



## Tibet Watch Special Report August 2007

### **Perversities of Extreme Dependence and Unequal Growth in the TAR**

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#### Executive Summary

This first in a series of independent analyses by Andrew Martin Fischer, commissioned by Tibet Watch, a research-based organisation established in London in 2006, examines the rapid growth that has been generated in the Tibetan Autonomous Region (TAR) through the extremely heavy government spending and investment strategies of the People's Republic of China (PRC).

His analysis, based on official government statistics and supplemented with observations from the ground, reveals that the majority of Tibetans are increasingly marginalised from rapid growth. This is due to extreme and inefficient dependence on government sources of finance from outside the province (mostly from Beijing), together with the fact that such finance continues to be targeted at urban areas and sectors where Tibetans have the hardest time competing with Chinese migrants. Instead, the opportunities created largely advantage workers and entrepreneurs with Chinese-fluency, Chinese work cultures, and connections to government or business networks in China. This combination in turn exacerbates inequality and the exclusionary dynamics of growth, given that the majority of Tibetans have more and more difficulty accessing the state or private networks that control the dominant sources of wealth in the economy. Therefore, the most urgent problem within these developments is what the author calls '*ethnically exclusionary growth*'.

The highlights of the analysis include the following:

- According to detailed statistics available up to the end of 2005, the TAR economy doubled from 2000 to 2005. Underlying this, the economic value of construction and the tertiary sector tripled, whereas industry and mining only grew by three-quarters and agriculture by only one-third.
- The tertiary sector itself accounted for 64% of the economy and 66% of economic growth in the first half of 2007 (i.e. it is not only huge, it is also growing fast).
- Government administration probably continues to be the largest single category within this rapidly expanding tertiary sector, as it was in 2001 when it accounted for 13% of the economy

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(compared to 2.7% in China overall). This unusually large and rapidly growing category might indicate military or security concerns.

- Despite huge increases in tourism in recent years, with tourists possibly exceeding the Tibetan population of the TAR for this first time this year, government administration still holds more economic importance than the expected tourist revenue.
- Economic growth in the TAR is fuelled by massive injections of subsidies and subsidized investments, largely funded by Beijing, although given the way that these subsidies are spent, and who spends them, the government is in fact digging the local economy deeper and deeper into dependence on these subsidies.
- The combined level of budgetary subsidy and subsidised investment rose to an astonishing 120% of the economy in 2004 and 2005. In other words, the government was apparently spending or investing more in the TAR than the entire economic activity recorded in those years.
- Correspondingly, these subsidies and subsidised investments were incredibly inefficient, characterised by a 'negative multiplier effect' on growth; there was only 0.5 yuan of GDP increase in the TAR for every one yuan of increased subsidies and investment in 2001, and the situation had barely improved by 2005. This remarkable inefficiency has been consistent since the government started to subsidise the TAR intensively in the late 1960s. Current development policies seem to be only intensifying the problem rather than solving it.
- The general characteristics of who controls the subsidies and how they are spent results in their considerable leakage from the province. In other words, money goes in and goes out, without much turnover to benefit local production or demand, besides a skimming of trade and services, which again is dominated by outsiders and based on imports from elsewhere in China.
- The situation also results in sharp polarisation of wealth. Urban-rural inequality in the TAR reached a peak in 2002, at the highest-level China has ever seen by far. It fell slightly after 2002, although inequality within the urban areas themselves has been increasing sharply since the late 1990s, when it was already at one of the highest levels in China.
- Despite occasional government assertions to the contrary, official statistics up to 2005 do not show any improvement in education levels. Illiteracy was still at 45%, urban illiteracy at 41%, and the proportion of the population with secondary education and above at only 11.5%.
- The last group – those with secondary education and above – are probably the only Tibetans with a decent degree of Chinese fluency and who can therefore hope to take advantage of urban economic opportunities based on Chinese-fluency, Chinese work cultures, and connections to government or business networks in China. They might benefit handsomely under this system, although the rest have to contend with increasingly competitive conditions in which they are invariably disadvantaged.

In this context, Fischer argues that we should be more concerned about rising inequality, particularly given the extreme state of external dependence and local disempowerment that characterises growth in the TAR.

## Introduction

The official Chinese press recently came out with a series of articles reporting the latest statistics on the phenomenally rapid economic growth that has been taking place in the Tibet Autonomous Region (TAR) since the mid-1990s through sheer force of Central Government subsidies. Given that we are now a year before the opening of the Olympics in Beijing, it is a good time to take stock of what has been happening to the TAR and its people.

Essentially, the most urgent economic problem facing development in Tibet at this time is what I have called 'ethnically exclusionary growth' in my recent book, *State Growth and Social Exclusion in Tibet: Challenges of Recent Economic Growth* (NIAS Press, 2005). This means that despite exceedingly rapid economic growth, or precisely because of the exceedingly rapid *unequal* growth and its extreme dependence on outside sources of funding, the majority of Tibetans are just as rapidly being marginalized from this growth. In other words, they have less and less ability to act as significant participants or beneficiaries in the rapidly growing parts of the economy, even while their traditional bases in farming and herding are less and less able to sustain their livelihoods.

This does not mean that all Tibetans are excluded. Indeed, there is a small minority of Tibetans who have been doing very well, particularly those with privileged access to channels of state-subsidized wealth such as cadres and other government employees. However, it does mean that those who are excluded tend to be Tibetan, and the majority of Tibetans at that. Also, in absolute terms, many Tibetans of this majority might be slowly becoming better off. It appears to be a fact that Tibetans on average in the TAR have been gradually improving their economic situation, slowly but surely through the force of 'trickle down' (and in many cases, caterpillar fungus); year by year, they eat more and more meat, butter and other staples; they have more and more mobile phones, motor bikes, televisions and other durable goods; and they spend more and more money on internet cafes and karaoke bars. Yet it would be surprising if this were not the case given the sheer torrent of subsidies that the Central Government has been spending and investing in the TAR. What is surprising is how little does in fact trickle down. This situation arises precisely because of who controls the subsidies and investments (mostly the government itself along with Chinese out-of-province state-owned enterprises) and where the money is spent (mostly in urban areas or in large infrastructure projects).

The government argues that this is not a problem so long as the situation of the average Tibetan is gradually improving. And so the official press cites beaming Tibetan shop owners who report that the railway has supplied more, fresher and cheaper produce such as instant noodles and bottled drinks (e.g. Shanghai Daily, 30 July 2007), or else other Tibetans who seem satisfied with the opportunities that have opened in the wake of the complete overhaul of their economy. Many western journalists over the past year have similarly jumped on the central government bandwagon by uncritically assessing the economic impacts of the railway and simply citing a few Tibetans who have benefited from some of the jobs reserved for them.

However, inequality is just as important a consideration, given that it determines the ability of those at the lower end of the economy to access the parts of the economy where most of the opportunities of growth are being generated. In other words, if the current situation does not change quickly, there is a risk that Tibetans will be ghettoized within their own homeland, in a form

of economic segregation based on privileged access to the state controlled levers of almost all aspects of the economy outside agriculture.

This article discusses these issues by first analyzing the experience of recent growth through the most recently available data to date, then by exploring the dilemmas of dependence and the problems of polarization and exclusionary growth. It concludes with a reminder that the challenge of subsidizing the TAR should be to provide opportunities for the disadvantaged Tibetan majority of the region, rather than simply enhancing the wealth of a privileged few.

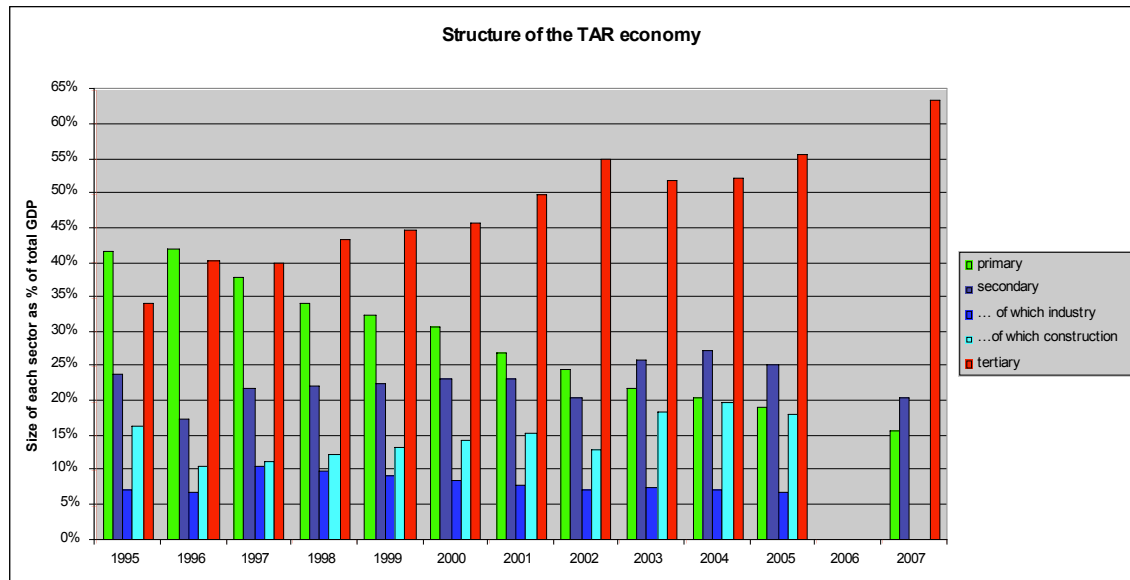
## Recent Growth

A recent article from the People's Daily (25 July 2007) reported that the economy of the TAR grew by 14.7% in the first half of the year, the highest rate of growth recorded over the past decade. If the economy continues to grow at the same rate for the rest of the year (which it probably will given that it is mostly determined by government subsidies), it will have doubled in the short span of five years since 2002, or more than quadrupled over the last decade since 1997. To offer a comparison of what this means, the Chinese economy has tripled over the last ten years, and this has been the fastest (and largest) experience of rapid economic growth the world has ever seen. In the TAR, growth has been about one-third faster.

However, more significant is where this growth has been taking place. Comprehensive statistics of the GDP (Gross Domestic Product – a measure of all the value created in an economy in one year) are currently available up to the end of 2005. According to these measures, GDP doubled in the five years from 2000 to 2005. Agriculture, the largest sector up to 1996 and employing about three quarters of the workforce in 2000 (mostly Tibetan), only grew by about one third. Industry and mining grew from a very small base by about three quarters. The GDP value of construction, on the other hand, almost tripled, becoming almost as large as agriculture itself and almost three times larger than industry and mining (in every other province in China, construction is only a fraction of industry). This shows that construction has been disconnected from productive activities in the economy (i.e. activities that produce and transform goods, rather than services). Rather, construction is most closely related to the tertiary sector (a combination of government and party administration; social services such as education and health; trade and commerce; transport; and various other services), which also almost tripled.

The tertiary sector itself has become a predominant part of the economy, accounting for 64% of GDP in the first half of 2007. This represents a phenomenal structural change in the economy; in 1995 the tertiary sector only accounted for 34% of GDP, while this rose to 46% in 2000 and then up to 56% by 2005. Thus, in the year and a half since the end of 2005, it has risen by almost as much as it did in the previous five years. In contrast, the primary sector (farming and herding) fell from 42% of GDP in 1995, to 31% in 2000, 19% in 2005 and less than 16% in the first half of 2007. The secondary sector (more than three-quarters based on construction and less than one quarter on industry and mining) has remained consistent at around 20% of GDP, albeit underlying this has been a shrinking share of industry and mining and a growing share of construction, as noted above. Mining might be starting to take some prominence with the recent increased interest stimulated by high copper and other mineral prices, as well as by the opening of the railway to facilitate transport, although this remains to be seen; we cannot yet see the impact of this in the 2005 data.

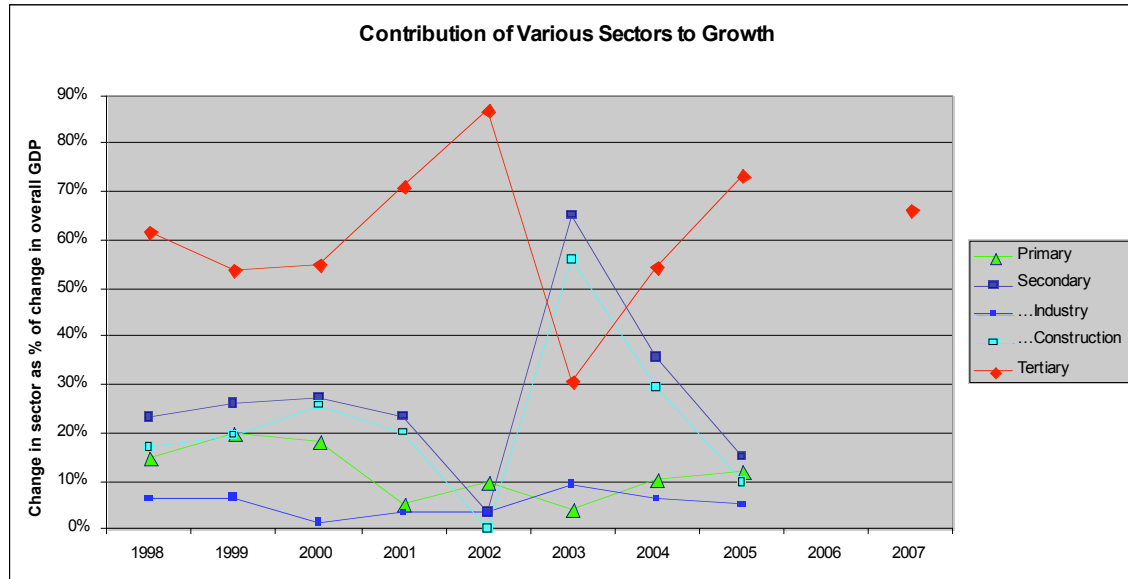
This structural change can be summarized by the following chart. Statistics up to 2005 are taken from the official *China Statistical Yearbooks*, while the incomplete statistics for 2007 have been taken from the recent press reports.



The current size of the tertiary sector in the TAR would be normal for a post-industrial economy such as the UK, Canada or the US, or else for cities like Beijing, Shanghai or Hong Kong. In such locations, tertiary activities are generally high-value activities (such as finance, management, marketing, education, health, and so on), and this value is controlled by the head offices of large corporations based within these locations. The situation is entirely different in the TAR given that the population is largely rural, the workforce agrarian, the economy has never industrialized, and most of the economic activity outside agriculture is controlled by either the Central Government or by Chinese corporations (mostly state-owned) based outside the TAR. We will return to this below.

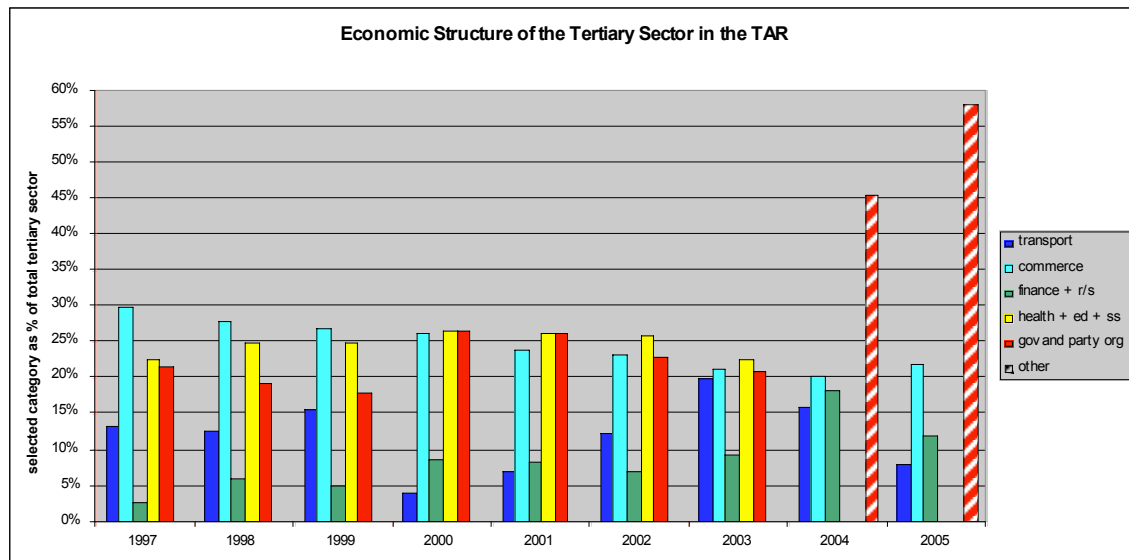
Due to its rapid expansion, the tertiary sector also accounted for 66.4% of total growth in the first six months of 2007. This means that the sector is not only large (in terms of GDP share), but also growing fast (share of GDP growth), in contrast to agriculture, which was the largest sector in the TAR up to 1996 but has been growing slowly and contributing little to GDP growth, thus rapidly shrinking as a share of GDP.

This confirms earlier trends, which can be seen in the following chart showing the contribution of each sector in each year (i.e. for each yuan of GDP growth, how much of that yuan came from growth in agriculture, construction, etc).



The tertiary sector has continued to play a leading role in contributing to GDP increase, besides a brief interlude in 2003 when it was surpassed by the secondary sector, almost entirely due to a huge surge in construction that accounted for 56% of GDP growth in that year. The surge was likely related to the Qinghai-Tibet railway construction, which entered the TAR on a large scale in that year. Otherwise, tertiary activities were contributing on average well over 50% of total GDP increase in every other year, reaching high points of 87% in 2002 and 73% in 2005.

Given the sheer prominence of the tertiary sector in growth, it is useful to look more closely at this sector. The following charts reproduce the same analysis as above, except focused on a selection of major tertiary categories. Unfortunately, data for some of these categories is only available up to 2003. After this year, the government stopped reporting on some specific categories, such as government and party administration, perhaps due to facts that were inadvertently revealed by these data. Nonetheless, the data that are available can give us some indication of the patterns that have probably continued up to the present.



The tertiary share of government and party agencies (i.e. the administrative functions of the government – the red bar in the chart) in the TAR has always been the highest of all the provinces in China, at around 20% in the mid-1990s. However, it surged in 2000 and 2001 to over 26%, becoming the largest component of the tertiary sector in those two years. Considering that the tertiary sector in the TAR had itself surged to almost 50% of GDP in 2001, government and party agencies had come to account for over 13% of total GDP, or almost twice the entire mining and industrial activity in the same year and close to the total construction activity as well. In China as a whole, this category accounted for only 2.7% of total GDP in 2001. In the TAR it had effectively become the 'engine of growth' in the opening years of the 'Western Development Strategy' (WDS). Its share fell slightly in subsequent years, although even despite the massive surge in construction in 2003, it still maintained a GDP share of 11%. Assuming that it has maintained its share of the tertiary sector up to 2007, which is likely as analysed below, its share of total GDP would still be in the range of 13% now.

The unusually large and rapidly growing category of government administration in the TAR (as well as in Qinghai and Xinjiang, where it also grew rapidly in the same years) might indirectly indicate a military and/or security focus of policy in these provinces under the WDS. If the military were included in the GDP statistics (which they are not) they would mostly tend to show up as part of the government administration category. Conversely, the sudden sharp increase in government administration may implicitly reflect a military or security build-up, which might have been seen as a precondition to subsequent spending and investment in the TAR, such as in the railway.

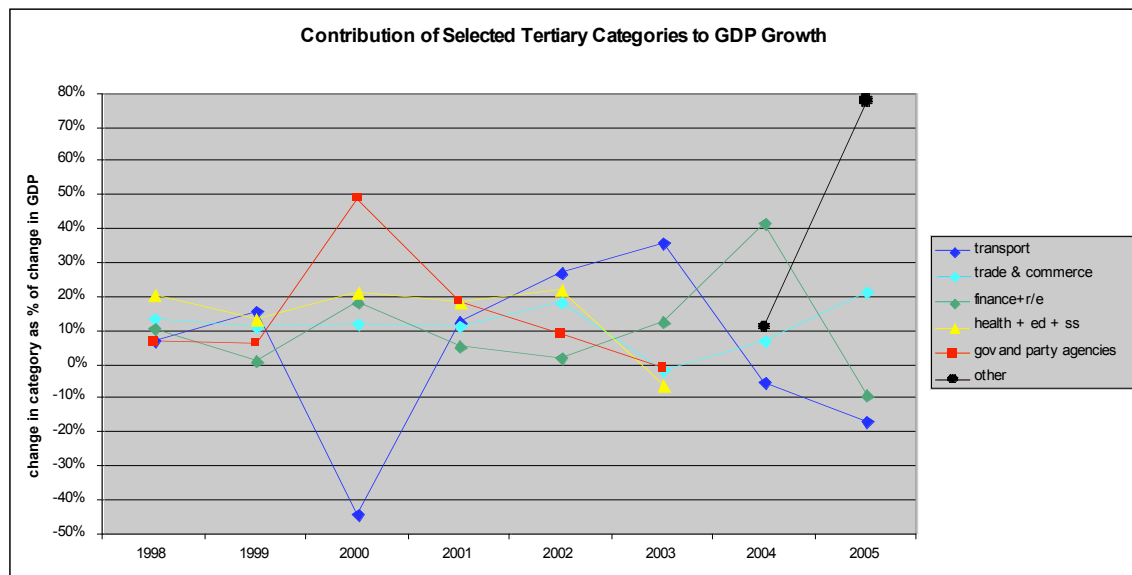
The only three categories that have been reported since 2003 are transport, commerce (including catering) and finance (including real estate), whereas government and party agencies, health, education and social services, and a variety of minor categories are all aggregated together into the category of 'other'. Thus we do not have any idea of what the trends in these categories have been, besides the fact that their combination has risen dramatically to a share of 58% of the tertiary sector in 2005. However, we do know that there has been no significant increase in the shares of

the three reported categories (in fact, there was even a sharp decrease in transport, which is difficult to explain).

Moreover, we know from other data in the statistical yearbooks that the TAR government expenditure on health increased 183 million yuan between 2003 and 2005, and expenditure on the operating expenses of education increased 731 million yuan. In comparison, expenditure on government administration increased 790 million yuan. (Note that total government expenditure on government administration was also by far the largest of these three categories in the TAR in every year up to 2005, opposite to the case in every other province in China where government expenditure on education usually far exceeds that on government administration).

We can therefore assume that about half of the increase in the category of 'other' in 2004 and 2005 was due to the continued expansion of government and party administration. In other words, it is possible that the government administration continues to be the largest single category of the tertiary sector, or very close thereof. This corroborates with field observations and might help to explain why the government is hiding this data.

These changes can be further clarified by looking at the contribution of these various tertiary categories to overall GDP growth.



As analysed previously, the tertiary contribution in 2000 and 2001 was sustained by government administration, to the extreme extent that the expansion of government administration contributed 49% of total GDP increase in 2000, accounting for most of the total tertiary contribution of 55% in that year. This entirely subsidy-induced performance tapered off by 2003, as construction (shown previously) and transport took over as the main sources of growth. Indeed, the nominal (i.e. yuan) GDP value of government administration actually fell slightly, although from a very high level, thereby resulting in a slightly negative pull on GDP growth in that year (-1%). However, the nominal GDP value of health and education also fell by an even greater amount in the same year, with an even greater negative pull on GDP growth (-6%). Even the nominal GDP value of



commerce fell in 2003, leading to a -1.5% pull on GDP increase, which might have been due to the slow down in tourism due to the SARS crisis that summer.

However, with the wrapping up of the major phases of railway construction, the tertiary category of 'other' took off, contributing 78% of total GDP growth in 2005. We know that this is not due to tourism, given that it does not include transport, trade or commerce. Therefore, as analysed above, we can safely assume that about half of this is coming from the expansion of government administration.

This must be seen as the background of the government's statement, reported in the People's Daily (30 July 2007), that trade and consumption contributed more to growth in the first half of 2007 than in previous years. This is not surprising given the end of the railway construction and its short term boost to growth. It is also not surprising given the massive boom in tourism since 2003. Notably, this article reports that tourists traveling to the TAR reached 1.1 million in the first six months of 2007, up 86.3% over the same period last year according to the regional tourism bureau. Another article by the Xinhua News Agency (9 May 2007) reported that statistics from the Development and Reform Commission of the TAR indicate that the region is expected to host 3 million tourists this year. Thus, according to the soothsaying proclivity of the government, this year will be the first that tourists will outnumber the total Tibetan population of the TAR, now estimated at about 2.8 million. The Disney-fication of Tibet seems nigh indeed.

Tourism, together with investment and the rapidly rising salaries of government employees, has undoubtedly fueled a commercial boom in the towns and cities. However, it is important to note that the most important mainstay of the economy continues to be government administration, along with the related military and paramilitary organization that is nonetheless hidden from the statistics. For instance, from these recent government reports, the revenue expected from tourism in 2007 will be 3.4 billion yuan, which would be spread out across the tertiary categories of transport, trade, commerce, and hotel and catering (whether these estimates include revenues earned by Chinese travel agencies based outside the province is not known). In comparison, the total value of government expenditure on government and party administration alone in 2005 was 2.8 billion yuan. With the inevitable momentum of the government spending money on itself since 2005, there is little doubt that this single category now easily exceeds the expected revenues from tourism.

### **From whence comes the deluge?**

In a nutshell, growth has been almost entirely driven, directly or indirectly, by subsidies and subsidized investments from Beijing, and to a much lesser extent, from the aid projects of various rich provinces in China. In fact, the extremely high and increasing level of these subsidies almost defies logic, given that they started to exceed the total GDP of the TAR from 2001 onwards (as was also the case in a previous short bout of subsidization and investment in 1994 and 1995). In Qinghai, the next most subsidized province of China, subsidies and investment (not all of the latter subsidized) reached a height of 87% of GDP in 2002 (or 35% in terms of direct budgetary subsidies), and started to fall thereafter. Thus it is only the TAR that is cursed with such absurd priority.

In this sense, direct subsidies refer to the local government budgetary deficit that is directly subsidized by Beijing. Indirect subsidies refer to investment, given that most investment in the TAR is subsidized (such as the railway, which was entirely subsidized by Beijing). To be fair in these calculations, a large proportion of local government revenue also goes into investment, which I have thus deducted in these calculations of subsidies. However, this gives all the more reason to be astounded by the sheer inefficiencies of the development strategies.

In this regard, the province exhibits an extreme level of subsidy dependence that has not abated over time despite the intensity of investment activity; local government expenditure remained over 90% funded by direct subsidies throughout this period. The value of direct budgetary subsidies to the TAR reached an astonishing level of 81% of GDP in 2002, although this fell slightly to 69% in 2005 after a heyday of local government construction projects in 2003 started to subside.

On the other hand, the value of total investment continued to increase up until 2004, reaching an all time high of 77% of GDP, and then subsiding to about 72% of GDP in 2005. This boom in investment was no doubt related to the ongoing construction of the railway in the TAR, which was completed in 2006.

It is worth noting several unique characteristics of investment in the TAR. First, apparently almost none of it took place in rural areas, at least not according to the official statistics up to 2005. Moreover, the largest sector of investment in the TAR was, logically, that of 'transport, storage and post', which received 35% of total investment in 2005. Manufacturing investment in the TAR was minute, at 2.4% of total investment, and surprisingly, investment in mining was at less than 1% of total investment, although this is bound to change with the recent interest in copper and gold mining in the region. More worrisome is the fact that agriculture only accounted for less than 7% of total investment, although the government has been recently vouching to increase this by massive amounts in the coming years. However, most worrisome of all is the same issue over and over again; public management (i.e. government and party administration) accounted for 13% of total investment in the TAR in 2005 (second after transport), versus only 6% in education and 1% in 'health, social security and social welfare'. Again, this was the exact inverse of every other province in China; for instance, in Sichuan investment in education was double investment in government administration.

In terms of ownership and sources of funding, these large scale investments are dominated by state-owned units (SOUs), at 81% of total investment in 2004. This proportion has been dropping in recent years, from 95% in 2001, due to a rise of private individual and corporate investment in the urban areas or in various construction projects. In contrast, state-owned units accounted for only 36% in Sichuan and in China as a whole. Also, 60% of total investment in the TAR was financed by state budgetary appropriation in 2005 (which is mostly subsidised), whereas this source of funding has become relatively minor in all the other provinces, i.e. less than 4% in Sichuan.

Although the magnitude of outside sources of investment in the TAR is not divulged in the statistical sources, it is possible to offer some impressions. Under the rubric of the 'Western Development Strategy' and the Tenth Five-Year Plan, the central government announced in 2001 that it would invest 31.2 billion yuan in the TAR, while various Chinese provinces would invest 1.06 billion yuan. Together, this was equivalent to about 2.7 times the GDP and 3.9 times the total

investment of the TAR in 2001. Indeed, the Qinghai-Tibet railway alone also required 33 billion yuan of investment, although this investment has been spread over several years and shared between both Qinghai and the TAR. Nonetheless, the weight of this single project (not to mention various supporting projects) has dwarfed the local economy of the TAR during its construction phases. In other words, it is clear that most sources of these larger investments in the TAR derive from outside the province, whether they were from state budgetary appropriations or from the self-raised funds of various out-of-province private or state-owned enterprises.

The combined level of budgetary subsidy and subsidised investment to GDP therefore presents the most striking picture of the total weight of subsidies in the TAR. Even by avoiding the double counting of government expenditure on construction, this measure of subsidies reached a remarkable 120% of GDP in 2004 and remained at this level in 2005. Obviously, that subsidies and investment could be greater than total GDP is hard to explain.

The most logical reason is that a large proportion of investment was being spent on imports from abroad, and in principle net imports (i.e. imports in excess of exports) are deducted from GDP calculations. While provincial government sources claim that the TAR was running a trade surplus throughout this period, national GDP statistics in fact show that the trade balance of goods and services for the TAR suddenly fell from a slight surplus in 2002 to a massive deficit equivalent to 48% of GDP in 2003, 71% in 2004, and then back down to 47% in 2005, i.e. the TAR was importing goods and services in excess of exports of goods and services by a value equal to almost half the total economic activity of the province in 2005. The most likely explanation for this is that the railway construction was heavily dependent on imports from abroad (such as rail carriages from Bombardier in Canada, IT services from Nortel, also in Canada, Japanese engineers, and so on). Presumably, these one-time imports were not calculated as part of the trade balance in the rosy official pronouncements on the trade performance of the TAR, whereas they were by national statistical sources, as they should be. Deducting this bulge of imports would bring down the level of subsidies as a proportion of GDP considerably, at least from 2003 to 2005. However, this does not explain the fact that total subsidies started to exceed GDP from 2001 onwards, as mentioned above, even though there was indeed a trade surplus in 2001 and 2002.

In other words, the overwhelming weight of subsidies in the TAR economy is more endemic than simply a one-time spending spree by the government on the latest high-tech railway gadgetry. Perhaps the investment figures represent committed rather than used investment, or else perhaps some of subsidies never even arrived in the province, possibly getting stuck in Chengdu on the way, or through any number of techniques of pilfering the subsidy bonanza. Regardless, with such intensive rates of subsidisation, that there would be high rates of per capita GDP growth is not at all surprising.

Rather, it is the sheer inefficiencies of such subsidisation that is surprising. In fact, this can be characterised as a 'negative multiplier effect' of subsidies and investment on growth. Normally one dollar of investment or government spending will produce several dollars worth of economic activity in a year, as the dollar spent is then spent again and again by others who earn these dollars. However, in the TAR there was only 0.5 yuan of GDP increase for every one yuan of increased subsidies and investment in 2001. The situation had hardly improved by 2004, as there was only 0.65 yuan of GDP increase for each yuan of increased subsidies and investment. In fact, this

remarkable inefficiency of the TAR economy has been consistent since the government started to intensively subsidise the region in the late 1960s, and current development policies seem to be only intensifying the problem rather than solving it.

In other words, recent rapid growth has simply been the consequence of another bout of inefficient subsidy intensification. The TAR economy today ultimately remains as dependent as in the Maoist past on central subsidies, whether direct or indirect, and GDP growth continues to act as a mere reflection of the ebbs and flows in these subsidies.

## Dilemmas of Dependence

Ownership is critical to understand how this situation has come about. Ownership in this sense refers to who owns or controls assets or flows of funds; it does not refer to the fuzzy notion of ownership used by the World Bank to describe a sense of belonging and responsibility in developing countries for structural adjustment policies that are imposed on them. Indeed, this latter usage is analogous to the PRC term 'autonomous region', which is probably best understood as a region autonomously ruled by Beijing. Rather, here we are interested by the substantive issues of who controls the main levers of the economy, and how this in turn undermines sustainability and reinforces dependence.

Considering the previous discussion of subsidies in the TAR, it can be seen how 'ownership' in everything but the primary sector is more or less completely dominated from entities located outside the local economy. In particular, a large share of direct subsidies, possibly all of the large construction projects, and even many of the small ones are contracted to out-of-province companies, most of them state-owned. This fact is not only implied in the data, it can also be clearly observed on the ground. It is certainly not disputed by local scholars and officials, some of who argue that this policy is motivated by skills transfer and 'showing the way' to backward Tibetans, others that it is simply about choosing the best for your money, or else others who admit that there is simply no other choice – the terms are dictated by the hand that feeds.

In terms of this hand that does feed, the policy of offering subsidised contracts to out-of-province companies is also in part a necessary means to leverage the self-interest of various wealthy provinces in their support of central government investment strategies. However, even centrally-subsidised local government expenditures unconnected to provincial aid projects are similarly spent on out-of-province units, reflecting the fact that the coordination of such investment strategies is largely determined by the larger regional and national development priorities of Beijing, within which the interests of disempowered Tibetan locals carry very little if any weight.

Aid thereby becomes a form of industrial support for these companies, particularly since the contracts often represent very lucrative windfalls, up for grab on a one-time basis and with little concern for long term sustainability. The railroad is an excellent example, given that companies participating in this project acquire a technical and managerial expertise that then prepares them to compete on an international scale.

While this strategy in China has been beneficial for building strong and competitive national firms, a large share of western development funding is used for precisely this purpose rather than for local

economic needs. The development of locally-owned businesses and local expertise tends to be sidelined in the process and ownership in the economy is progressively transferred to non-Tibetan outsiders, in the relative sense that the economy is less and less based on where Tibetans do have ownership (the countryside), and more and more based in the urban areas where they do not.

Furthermore, these characteristics of investment are key contributors to the high inefficiency of subsidies in the TAR, in addition to the distended administrative apparatus that is completely out of proportion with the local economy. To start with, many of the construction projects are, in their nature, very inefficient and ill-conceived for local needs. This is typical of aid-dependent economies where projects tend to carry a strong status function, with an emphasis on big and gloss versus functionality or appropriateness. The former promote the donor while the latter do not.

Projects also typically suffer from poor quality construction and materials. This is partly due to the elaborate levels of intermediation that are often involved between project conception, approval, and eventual sub-contracting and implementation, in which each level seeks to increase profit margins by skimping on quality or overcharging, leaving a fraction of what was originally intended for the actual project at the receiving end. This takes place relatively free from the supervisory regulation that would normally accompany such spending in other parts of China precisely because the companies involved are from outside the TAR and under the protection of their respective provinces, who are the hands that feed in any case. Similarly, quality also suffers from inappropriate project conception, such as building constructions designed with the conditions eastern Sichuan in mind, rather than the harsh conditions of the Tibetan highlands. For these reasons, many projects often end out being white elephants, draining more from local economies than they contribute once their construction phases have ended.

Even beyond the more dramatic cases of wasteful spending, the general characteristics of subsidised investment result in a low circulation of investment and wages in the local economy due to their considerable leakage from the province. Out-of-province companies tend to retain and 'repatriate' their profits from the lucrative construction contracts, investing them in other national projects rather than in the local economy. Companies and their staff and workers usually return home or to other national jobsites upon completion of the projects, taking the benefits of the acquired skills and earnings with them, rather than investing or spending them in the local economy. In other words, money goes in and goes out, without much turnover to benefit local production or demand, besides a skimming of trade and services, which again is dominated by outsiders and based on imports from elsewhere in China.

Even the tourist industry, which has come to be touted as one of the key pillars of growth for the TAR, functions in a similar manner, insofar as much of the industry is controlled by out-of-province businesses and employment dominated by migrant labour. A large share of tourism revenue therefore simply leaves the region after a short circulation, perhaps not much longer than the tourists themselves, or else is saved for later repatriation. Investment in tourism is similarly limited by its enclave nature, aimed at accessing and profiting from limited tourist circuits, while carrying few incentives for the diversified reinvestment of profits in the local economy once such access is sufficiently leveraged. Under such circumstances, the tourist industry will have a difficult time functioning as a self-sustaining pillar industry that accumulates capital and profits within the TAR. Rather, it will most likely accentuate the externalised flows of wealth.

As noted previously, corruption further reinforces this process. Unlike elsewhere in China, when project funding is diverted through corruption, it is usually diverted outside the TAR. The contribution to the GDP may therefore simply be an accounting mirage.

In the final analysis, it appears that the government is digging itself deeper and deeper into a form of subsidy dependence through the very mechanisms by which subsidies are targeted, channelled and spent. Without an encouragement of local ownership, management or employment, none of the so-called pillars of the economy will be able to sustain current economic expansion. Instead of capturing wealth within the local economy, they produce a form of boomerang finance, decapitating local autonomy while boosting short-term growth rates, although perhaps this is precisely what the government has in mind.

### **Problems of Polarization**

The problem with this situation is that it produces a sharply polarised dualism in the local economy of the TAR, with little to bridge between the two extremes. On one hand, there is the rural subsistence economy, based on individual landholdings and accounting for about 85% of Tibetans in the TAR as of the 2000 census. On the other hand, there is the urban modern economy, based largely on government administration, services, military, construction and, increasingly, tourism. Growth has been mainly concentrated in the latter or in a few large scale construction projects such as the railroad that pass through rural areas but have few economic linkages with them. Within this context, even if mining proves to be a new 'pillar', it will tend to merely reinforce the already entrenched dualism of the economy given its high-tech and niche character.

As a result of the inability of the majority of the population to integrate into these rapidly growing parts of the economy, rapidly rising inequality has ensued, much more so than elsewhere in China, where rising inequality has nonetheless become an alarming concern. The current challenges of development in the TAR are found in this polarization of the economy and its exclusionary dynamics, whereby with each passing day the majority of Tibetans are faced with increasingly mounting hurdles to take part in the economic boom.

These challenges are further exacerbated by the presence of Han and Muslim Chinese migrants, who are attracted to the artificially-subsidized affluence of the cities and towns of the TAR. Moreover, they arrive from much more competitive conditions elsewhere in China, with better connections, and with much higher levels of education on average.

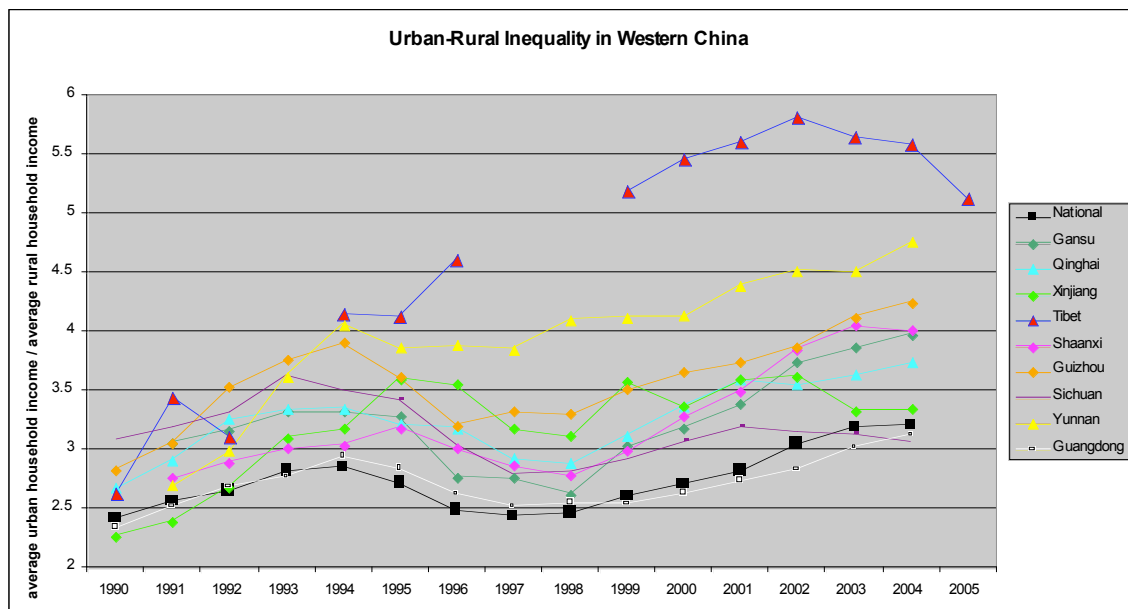
Yet the migrants are hardly to blame, as they are merely following the same economic incentives that attract many Tibetans from the countryside to these same cities and towns, including many Tibetans from Tibetan areas outside the TAR. Rather, the causes of the polarising dynamics reside in the way in the subsidies are channelled in the economy.

In other words, because flows of wealth become increasingly centred outside the local economy, the main beneficiaries of growth are those who are well-positioned to access these externalised flows, be they Tibetan or Chinese, government officials, or traders and businesspeople with privileged connections to regional networks of power or business. The wealth of these select few



therefore bears little relation to conditions in the 'indigenous economy'. There are few incentives to direct such elite wealth into locally-rooted economic activities given that much more money can be made with much greater ease through privileged access to state patronage, rather than through painstaking and relatively petty profit-making activities based in the local productive activities. As a result, there is little dispersion of the externalised flows of wealth into the local economy, and outflows of wealth are privileged at the expense of local reinvestment. Those excluded from privileged access, whether the majority of Tibetans or even poor Chinese migrants, are in turn progressively marginalised from the flows of wealth. A sharp polarisation of wealth thereby ensues.

The simplest way to represent the polarisation of wealth in the TAR is through rising urban-rural inequality, although inequality within urban areas themselves is also rising rapidly. The conventional way of representing urban-rural inequality is through the ratio of the average urban household income per person over the average rural household income per person. This is represented in the following chart, comparing the TAR to other western provinces of China.



Urban-rural inequality is generally higher in the western provinces of China than it is in the eastern provinces. Up to the early 1990s, Tibet was in the standard range of western provinces for this type of inequality. Its ratio then increased sharply in the mid-1990s, precisely at the same time as the ratio was falling nationally and in every other western province due to a combination of pro-rural poverty reduction strategies and an agricultural recovery from 1994 to 1997. In all of the other western provinces, the fluctuations in urban-rural inequality more or less followed the national pattern, multiplied by a factor to account for the heightened disparity in the west. In contrast, these data reflect that the take-off of the TAR since the mid-1990s has been primarily urban and excessively de-linked from the local rural economy.

This TAR urban-rural income ratio reached a high of 5.8 in 2002 (i.e. the average per person household income of urban residents was 5.8 times higher than the average per person household

income of rural residents), which was the highest China has ever seen. This ratio then apparently started to fall in the TAR, converging with the next most unequal western provinces, except at much higher levels of inequality than in the early 1990s.

If these data do in fact represent real changes, the fall might be explained by the fact that the TAR has been experiencing one of the fastest, albeit latest, onsets of rural to urban migration since the late 1990s. While the share of the TAR labour force working in agriculture remained at about 76% throughout the 1990s, it suddenly dropped from 76% in 1999 to 61% in 2005. In most other Chinese provinces, much of this shift of labour out of agriculture has gone to off-farm employment in the rural areas. The sheer scarcity of off-farm employment in the TAR means that most of this Tibetan rural labour ends up migrating to towns and cities. This in turn would tend to balance out urban-rural inequality. However, inequality within urban areas has also been rising in tandem with these shifts of labour out of agriculture, despite the fact that urban inequality in the TAR was already among the highest in China in the late 1990s. In other words, urban-rural inequality has transferred into urban inequality through rural migration to the urban areas.

It is difficult to derive an exact measurement of urban inequality in the TAR given that the urban workforce is dominated by non-Tibetan migrant workers, who are not usually included in household surveys (these only include permanent residents, in which case, most of the surveyed households are Tibetan). However, it is possible to infer high urban inequality from the fact that the TAR had a unique combination in the late 1990s of some of the highest urban household incomes in China together with some of the highest urban poverty rates as well (see Fischer, 2005, ch.4). This can be explained by the fact that about half of the (permanently resident) urban workforce is employed as relatively privileged staff and workers in the state sector, with some of the highest salaries in the country, neck and neck with Beijing and Shanghai, and they account for most of the high average urban incomes. The unprivileged lower half account for a very small share.

According to one roundabout way of measuring urban inequality by comparing the average wages received by these privileged state-sector staff and workers with average urban household incomes, urban inequality almost doubled in the TAR between 2000 and 2005, whereas it increased only moderately in China overall. In other words, in the short time span of five years, average wages of the privileged top half of urban employed in the TAR almost doubled relative to the average wages of all employed urban residents (top and bottom halves together). This ratio would be much higher if we could measure the average wages of the unprivileged bottom half of urban employed (i.e. non staff and workers), but these data are not available. The measure nonetheless suggests that little urban wealth in the TAR disperses outside the state sector and the wealth of those without access to state sector employment has rapidly fallen behind the rapid salary and wage rises of those in state-sector employment. Essentially, there is a dual economy within the urban areas themselves.

Thus, there has definitely been a sub-group of Tibetans who have been profiting well from current growth. Give or take some successful businesspeople with poor education or some unemployed high school students, they would account for the 11.5% of Tibetans with some form of secondary education or above in 2005. In particular, these are probably the only Tibetans who have a decent degree of fluency in Chinese. Together with Tibetan migrants from Eastern Tibet in Sichuan, they are therefore the only ones who can hope to take advantage of economic opportunities based on



Chinese-fluency, Chinese work cultures, and connections to government or business networks with China.

It is important to note that this educational divide does not necessarily follow the urban-rural divide, as argued by some misinformed scholars, because about 40.5% of the permanently resident adult city population in the TAR was illiterate in 2004 according to official surveys. For various reasons, most of these illiterates were probably Tibetan. Regardless of their ethnicity, this is an exceptionally high level of urban illiteracy for China, with no parallel in any other province.

Furthermore, the proportion of the population with secondary education or higher, cited above as 11.5% according to the 2005 population survey data published in the 2006 China Statistical Yearbook, actually fell from the 16% measured in the 2004 population survey. Overall illiteracy rates in the TAR had also not fallen from previously surveyed levels and remained at an incredible 45% in 2005. Both these insights indicate that, despite occasional government assertions to the contrary, it cannot be taken for granted that educational levels among Tibetans in the TAR have improved at all over the past years. They have probably only kept up with population growth at best. The implications of this will be discussed in a future Tibet Watch article.

The latter 88.5% of the population with no education or only primary education are possibly making a bit more money in petty trade or unskilled labour yet they are also faced with the inflationary pressures induced by subsidies, urban affluence, tourism and so forth. Rural families who have some off-farm employment definitely tend to be better off than those without, but it is hard to evaluate whether net changes in the post-inflation livelihoods of even these families with diversified employment have been positively effected by recent developments, particularly if we consider escalating health and education costs, which are not included in most conventional poverty measures.

Therefore, the relevant concern is not whether growth can be stimulated through massive injections of external funding, which is self-evident. Rather, the pressing concern is the exclusionary consequence of such artificially stimulated growth, heavily controlled by outside priorities, whether state or private. Those with access to the state-sector and who are loyal to its priorities are handsomely rewarded within this system, primarily through rapidly increasing salaries and wages. Yet they are few. The rest have to make do with an increasingly competitive urban economy, wherein Tibetans are invariably disadvantaged. The challenge of providing subsidies should be to find ways of offering opportunities and dignity to those disadvantaged by growth, rather than simply enhancing the wealth of a few.