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**Access China**

**Shanxi**

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China

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"0 or 0.0" means nil or negligible; "n/a" means not available; "--" means not applicable

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# Shanxi

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## Province summary

### Main economic indicators

	2010	Rank
<b>GDP</b>		
Nominal GDP (Rmb bn)	920	21 out of 31
GDP per head (Rmb)	26,401	18 out of 31
<b>Consumption</b>		
Disposable income per head (Rmb; urban)	15,648	20 out of 31
Total expenditure per head (Rmb; urban)	9,793	29 out of 31
Population (m)	34.8	19 out of 31
<b>External trade (US\$ bn)</b>		
Exports (by location of producer)	6.7	20 out of 31
Imports (by location of consumer)	7.1	22 out of 31
<b>Exchange rate</b>		
Rmb:US\$ (av)	6.77	-
<b>Foreign investment (US\$ bn)</b>		
FDI utilised	0.7	25 out of 31

Sources: Economist Intelligence Unit; National Bureau of Statistics.

Shanxi's abundant mineral resources have proved to be both a blessing and a curse. The province's air quality is among the worst in China and shoddy work-safety standards have led to frequent mining accidents, with a high number of fatalities. The many mining disasters have attracted media attention, and press investigations have revealed attempts by local officials to cover up illegal and corrupt practices.

Shanxi remains a key supplier of coal in China, but it is no longer the biggest: Inner Mongolia is now the country's top coal producer. However, Shanxi still produces more than one-quarter of the country's coal and one-fifth of its coking coal. Government intervention in energy prices makes long-term planning difficult, and Shanxi's excessive dependence on coal production puts it in a vulnerable position. Around 60% of Shanxi's industrial output is coal-related.

Power shortages are common as a result of bottlenecks in transporting coal from mines in Shanxi to thermal-power stations in neighbouring provinces. Much of the earlier stimulus spending has gone towards improving transport links with ports on the eastern coast, and this should benefit Shanxi's coal industry. Massive investment in the power grid should also ensure that Shanxi continues to play a key role in power supply.

Acknowledging the extent of the problems, the government cracked down on small, privately owned mines, which often operate without attention to work safety. Between 2009 and 2011 the provincial government shut down more than 1,500 coal mines, thus eliminating all small collieries (those with an output of less than 300,000 tonnes). There are now 1,053 coal mines in Shanxi, of which more than 70% are capable of producing at least 900,000 tonnes of coal per year. Before these reforms the province was reportedly the site of 4,278 mines.

The coke, iron and steel industries are also being consolidated. The result has been the creation of a few large conglomerates, theoretically able to raise

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workplace standards and also better able to hold their own in the global market.

Alongside this consolidation, the province plans a five-year economic overhaul. This is not expected to shift the economy radically away from the mining sector. China's need for the region's coal is too great; between 1949 and early 2012, Shanxi is said to have excavated 13bn tonnes of coal, of which 9bn was sold outside the province.

The government encourages the development of alternative energy forms, such as coal-bed methane, coal gas, coal oil, solar power, wind power and biomass energy. It is also seeking to make better use of "waste" that results from these main industries, and to diversify into manufacturing, tourism, agriculture and other industries.

## Highlights

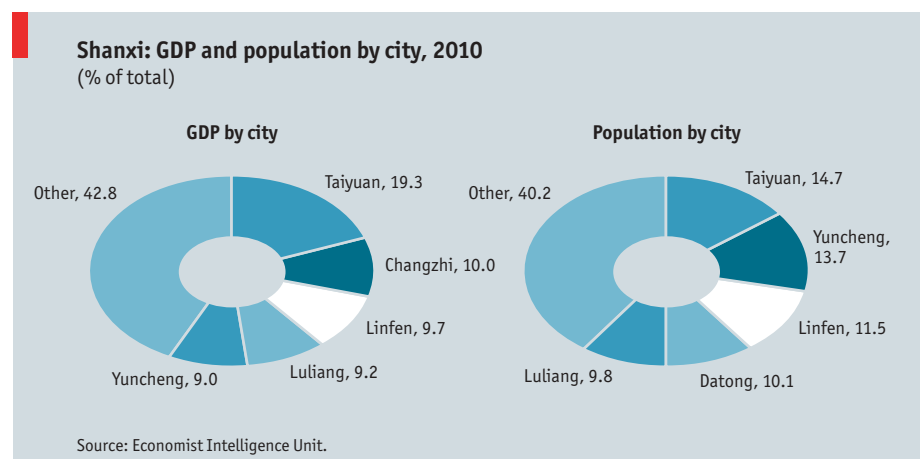
- Economy**
- In 2011 real GDP growth in Shanxi remained robust at 13.1%, barely slowing from the 13.9% recorded in 2010. Property investment continued to play a large role in the economy, and despite measures put in place to rein in speculation, investment continued to grow at a rapid pace. In 2011 Shanxi made it to China's "GDP trillion yuan" club.
  - In 2012, investment will cool from the breakneck pace of growth recorded in 2010-11 as property developers begin to feel the impact of tightened credit conditions. Growth in provincial trade is suffering as global markets remain weak. As such, the Economist Intelligence Unit forecasts that GDP growth over the year will slow to 10.6%.
  - In 2011 fixed capital investment was Rmb737.3bn (US\$117bn), up by 27.3%. Investment in non-coal industries reached Rmb209.7bn, equivalent to 63% of all industrial investment in the province. Attempts to diversify Shanxi's economy are gaining momentum. The "cultural" industry grew by 32% year on year in 2011, realising value-added of Rmb38bn (US\$6bn). By 2015 the government seeks to realise a cultural industry value-added of Rmb100bn, which it believes will establish the sector as an important contributor to Shanxi's economy.
- Industry**
- In April 2012 the Shanxi Bureau of Human Resources raised minimum wages by around 15%, with the lowest level enjoying an increase of 15.5% and the highest level a rise of 14.8%. The four minimum monthly rates applying to different regions of the province were increased to Rmb1,125 (US\$179), Rmb1,035, Rmb945 and Rmb855. The increases came a year after the rates were raised by around 15.5%. As of May 2012, Shanxi's minimum wage rates were the highest among the central provinces.
  - In 2011 Shanxi produced 870m tonnes of coal, up by 17.7% year on year. Investment in the sector is expected to be Rmb75bn, or 10% of the provincial investment. More than 600 coal projects have either started production or are under construction in the province. Further consolidation in the sector is expected to reduce the number of coal mines in the province to around 800 by 2015 (down from 1,053 coal mines in 2011).
  - Expected tax reforms on natural resources have spurred Shanxi officials to consider annual caps on coal production. The change could see the tax basis shift from one based on the volume of coal produced to the market value of coal. (In November 2011, taxes for crude oil, natural gas and coking coal were placed under the value-based system.) As a result, officials are considering limiting the province's annual coal output to 1bn tonnes/year by 2015. Authorities may also adopt protective measures to limit production of scarcer varieties, such as coking coal and anthracite.
  - In seeking to move up the processing and environmental value chain, coal mining companies in Shanxi spent more than Rmb9bn (US\$1.4bn) on research and development (R&D) in 2011. This resulted in three invention

patents for Datong Coal Mine Group and 12 for Jincheng Anthracite Mining Group. Shanxi's larger coal enterprises have also forged scientific relationships with more than 80 colleges and research institutes nationwide, with the aim of upgrading their technology level.

- In line with national-level directives to diversify the economy, the Ministry of Industry and Information Technology announced in July 2011 that Rmb15bn (US\$2.4bn) would be invested in a new industrial park in the provincial capital, Taiyuan, focusing on the promotion of small and medium-sized enterprise start-ups.
- In April 2012 the first direct flight between Taiyuan and Osaka (Japan) was launched. China Eastern Airlines offers a round-trip service between the cities every six days. A Taiyuan-Shizuoka service is expected to begin soon, and Hainan Airlines is likely to introduce a Taiyuan-Sanya-Singapore service.
- With Shanxi's coal mines now under consolidation and the province promoting economic upgrade, coal companies are expanding into other areas, such as culture. In 2011 around 90% of famous historical and scenic spots in Shanxi were being developed by coal-mining companies. An estimated Rmb32bn (US\$5bn) was invested by mining companies in the cultural sector, according to provincial statistics.

## Consumer profile

- At Rmb18,124 (US\$2,877) in 2011, the average urban disposable income per head represented an increase of 15.8% on the previous year. Urban expenditure per head in 2011 increased by 15.9% to Rmb11,354.
- Rural intake expanded faster than urban income in 2011, although the income gap remained significant. The average rural net income per head was just Rmb5,601, up by 18.3%, while rural expenditure per head rose by 25.2% to Rmb4,587.
- Taiyuan, the provincial capital, is the wealthiest city in Shanxi and the most logical point of entry for international retail chains. Many luxury brands have a retail presence in Taiyuan, a natural entertainment hub for Shanxi's "coal bosses"—small mine operators who have made quick fortunes on the back of high coal prices. Two upmarket Swiss watchmakers, Frédérique Constant and Longines, have opened boutiques in the city. However, official statistics do not show that Shanxi has a higher proportion of super-wealthy households than other provinces.
- Shanxi's luxury car market has also been expanding. Several international companies have opened dealerships in Taiyuan, including German-owned brands such as Audi, BMW and Bentley, as well as does Land Rover (a British brand now owned by Tata Motors of India).
- The 2010 national population census found that Shanxi had a resident population of 35.7m, which was marginally higher than Economist Intelligence Unit estimates of 34.8m for the year. Shanxi's urbanisation rate is slightly below the national average. We estimate that around 47% of the population resides in urban areas.
- In 2011 150m tourists visited Shanxi province, of which just over 1.55m were international visitors. This reflects growth of just over 19% for each category, with tourism revenue reaching Rmb134.3bn, of which US\$570m was in foreign exchange, reflecting growth of more than 20%.





## National and provincial initiatives

	Plan	Includes	Purpose
National	"Rise of central China" ( <i>Zhongbujueqi guihua</i> )	Policy formulations are vague compared with those for the west and the north-east.	To accelerate the development of the central region.
Provincial	Protection and restoration of aquatic ecosystem	Set legal limits on the amount of groundwater used in coal mining; put in place systems to prevent excess run-off and to measure levels of groundwater.	To protect water resources and prevent industrial pollution.
	Eliminate low-tech production of coking coal	Eliminated 200m tonnes of outdated coal production capacity (2008-10). In 2010 the Ministry of Industry and Information Technology ordered 226 backward factories in 15 industries (including coking coal) to shut down.	Environmental protection and consolidation of the industry.
	Develop wind farms	Expand wind-power generation capacity in the province to 12 gw by the end of the 12th five-year plan (2011-15). Wind farms will be built in areas rich in wind-energy resources, such as the prefectures of Datong and Shuozhou.	Diversification of energy sources.

## Industry

### Recent projects

	Company	Activities	Investment value
<b>Emerging sectors</b>			
High-tech manufacturing	Zhejiang Geely (China)	Agreement signed with Jinzhong authorities to build new-energy (methanol) vehicle production line by 2012, with an annual output of 100,000 vehicles in the first phase. (Yuci district, Jinzhong)	—
New energy	Bentley (UK/Germany)	Opened a dealership in late 2011. (Taiyuan)	—
New energy	Foxconn (Taiwan)	Established Foxconn (Jincheng) Science and Technology Industrial Park (Area B) to produce optical communication equipment. Area A is due for completion in 2013. (Jincheng)	Rmb4bn (US\$635m)
Pharmaceuticals	Foxconn (Taiwan) and Golden Concord Holdings (GCL Group, China)	Building a 300-mw solar-power station in Datong.	Rmb90bn (US\$14.3bn)
Property	Hong Kong Green New Energy Holding Group (Hong Kong)	Announced in Aug 2011 the building of a thin-film photovoltaic cell project. (Taiyuan)	US\$2bn
<b>Major sectors</b>			
Building materials	Shanshui Group (China)	Building a cement plant with annual output of 1m tonnes. (Hequ county, Xinzhou)	Rmb300m (US\$47.6m)
Building materials	Xishan Coal Electricity Group (China)	Building cement plant with annual output of 2m tonnes; completion is expected in 2013. (Xinzhou city)	Rmb800m (US\$127m)
Energy	CNOOC (China)	Building a coal-to-gas facility with a gas production capacity of 4bn cu metres a year, together with Datong Coal Mine Group.	Rmb30bn (US\$4.8bn)
Energy	CNOOC (China)	Signed an agreement with the Shanxi government in Oct 2010 to build a coal-to-gas project with annual gas-producing capacity of 10bn cu metres, within five years.	Rmb50bn-100bn (US\$7.9bn-15.9bn)
Energy	Sinopec (China) and Shanxi International Energy Group (China)	Established Shanxi Guohua Energy, a joint venture overseeing work on the Taiyuan-Changzhi section of a coalbed methane and natural gas pipeline network. When completed, the network is expected to carry 5bn cu metres of natural gas a year.	Rmb500m (US\$79.4m)
Energy	Huadian Coal Group (China)	Huadian Coal Group signed an agreement to co-operate with Linfen city on large-scale energy projects, including a coal mine, power plants and equipment manufacturing. (Linfen)	Rmb50bn (US\$7.9bn)
Energy	China Guodian Corporation (China)	Signed an agreement to construct a gas-fired power plant in Taiyuan. Total installed capacity will be 350 mw.	Rmb3.15bn (US\$500m)
Steel	Taiyuan New Jin Merchants Alliance, Shenzhen Shanxi Merchants Investment, Hebei Shanxi Merchants Investment, and Porter Group (all China)	Building an industrial park, which will include office buildings, a hotel and convention facilities.	Rmb12.7bn (US\$2bn)

**Industrial structure** In 2011 the primary sector accounted for just for 5.8% of Shanxi's GDP, the secondary sector a massive 59.2% and the tertiary sector 35%. The secondary sector recorded a stellar performance, with growth of 16.5% year on year. Within the tertiary sector's contribution to GDP, the value added of the wholesale and retail industry amounted to Rmb84.7bn (US\$13.4bn), storage and postal Rmb73.63bn and finance and insurance Rmb48.94bn.

Metallurgy, coal, coke and power are the main industries in Shanxi. Around 60% of GDP is directly related to the coal industry. These are vulnerable to

variations in the national investment climate. Sales revenue from these industries rose by 42.5% year on year in 2010, to Rmb1trn (US\$158.7bn).

The province has a large steel industry, which is also susceptible to the national climate. Steel prices were shaky in 2009 owing to low demand and excess capacity, but following a recovery in property sales, steel output growth reached 25% year on year in 2010.

Just over one-half of Shanxi's fixed-asset investment of Rmb737.2bn in 2011, or Rmb386.7bn, was driven by state-owned and controlled firms, up by 16.2% on the previous year. Emerging industries include equipment manufacturing, pharmaceuticals and food products.

### **Industrial trends**

In 2010 Shanxi was designated a national comprehensive reform pilot area for economic transition. The provincial government is making great efforts both to upgrade its main industries and to diversify its industrial structure.

Each year Shanxi produces 110m tonnes of coal gangue—a by-product of the excavation of coal. In the past this material was worthless, but new technologies enable it to be used for generating power. Around 55% of the coal gangue output could be used for power generation, according to an official study. The provincial government is exploring this avenue as a way of better utilising the “waste”.

The province's major industries and their enterprises are consolidating. Shanxi had reduced the number of coal mines operating in the province by nearly 60% by the end of 2010. The mergers are aimed at creating larger coal enterprises, each with a minimum output capacity of 3m tonnes/year (t/y). Each active mine shaft is to produce at least 900,000 t/y (up from 300,000 t/y).

Four coal-mining giants, with an annual production capacity of more than 100m tonnes, have emerged from this consolidation, and nearly three-quarters of total provincial output comes from state-owned major mines. In 2011 the province allocated an extra Rmb75bn (US\$11.9bn) to pursue the restructuring and modernisation of its mines. It also has plans to integrate nine major coke producers and reduce coke output to 120m tonnes by 2015. This is part of an effort to reduce energy consumption per tonne of coke produced.

The restructuring and consolidation of 200 iron and steel companies in China are led by two state-owned steel giants: Taiyuan Iron and Steel Group (TISCO, with production bases regrouped in Taiyuan, Luliang, Linfen and Yuncheng) and the Hebei-based Shougang Group (with production bases in Changzhi, Datong and Jincheng). Locally, the Shanxi government aims to cultivate around 50 leading enterprises, and to build ten new industrial parks for the promotion of strategic emerging industries, which include coal chemicals and coalbed methane technology engineering.

ChinaCache International, Shanxi Wentian Technology and the Shanxi branch of a telecommunications giant, China Unicom, signed an agreement in December 2011 to build the largest cloud-computing data centre in the province, suggesting that efforts to broaden the base of the provincial economy are starting to bear fruit.

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Greater direct international flight connections between Shanxi's capital and cities in Asia should be expected to enhance the province's tourism and business links. Similarly, the 2014 completion of a freight rail line to Shandong should allow greater exports of Shanxi's present and future commercial output, coal-related and otherwise.

## Infrastructure

### Recent projects

	Type	Link	Completion
Recently completed	Rail	Taiyuan-Yinchuan railway; Yinchuan is the capital of Ningxia Hui autonomous region	Jan 11
Due for completion	Rail	Taiyuan South Railway Station complex	End-2012
	Rail	Railway for coal transport from Jiafeng to Nanchenpu	Sep 12
	Air	Wutai Mountain Airport, Dingxiang county, Xinzhou	Dec 12
	Rail	High-speed railway linking Taiyuan and Datong with Xi'an, the capital of Shaanxi province	2013

## Politics

Position	Name	Age	Native province	Previous position
Party secretary	Yuan Chunqing	60	Hunan	Governor of Shaanxi province
Governor	Wang Jun	60	Shanxi	Chief of State Administration of Work Safety

The former provincial governor, Meng Xuenong, resigned in September 2008 following a devastating mudslide (caused by the collapse of a mine landfill) that was reported to have killed more than 250 people. The current governor, Wang Jun, is a native of Datong city with a background in mining and industrial safety. Mr Wang worked in a mine himself in the early 1970s, before going to college to study coal mining. In the late 1990s he served as deputy director of the State Bureau of Coal Industry, and in 2008 he served as director of the State Administration of Work Safety. Other leaders of note in Shanxi's government include the executive vice-governor, Li Xiaopeng, son of a former premier, Li Peng. Li Xiaopeng was chairman of the state-owned power company, Huaneng, from 1999 to 2008.

Despite Mr Wang's appointment, a mine flood at Wangjialing in Yuncheng city took the lives of 37 workers in March 2010, although 115 others were rescued. The provincial authorities claim that mine safety measures have improved; the mortality rate for every million tonnes of raw coal fell from 0.90 in 2005 to 0.19 in 2010. A total of 139 workers were reported to have died in mine accidents in 2010, down from 500 in 2009 and 1,661 in 2008.

Coca-Cola Shanxi Beverages was forced to apologise and defend its standards after batches of Coca-Cola and Fanta drinks produced in early February 2012 were found to contain residual chlorine. The company's general manager stepped down following the incident, and steps were taken to prevent chlorine (used for routine pipe-cleaning) from contaminating the drinks. The provincial government ordered the suspension of production until corrective measures were put in place.

## Provincial cities

### Key city data, 2010

	Population <sup>a</sup> (m)	Metropolitan population <sup>a</sup> (m)	GDP per head <sup>a</sup> (Rmb)	Annual wages (Rmb)	Income per head (Rmb)	Exports (US\$ m)	Utilised FDI (US\$ m)
Shuozhou	1.5	0.3	44,659	32,530	17,558	10	n/a
Jinzhong	2.9	0.4	26,071	29,024	17,394	223	48
Jincheng	2.3	0.5	32,090	40,029	17,353	212	59
Taiyuan	5.1	4.3	34,808	37,634	17,258	3,138	283
Changzhi	3.2	0.7	28,442	33,418	17,123	43	8
Yangquan	1.5	0.7	29,393	42,371	17,084	131	n/a
Linfen	4.0	0.4	22,351	26,601	16,145	146	12
Datong	3.5	1.5	19,734	34,433	16,103	125	42
Luliang	3.4	0.2	24,737	31,048	15,278	274	122
Yuncheng	4.8	0.3	17,367	23,690	14,952	283	140
Xinzhou	2.9	0.2	15,037	24,402	14,939	125	0

<sup>a</sup> Economist Intelligence Unit estimates.

Source: *Shanxi Statistical Yearbook 2011*.

## Forecast summary

	2011	2012	2013	2014	2015	2016
<b>GDP</b>						
Nominal GDP (Rmb bn)	1,110.0	1,284.3	1,498.5	1,724.3	1,961.4	2,229.9
Real GDP growth (%)	13.1	10.6	11.5	10.3	9.5	8.8
<b>Expenditure on GDP (Rmb bn)</b>						
Private consumption	346.8	406.0	473.5	544.8	622.8	709.5
Government consumption	131.9	150.6	173.6	198.0	226.4	258.0
Gross fixed investment	734.9	850.0	978.2	1,106.7	1,238.8	1,394.0
Stockbuilding	28.6	29.8	24.0	26.7	32.2	36.2
Foreign balance	-132.2	-152.1	-150.8	-151.9	-158.9	-167.8
<b>Population and income</b>						
Population (m)	35.1	35.4	35.7	35.9	36.2	36.4
GDP per head (Rmb)	31,609	36,294	42,028	48,004	54,216	61,216
Real wages (% change, year on year)	9.3	8.6	7.3	8.2	8.3	7.9
<b>Prices</b>						
Consumer prices (av; % change)	5.2	4.5	5.5	4.3	3.8	4.4
Producer prices (av; % change)	7.5	3.7	3.1	6.4	6.5	5.1
<b>Foreign investment (US\$ bn)</b>						
FDI utilised	0.7	0.8	0.9	0.9	1.0	1.1
<b>External trade (US\$ bn)</b>						
Exports (by location of producer)	7.7	5.1	7.3	9.0	10.6	12.3
Imports (by location of consumer)	8.6	7.9	9.5	10.7	12.4	14.3

Source: Economist Intelligence Unit.

## Annual data

	2005	2006	2007	2008	2009	2010
<b>Expenditure per head (Rmb)</b>						
Urban	6,342.6	7,170.9	8,101.8	8,806.6	9,355.1	9,792.7
Food	2,056.8	2,252.5	2,600.4	2,974.8	3,071.9	3,052.6
Healthcare & medical services	538.7	590.0	640.2	769.8	789.9	774.9
Transport & communications	604.4	825.2	1,028.0	931.3	1,095.8	1,340.9
Culture, education and recreation services	932.5	1,007.9	1,054.1	1,041.9	1,070.6	1,229.7
Rural	1,877.7	2,253.3	2,682.6	3,097.5	3,304.8	3,663.9
Food	596.8	659.0	820.6	956.5	988.4	1,124.9
Healthcare & medical services	102.9	142.7	170.9	210.3	240.9	328.9
Transport & communications	160.3	224.2	268.8	328.7	324.9	357.7
Culture, education and recreation services	279.5	339.8	371.0	380.7	416.9	420.2
<b>Ownership (Units per 100 households)</b>						
Urban						
Cars	3.1	4.0	4.7	8.4	10.0	11.5
Refrigerators	87.1	88.6	89.9	85.6	31.1	90.2
Colour televisions	113.7	115.0	113.1	110.5	111.0	111.8
Personal computers	30.2	35.2	39.1	47.2	49.5	54.1
Mobile Telephones	109.7	122.5	127.4	136.4	137.5	146.6
Rural						
Cars	0.3	0.7	0.9	–	–	–
Refrigerators	14.4	17.6	22.7	23.1	25.5	29.2
Colour televisions	82.3	98.4	102.1	104.1	107.1	109.0
Personal computers	0.6	1.4	3.4	3.5	6.2	8.7
Mobile Telephones	27.6	51.8	66.8	78.8	94.3	107.7
<b>Domestic investment by sector (Rmb bn)</b>						
Mining	29.6	35.1	41.1	53.1	68.9	106.9
Production & supply of electricity, gas & water	27.2	31.3	42.4	48.2	53.2	52.6
Construction	0.4	0.8	1.1	1.8	2.3	1.7
Transport, storage and post	21.8	21.1	24.7	31.0	73.6	89.6
Hotels and catering services	0.9	1.5	2.0	2.6	4.4	3.9
Banking and insurance (Financial Intermediation)	0.2	0.1	0.0	0.1	0.2	0.3
Real estate	23.4	32.1	47.7	65.5	92.3	113.7
Education	3.6	4.3	4.8	5.7	10.3	24.2
Health, social security & social welfare	1.0	1.0	1.0	1.9	3.6	5.6
<b>Sectoral trends</b>						
Building area under construction: Residential (m, sq metre)	40.5	61.5	72.5	76.4	96.5	117.0
Energy consumption: Total (m, tonnes SCE)	123.1	135.0	146.2	146.6	155.8	–
Retail trade: Cosmetics (Rmb bn)	0.5	0.3	0.4	0.5	0.6	0.9
<b>Income (Rmb)</b>						
Urban disposable income per head	8,914	10,028	11,565	13,119	13,997	15,648
Highest 20%	16,951	19,013	23,275	27,099	29,053	32,481
Rural net income per head	2,891	3,181	3,666	4,097	4,244	4,736
Highest 20%	–	–	–	–	–	–

Source: National Bureau of Statistics.



**GDP growth in comparable provinces**

(%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Shanxi	15.9	8.5	5.4	13.9	13.1	10.6	11.5	10.3	9.5	8.8
Shaanxi	15.8	16.4	13.6	14.6	13.9	13.2	12.8	11.3	10.1	9.5
Hebei	12.8	10.1	10.0	12.2	11.3	10.0	10.5	10.2	9.7	9.1
Av of all provinces	14.6	12.0	11.6	12.8	11.7	10.6	11.1	10.4	9.7	9.0

Note. Provinces are compared with two others either in the same region or with similar development indicators.