five-year period"	"12 <sup>th</sup> five-year period"	Differential value between the two five- year periods	2016
Eastern region	Beijing	11.22%	7.54%	-3.68%	6.70%
	Tianjin	16.06%	12.40%	-3.66%	9.00%
	Hebei	11.66%	8.48%	-3.18%	6.80%
	Shanghai	11.08%	7.46%	-3.62%	6.80%
	Jiangsu	13.52%	9.58%	-3.94%	7.80%
	Zhejiang	11.84%	8.16%	-3.68%	7.50%
	Fujian	13.56%	10.72%	-2.84%	8.40%
	Shandong	13.08%	9.40%	-3.68%	7.60%
	Guangdong	12.30%	8.50%	-3.80%	7.50%
	Hainan	12.86%	9.46%	-3.40%	7.50%
Central region	Shanxi	11.10%	8.00%	-3.10%	4.50%
	Anhui	13.46%	10.78%	-2.68%	8.70%
	Jiangxi	13.16%	10.48%	-2.68%	9.00%
	Henan	12.84%	9.64%	-3.20%	8.10%
	Hubei	13.68%	10.76%	-2.92%	8.10%
	Hunan	13.86%	10.44%	-3.42%	7.90%
Western region	Inner Mongolia	17.38%	10.06%	-7.32%	7.20%
	Guangxi	13.90%	10.08%	-3.82%	7.30%
	Chongqing	14.92%	12.84%	-2.08%	10.70%
	Sichuan	13.68%	10.80%	-2.88%	7.70%
	Guizhou	12.36%	12.52%	0.16%	10.50%
	Yunnan	11.82%	11.12%	-0.70%	8.70%
	Tibet	12.44%	11.68%	-0.76%	10.00%
	Shaanxi	14.62%	11.08%	-3.54%	7.60%
	Gansu	11.18%	10.58%	-0.60%	7.60%
	Qinghai	12.92%	10.80%	-2.12%	8.00%
	Ningxia	12.64%	9.88%	-2.76%	8.10%
	Xinjiang	10.58%	10.76%	0.18%	7.60%
Northeastern region	Liaoning	13.90%	7.84%	-6.06%	-2.50%
	Jilin	14.90%	9.38%	-5.52%	6.90%
	Heilongjiang	11.98%	8.32%	-3.66%	6.10%

Source: statistics yearbook of provinces, municipalities and autonomous regions

In recent years, the academia has offered wide-ranging theoretical explanations for the decelerating of China's growth rate.<sup>1</sup> One school of thought attributes the cyclical element, i.e. repercussions of financial crisis, to the slowing down.<sup>2</sup> However, the prolonged slow-down and various countercyclical measures taken in the aftermath have not pulled the economic growth back to the ascending trajectory. Thus, the cyclical-impact view lacks the rational grounding to explain the decelerating of Chinese economy. Another view derives from the "Growth convergence hypothesis,"<sup>3</sup> which, stated simply, says that once the per capita income of a developing country catches up or even surpasses developed countries, its growth rate will decline, thus resulting in the growth convergence trend. Take the examples of Japan and South Korea, whose per capita income reached the level of advanced economies of North America and Europe in 1972 and 1991 respectively, their growth rate has since dipped. However, with its GDP per capita at merely \$8,000 against \$30,000–\$40,000 by developed economies, China still has a long way to go. Likewise, the "Growth convergence hypothesis" can't explain the slow-down of China's economy. Some scholars believe that the current slow-down is mainly the policy-induced deceleration resulting from the tightening of macro control and adjustment.<sup>4</sup> In fact, policy factors can best explain the responses taken by the Chinese government a decade earlier to the devastating financial crisis. Then, RMB4 trillion investment package did goose up Chinese economy for quite a long time amid worldwide financial tsunami. However, it apparently can't explain the steep drop of growth rate. Despite the loose or expansionary monetary policy in place for subsequent years, it didn't stimulate sustained high growth for Chinese economy.

Another view that in recent years has emerged as mainstream tool for understanding the deceleration of growth rate after China's economy

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<sup>1</sup>Xu Zheng, Quan Heng, "Economic New Normal: New Experience and New Theories for Catch-up Type of Growth of Major Economies" [In Chinese], *Academic Monthly*, Vol.9, 2015.

<sup>2</sup>Ba Shusong, Hua Zhongwei, Yang Xianling, "The Nature of Chinese Economic Deceleration and Policy Choice" [In Chinese], *China Market*, Vol.37 2012.

<sup>3</sup>Shen Kunrong, Ma Jun, "Growth Convergence: a Theoretical Analysis Framework" [In Chinese], *The Journal of Jiangsu Administration Institute*, Vol.3, 2002.

<sup>4</sup>Li Jianwei, Yu Bin, "Economic Outlook under the Context of Measured Tightening of Macro Control and Adjustment Policy" [In Chinese], *China Economic Times*, January 8, 2010.



enters the new normal: its structural deceleration induced by structural reform.<sup>1 2</sup> Its theoretical evidence derives from Baumol's Cost Disease, an idea raised by American economist William Baumol in 1967. The argument goes that relative to manufacturing sector, productivity in the service sector rises rather slowly bearing the feature of a "stagnant sector"; thus the continuing rising share of service sector in the overall economy will drag down the increase in labor productivity of the entire society, which will trigger the decline of growth rate of a service-oriented economy.<sup>3</sup> In the case of China, the proportion of service industry has steadily gone up and overtaken the manufacturing industry for the past few years, reaching 51.6% in 2016. However, China's service industry still stands at the lower end of the spectrum plagued by high cost, causing the dip of productivity over entire economy. Meanwhile, China is confronted with the excessive production capacity in its real economy induced by serious mismatch of resources, resulting in the slump of resource factor allocation efficiency. The fall of productivity attendant with the rising share of service economy, together with the deteriorating resource allocation efficiency, has resulted in the sustained drop of China's total-factor productivity (TFP). Research indicates that beginning in 1978, the contribution of TFP to China's GDP growth basically exhibited an ascending trend; however, since 2008, it has fallen, especially during the 2007–2014 period slumping to 4% from 12%.<sup>4</sup> Apparently, it's the structural deceleration problem in the structural transition. As structural deceleration must be dealt with structural reform, structural deceleration of the regional economy can only be tackled at bottom through structural transition across China.

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<sup>1</sup>Li Yang, Zhang Xiaojing, "New Normal: Economic Development's Logics and Outlook" [In Chinese], *Economic Research Journal*, Vol.5, 2015.

<sup>2</sup>Quan Heng, New Layout of Co-existence of Old and New Drivers Emerging from China's Economic Growth [In Chinese], June 22, 2017, see WHB.CN: <http://www.she.vc/life/shenghuo/829154.html>.

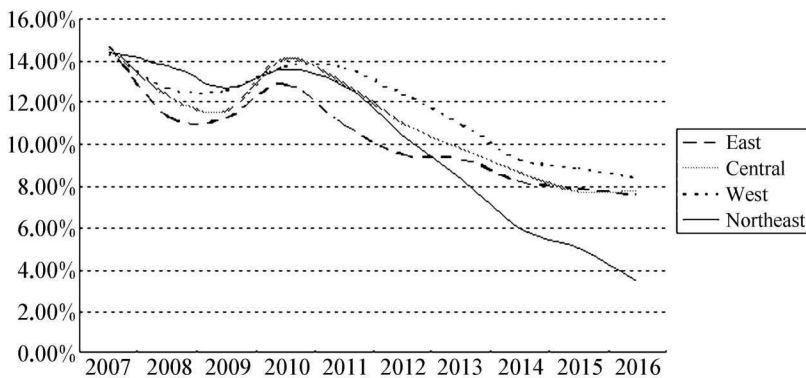
<sup>3</sup>Qing Qianlong, Chen Zhao, Hu Yuehong, "Service Industry: Baumol's Cost Disease or Economic Engine?—American Experience Data and Its Insight for China" [In Chinese], *World Economy Studies*, Vol.5, 2009.

<sup>4</sup>Quan Heng, New Layout of Co-existence of Old and New Drivers Emerging from China's Economic Growth [In Chinese], June 22, 2017, see WHB.CN: <http://www.she.vc/life/shenghuo/829154.html>.

## General Momentum of China's Regional Growth Differentiation since Entering New Normal

Deceleration across the board is a reigning feature of China's regional economic growth under new normal. However, as key resources endowment, development level, and constraints during transition differ drastically across regions, it means the overall economic trend projects pronounced differentiation. The differentiation in regional growth has gathered pace, with highly contrasting performance. For quite long time, people would look and study regional development differentiation from eastern, central and western (area) perspectives. Into the new normal, shift in development momentum has taken place in eastern and central-western region, in line with the increasingly salient growth differentiation between north and south. Even in the same region, growth rate among provinces has shown sign of divergence, new trait that differs from the past.

First, inter-bloc horizontal differential intensifies. Looking at four economic regions, China's economic growth has exhibited the complex picture (Figure 1) marked by "slow dip in the east, steep fall in the northeast, steady growth in the central region, and sustained high growth in the west," in sharp contrast with the "east fast, west slow" pattern maintained for long time. In 2016, except Tianjin and Fujian, other 8 provinces and municipalities saw their GDP grow by less than 8%. The shift from factor intensive investment to raising of TFP and the



**Figure 1** 2007–2016 Economic Growth Rate Comparison of China's Four Regional Blocs

Source: Statistical yearbook of related provinces, municipalities and autonomous regions

accommodating adjustment in the transition process contribute to the gradual slow-down in the east coastal region. Except Shanxi and Hunan, GDP growth rate in the other 4 provinces of the central region exceeded 8%; in the west, barring Inner Mongolia, Sichuan, Shaanxi, Gansu and Xinjiang, GDP expanded over 8% with Chongqing, Guizhou and Tibet surging by 10.7%, 10.5% and 10% respectively. The central and west regions are still at the brink of economic takeoff or the stage of accelerated industrialization, benefiting from the sustained government investment in infrastructure. Powered by government investment and improved business environment, the central and west regions took over the baton of high growth from the east region. Increase in investment, utilization of key factor and complementary development to the east region make up the driving force behind the high-growth in the central and west region at current phase.<sup>1</sup> GDP growth has hit the trough in the early 1990s in the northeast region, with Liaoning recording negative 2.5% of growth, for the first time in a few decades in China. The northeast is in the middle of dual-transition from overreliance on resources to industrial diversification and from excessive dependence on state-owned companies to diversification of ownership structure. The transition overlapping and misalignment between current system and future system cause the precipitous fall of economy of the northeast.

Second, it's worth mentioning that the growth momentum in northeast and southwest among regional blocs has caught observers by surprise. Having been in the lead pack for years, into the new normal, the northeast hits the brake first, registering steep fall in comparison with the moderate slow-down experienced nationwide. It's the so-called "New Northeast Phenomenon." In sharp contrast, the laggard of southwestern provinces still maintains double-digit growth rate taking the lead in the country, hence the acclaim of "Southwest Phenomenon." It's fairly to say that the precipitous fall of "Northeast Phenomenon" and the overtaking from behind "Southwest Phenomenon" have changed the traditional public perception of China's economic growth regional landscape while reflecting the profound shift and major adjustment in the momentum

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<sup>1</sup>Gao Fan, "The Implications of Regional Economy Differentiation and Policy Options" [In Chinese], *The Economic Observer*, April 25, 2016, <http://www.eeo.com.cn/2016/0423/285305.shtml>.



and geographic pattern of China's regional economic development. In essence, behind the "Northeast Phenomenon" lies in the traditional growth driver fast losing steam while the new driver has not taken shape. The lack of old and new economic driver has stifled growth. The "Southwest Phenomenon" is fueled by high investment. In the case of Guizhou, during 2010–2016, its average annual investment shot up by 38% far outstripping the national average of 16% and its own GDP growth rate at 12.2%. In the same period, the weight of investment in Guizhou's GDP further climbed to staggering high of 110% from 89%, far higher than the national average (Figure 2). Thus, it can be seen that the "Southwest Phenomenon" represented by Guizhou is in fact the exogenous growth powered by investment, instead of the endogenous growth achieve through structural adjustment, industrial upgrade and innovation. Regardless of "Northeast Phenomenon" or "Southwest Phenomenon," it's imperative to reinforce structural reform and make innovation the driving force, hence ensuring the early transition of old and new driver for economic growth. Otherwise, no matter how fantastic the growth rate figure looks, the "Northeast Phenomenon" will get even worse and the "Northeast Phenomenon" will end up as a flash in the pan.

Third, the vertical differentiation trend takes on more prominence. Differing from the east-west horizontal differentiation manifested in regional growth years before, when the economy enters the new round of downward trajectory, "vertical differentiation" between the north

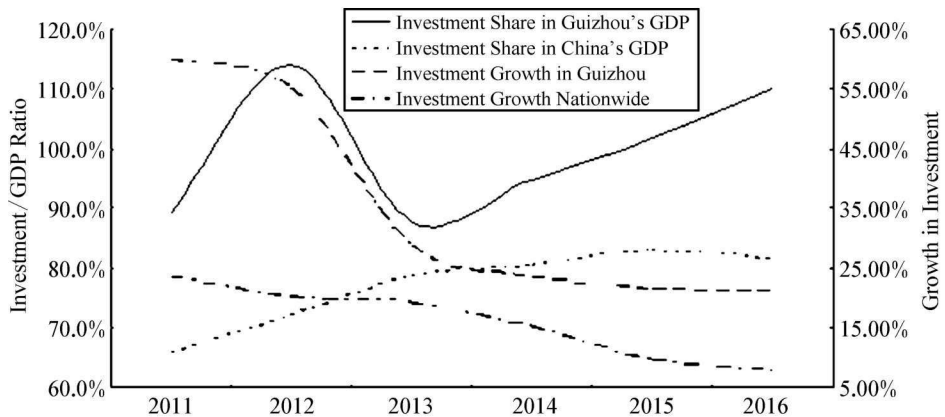


Figure 2 2011–2016 Investment's Share in GDP Trend Both for Guizhou and Nationwide

Source: Guizhou provincial and national statistical yearbook

and south regions is under greater spotlight. In recent years, impacted by the price drop of resource commodity products and overcapacity of traditional sectors, economic and investment growth in northeast, north and northwest regions have slowed down markedly in comparison with the moderate repercussion experienced by the south. In general, the growth prospect of southwest, southern provinces of the central region and southeast coastal region of east looks rosier than northwest, northern provinces of the central region, north and northeast regions. In terms of 2016 GDP growth figure, Chongqing, Guizhou, Tibet, Tianjin and Jiangxi captured the top-5 position, with Tianjin being the lone northern province (municipality); northern provinces of Liaoning, Shanxi, Heilongjiang, Beijing and Hebei took the backseat. The differentiation is reflected in two aspects: 1) growth rate of "south fast, north slow." Comparing the growth momentum between north and south, it's not difficult to draw the pattern-in 2008, southern provinces lagged behind of their northern counterparts by 0.5%; parity was reached during 2010–2012 period; post-2013, the gap widened with south's edge of GDP growth rate extending from 0.7% in 2013 to 1.8% in 2016; 2) GDP weight shows "south rising, north falling." In line with the change of growth rate between Southern and Northern provinces, their weight in overall national economy has shifted. Beginning in 1980s–1990s, the share of national GDP by southern provinces trended up steadily; after 2002, Northern provinces' share improved in the wake of accelerating economic growth; however, since 2012, GDP ratio held by the southern provinces has climbed incrementally, reaching above 60% in 2016, the peak value set since 1980s. The share of Northern provinces in national economy slides steadily, barely holding the 40% ground. It's a new change of great significance in China's regional economic development under the new normal, which not only indicates the further shift to the south of China's economic gravity but also poses new challenges to the coordinated development of China's regional economy.

Fourth, interprovincial differentiation gets more salient. The above discussion shows that into new normal, China's regional differentiation aggravates, bearing conspicuous bloc and belt features. However, despite the division of 4 economic blocs still able to sum up the level and characteristics of China's regional economic development, the 4 economic blocs-based studies conceal internal heterogeneity information. Thus, it is ill-suited to reflect the whole process and issues in regional economic

differentiation, or even mislead. For example, inside northeast bloc, Liaoning differs drastically from the other two provinces; likewise, in the west region, marked difference in economic performance separates Guizhou, Chongqing from rest of the pack. Research shows that GDP growth rate coefficient of variation for 31 provincial-level divisions in 2013–2015 period shot up to 1.760 from 1.443,<sup>1</sup> marking the gradual widening of regional economic divergence. Take a probe inside each bloc, we can find that economic growth at the provincial level diverges radically, coming into the following three growth types.

(1) Bottom-reaching type. It mainly refers to the provinces with noted concentration of resources-dependent and heavy chemical industries, which saw growth rate fall earlier than the rest and are still mired in stagnation. Looking at the changing trend of GDP growth over the past decade or more, three northeast provinces, Inner Mongolia, Shanxi and Hebei began to drop circa 2005, of which Inner Mongolia took the biggest dive from 23.8% in 2005 to 7.2% in 2016. Northeast region followed suit whose GDP growth rate during 2004–2016 declined by 10% with Liaoning falling by 15%; Shanxi's economic growth was shaken by record-breaking fluctuation as its growth rate in 2015 hit the rock-bottom of 3.1% for almost two decades, a slip of around 11% after the two previous rounds of slump in 1999 and 2009. It can't be neglected that due to the sluggish demand on the domestic and international commodity market, the slide in the regional just gets aggravated. Between 2012 and 2016, Liaoning and Jilin's GDP growth rate dropped by 12%, leading any region in China. It indicates the lagging behind of transformation and upgrade of predominant industries and cultivation of replacement industries in the region, as well as the lack of effective driver for economic transition.

(2) Stabilizing amidst slow-down type. Different than resources-dependent Northern provinces, growth rate in the east coastal region started falling at later time; moreover, most of the provinces have seen the drop ranger get narrowed, or even rebound after hitting the bottom. The timing of GDP growth rate fall for Beijing, Yangtze River Delta and Pearl River Delta, the developed regions, centered on 2008. Shanghai

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<sup>1</sup>Gao Fan, "The Implications of Regional Economy Differentiation and Policy Options" [In Chinese], *The Economic Observer*, April 25, 2016, <http://www.eeo.com.cn/2016/0423/285305.shtml>.