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# The Role of Infrastructure Capital in China's Regional Economic Growth

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## Abstract

This study investigates the relationship between infrastructure capital and China's regional economic growth for the period 1990 to 2013. Four types of infrastructure are considered: electricity generating capacity, roadway, railway, and telecommunications. Using a vector error correction model, we find mixed support across time period and region for the contribution of infrastructure investment to economic development. With regard to road construction in lagging regions in particular, the impact appears to have become negative under a program of ramped up efforts. The results resonate with the theoretical literature on the inverse U-shaped relationship between infrastructure investment and growth which posits a "crowding-out effect" of private capital when infrastructure investment becomes too dominant.

## 1. Introduction

Much is known and written about China's fast growth. The export-led and investment driven development model has been applauded by many scholars and policymakers as the key to China's economic growth (Prasad and Rajan 2006, Riedel 2007). Less is known, however, about the role of infrastructure investment in China's development. Along with rapid growth and significant improvement in people's lives is a corresponding boom in infrastructure investment. According to the World Bank (1995), China's infrastructure spending was about 6.5% of GDP in 1993, well above the average level of 4% of GDP for developing countries. By 2009, investment in infrastructure sectors, including energy, transport, telecommunications, water and sewage, etc., reached 15% to 20% of

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