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The Revenge of Fiscal Maoism in China's Tibet

Andrew M. Fischer

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Acronyms

CSY China Statistical Yearbook

GDP Gross Domestic Product

TAR Tibet Autonomous Region

Abstract

In China, central government subsidies to the Tibet Autonomous Region (TAR) – the archetypal case usually referred to as ‘Tibet’ – have surged to record-high levels, particularly following the widespread protests that occurred across all Tibetan areas in 2008. By 2010, direct budgetary subsidies surpassed one hundred percent of the TAR GDP for the first time ever, exceeding even the levels reached during the peaks of subsidization during the Maoist period and amounting to four times the average per capital rural household income in the TAR. Similarly, investment in fixed assets – most of it also probably subsidised – reached 91 percent of the TAR GDP in 2010. From this perspective and despite almost twenty years of intensive development efforts, the TAR remains locked into the institutional norms guiding the subsidisation of this politically-sensitive autonomous region since the Maoist period. As a result, recent development strategies have not altered in any significant way the long-term trend of very intense and very inefficient subsidisation, with economic growth largely reflecting the intensification of subsidies. In particular, the recent phase of intensive subsidisation has completed two principal tasks first envisaged during the Maoist era. One is the state-led engineering of a deep integration of the region into China through externalized patterns of ownership and extreme economic dependence. The second is the consolidation of the very visible hand of the state in the structuring of most aspects of the economy, including the rural economies, albeit through a different mode of governmentality attuned to the current era of ‘market socialism’ rather than Maoist collectivisation. As a result, the economy of the TAR can be aptly described in structural terms as having become a peripheral subsidiary of the central government and related interests. Local development dynamics (and people) are increasingly captive to the discretion of these central interests, particularly in the context of their rapid transition away from their traditional bases of subsistence in the rural economy.

Keywords

China, Tibet, regional economic development, fiscal policy, investment, subsidies

The Revenge of Fiscal Maoism in China's Tibet

1 Introduction

The economies of the Tibet Autonomous Region (TAR) and other Tibetan autonomous areas in China have been growing rapidly since the mid-1990s on the wave of an exceptional level of subsidization from the central government. In the TAR – the archetypal case that many, including the Communist Party of China, refer to as ‘Tibet’ – subsidies have surged to record-high levels, particularly following the widespread protests that occurred across all Tibetan areas in 2008. By 2010 (the latest data available at the time of writing), direct budgetary subsidies from the central government to the TAR local government surpassed one hundred percent of the TAR gross domestic product (GDP) for the first time ever, exceeding even the levels reached during the peaks of subsidization during the Maoist period. Similarly, investment in fixed assets – most of it also probably subsidised – reached 91 percent of the TAR GDP in 2010. On a per capita basis, direct budgetary subsidies were equivalent to four times the per capita rural household income in the TAR in 2010 and were ten percent greater than per capita urban household disposable incomes. In other words, if the government simply distributed such subsidies equally among the resident population and people did nothing else other than receive these subsidies as cash transfers, the incomes of rural Tibetans would have been four times higher on average than they were in 2010. This point serves as an indication of the extent to which subsidies have been disconnected from conditions in the local economy, even though the minor portion of subsidies that does trickle down into Tibetan rural areas is nonetheless large enough, given the overall deluge, to cause a rapid degree of socio-economic transformation.

From this perspective, the evocation of Maoism in the title of this paper is meant as an indication that despite almost twenty years of intensive development efforts, this autonomous region remains locked into the institutional norms guiding the subsidisation of this politically-sensitive region since the Maoist period. As a result, recent development strategies have not altered in any significant way the long-term trend of very intense and very inefficient subsidisation, with economic growth largely reflecting the intensification of subsidies. In contrast to every other province in China, these norms appear to have been predominantly guided by security and ideological concerns – the much touted tourism and mining activities still pale in comparison to government administration and related activities that are the main targets of the subsidisation strategy and which do not appear to carry any particularly coherent economic rationale. Rather, the recent phase of intensive subsidisation has completed two principal tasks first envisaged during the Maoist era. One is the state-led engineering of a deep integration of the region into China through externalized patterns of ownership and extreme economic dependence. The second is the consolidation of the very visible hand of the state in the structuring of most aspects of the economy, including the rural economies, albeit through a different mode of governmentality attuned to the

current era of 'market socialism' rather than Maoist collectivisation. As a result, the economy of the TAR can be aptly described in structural terms as having become a peripheral subsidiary of the central government and related interests. Local development dynamics (and people) are increasingly captive to the discretion of these central interests, particularly in the context of their rapid transition away from the traditional bases of subsistence in the rural economy, as discussed in Fischer (2011).

This recent deluge of subsidisation in the TAR is the specific focus of this paper, with the aim to deepen and update my broader analyses of macroeconomic change in the TAR and other Tibetan areas, such as in Fischer (2005; 2009). The method of the paper derives from a structuralist development economics approach, focusing inductively on the evolution of aggregates, averages, structures and compositions, rather than on the statistical associations across the characteristics of individual units as is typical in the more deductive methods of regression analysis. Quantitative data are obtained from publically-available official statistical sources. While the precise accuracy of these official sources is often doubted, there is no alternative source of macroeconomic data and, in any case, I have generally found them to be reliable for inductive quantitative analysis and for the representation of broad structural trends over time, obviously keeping in mind that all social statistical work must be approached interpretatively with an understanding of the historical and institutional relativity of all statistics, whether in definition or in collection (for more discussion, see Fischer 2005, 6-12).

The method of the paper is also comparative, in the sense of comparing the TAR with three other provinces (Gansu, Qinghai and Sichuan) and China as a whole. The four provincial cases are chosen with purpose. Sichuan represents the political and economic centre of Southwest China and an important economy in its own right that has been growing more rapidly than the TAR since 2005 despite far less subsidies relative to its economy. Gansu is also an important centre in Northwest China and is also the second poorest province in China, with topographical and population density characteristics more similar to the Tibetan areas than the densely populated Southwest region provinces. Qinghai represents the second most subsidised province in China, after the TAR. Qinghai is also almost entirely composed of Tibetan areas and Tibetans represent a substantial minority in the rural surveys of the province, although they are marginal in the macroeconomic data and in the urban areas, which mostly represent a Han Chinese and to a lesser extent Chinese Muslim experience and reflect the role of the province as an industrial and resource extraction extension or subsidiary of Gansu rather than a Tibetan area per se. While Tibetan areas account for half of Sichuan and ten percent of Gansu, the population weight of these areas is so small that it renders them insignificant in the economic data. The TAR is exceptional in terms of the politicised security focus and the extent of fiscal privilege that it receives (compared to other Tibetan areas and the rest of China) although it is otherwise similar to other Tibetan rural areas outside the TAR in terms of socio-economic structure, human development indicators such as health and education, population density, topography and ecology.

The paper is divided into two sections. The first section analyses the fiscal and investment sources of rapid economic growth in the TAR since the mid-1990s. Investment is included because so much of investment in the TAR is also subsidised. The second section proposes the most straight forward explanation for the state of economic absurdity currently observed in the subsidy deluge, as well as some thoughts on how this reflects on the government's broader development strategies in this autonomous region. The conclusion offers some cautions on one of the most worrisome trends in these current development policies.

2 Sources of subsidy-sustaining growth in the TAR

Rapid economic growth in the TAR since the late 1990s essentially derived from an alternating sequencing between tertiary activities (dominated by government administration, particularly relative to other provinces) and construction (dominated by large construction projects such as the various components of the Qinghai-Tibet railway).¹ Both of these activities were mostly driven by policies of subsidised spending and investment dictated in Beijing and, to a much lesser extent, supported by various rich coastal provinces in China. In this sense, economic growth in the TAR has been largely instituted through these policies, rather than being rooted in local processes of productive accumulation as in most other provinces.

The magnitude of these drivers relative to the local economy in the TAR is worth emphasising. The extremely high and increasing magnitude of direct subsidies in the TAR – from already a high level in the mid-1990s – almost defies logic. They increased so fast that they came to exceed total GDP in 2010 for the first time since the creation of the TAR in 1965. Such a high level of direct budgetary subsidies relative to local GDP has never been observed before in the TAR, even in the Maoist period. Indeed, the extent to which subsidies rebounded following a short and slight respite in 2006, and particularly since the protests in 2008, exceeded even my own expectations in my earlier work (e.g. see Fischer 2005; 2009). Moreover, this measure of direct subsidies does not include consideration of indirect subsidies, such as subsidized investments, which also rose rapidly as a proportion of GDP, as discussed further below. To a certain degree, this exceptionalism is unique to the TAR and is one of the principal differences between the TAR economy and the economies of other Tibetan areas in other provinces, although these patterns in the TAR could well be replicated to a certain degree in other Tibetan areas under the Twelfth Five-Year Plan given that the government signalled in the Fifth Tibet Work Forum in 2010 that it would to start focusing on all Tibetan areas and not just those of the TAR. These two aspects of subsidy (direct and indirect) are discussed below according to budgetary expenditure and investment.

¹ See Fischer (2009; 2013) for a detailed discussion of the sectoral characteristics of growth in the TAR and the other western provinces discussed in this paper.

2.1 Subsidised government budgetary expenditure

For clarification, direct subsidies here refer to direct budgetary support from Beijing to the provinces in order to finance provincial deficits (provincial government revenues minus expenditures). Such deficits effectively proxy for fiscal transfer payments given that, up until recently or with some exceptions in coastal China, Chinese provincial governments had a limited ability to borrow in order to finance public expenditures, such as through bond financing or borrowing from banks, although this appears to have changed since 2008 in response to the financial crisis in that year. Local state control over local financial institutions have nonetheless allowed for a substantial degree of indirect financing for investment projects through state-owned enterprises (SOEs) involved in infrastructure construction and urban development, although such debt is presumably not calculated as part of government revenue. Moreover, we can presume that these extra sources of local government financing were very limited in the TAR, for reasons stated in section 2.1 below.

This being said, the use of local government deficits as a proxy for subsidies is a blunt and approximate instrument given that much of provincial deficits are better understood as the partial result of the negotiated compromise between central and provincial authorities over the control of fiscal revenues, as in any country. The extent to which central revenues are themselves raised within a province is a key consideration to decipher the extent to which a deficit reflects central subsidies. For instance, if the central government raises tax revenue in Fujian and then transfers part of that revenue to the Fujian provincial government, the transfer is not really a subsidy, not in an interregional sense. Rather, it is a representation of the negotiated institutional dynamics of various strata of fiscal authority overlapping within a particular jurisdiction.² The central government transfer would only be a subsidy proper if it involves a transfer of revenue raised in another province or centrally. In the more affluent coastal provinces, local government deficits for the most part are probably representative of a particular balance of power between central and local authorities with respect to control over locally-generated revenues. However, much of the provincial deficits in western provinces would represent subsidies, in the sense of transfers of revenue raised outside the province. The share of subsidy in the total deficit would be greater in the poorer provinces given the lower capacity to raise revenue in these provinces, and would increase as the magnitude of deficit increases relative to the provincial economy.

Indeed, all provinces in China were running deficits in the late 2000s, including Shanghai, Guangdong and other coastal provinces. This was partly due to the government response to the global financial crisis and has since been one of the causes for concern about the sustainability of local government finances in China, in addition to the debt loads that local SOEs

² See good discussions of these dynamics in World Bank (2002), Tsui and Wang (2004), Wong and Bird (2005), or Tao et al (2010).

rapidly built up since 2008. However, at the aggregate level, provincial deficits were mostly covered by central surpluses. For instance, the total fiscal balance for all provincial governments was in deficit by 5.7 percent of national GDP in 2007, 6.9 percent in 2008, and 8.3 percent in 2009 and 2010. This was compensated by a central government fiscal surplus, which increased from 6.2 percent of GDP in 2008 to 6.6 percent in 2010. Central and local fiscal authorities thereby play overlapping and complementary roles.

In other words, the central government was playing an increasing role in regional fiscal mediation, raising just over half of total central and provincial revenue in 2010 (including extra-budgetary revenue) but only spending 18 percent of total central and provincial expenditure in 2010, versus 82 spent by provincial governments. Provincial governments have thereby become increasingly dependent on centrally-coordinated transfer payments in order to balance their budgets. This situation started with the first major tax reforms in 1994, when the sum of provincial government fiscal balances suddenly shifted from being balanced in 1993, with almost no net contribution from the centre, to a deficit equivalent to almost 43 percent of expenditure in 1994, financed via centrally-directed revenues. This proportion of deficit to expenditure in the total provincial government fiscal balance remained more or less stable up to 2010, e.g. it was 45 percent in 2010.³ It is precisely this shift that has allowed the centre to subsidize the western region so intensively, where the ratio of deficits to local expenditures is higher than in central and coastal China in most cases and was increasing since the late 1990s. The only exception in this regard is the TAR, where the deficit always amounted to almost the totality of local government expenditure, even before 1994 and without any perceptible change over time.

By implication, this deficit in the TAR would have been mostly financed by central subsidies. We do not have access to precise data that would allow us to measure such fiscal subtleties, although it is safe to assume that very little of the deficit in the TAR would have been financed through revenue raised locally by the central government, particularly considering the various incentives and tax waivers that the government offers in order to encourage businesses to move far westward to the Tibetan areas. Indeed, the contribution of 'net taxes on production' to the overall GDP, calculated according to the income approach of national accounting, has always been much lower in the TAR than in all other provinces, at 7.4 percent of total GDP in 2010, versus 14.6 percent in Qinghai, 16.2 percent for Gansu, or 15.6 percent for Sichuan (calculated from CSY 2011, table 2-16).⁴ Given that local government revenue in the TAR amounted to 7.2 percent of GDP in 2010, the revenue collected by the central government in the TAR therefore probably only amounted to an insignificant addition, perhaps only 0.2 percent of GDP if the comparison of these two

³ The shares of central and local government revenue and expenditure are taken from CSY (2011, tables 8-3 and 8-4). The measures of the regional total fiscal balance are calculated from CSY (2011, tables 8-7 and 8-8) and equivalent tables in previous yearbooks.

⁴ The difference in the TAR was mostly compensated by a much higher share of 'compensation of employees' than in all other provinces. The share of 'operating surplus' was also much lower than in most other provinces, while 'depreciation of fixed assets' was slightly higher than the norm.

measures were appropriate,⁵ versus a budget deficit equivalent to 101 percent of GDP. In contrast, local government revenues in Qinghai amounted to 8.2 percent of the Qinghai GDP in 2010, whereas net taxes on production amounted to 14.6 percent of GDP, implying by this comparison that central government revenue collection in Qinghai amounted to about 44 percent of total revenue collection in Qinghai, or 6.4 percent of GDP – only a small share of the local government deficit of 46.9 percent of GDP, but substantially more than in the TAR. Similarly, local government revenues in Sichuan amounted to 9.1 percent of the Sichuan GDP in 2010 whereas net taxes on production amounted to 15.6 percent, implying that about 42 percent of revenue in Sichuan was collected by the central government, or about 6.5 percent of GDP, which would amount to about two-fifths of the local government deficit of 15.7 percent of GDP in 2010. These comparisons, while very approximate, nonetheless give a rough indication of the degree to which central government transfer payments to finance local government budget deficits are raised through local taxation. The residual offers a more effective reflection of actual subsidisation.

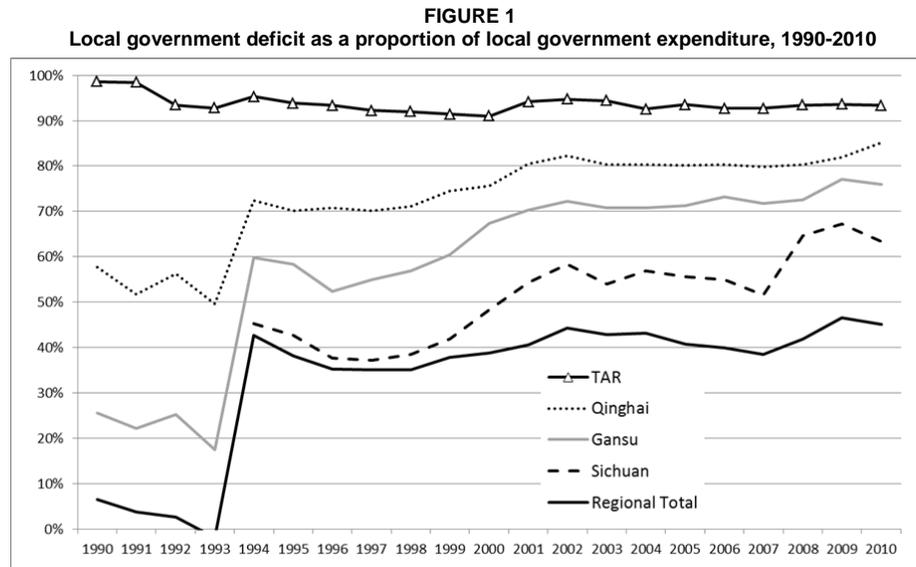
Accordingly, we can assume in the case of the TAR that the deficit serves as a rough but robust proxy for direct budgetary subsidies from the central government, as well as a lower bound estimate of overall subsidies given the high degree of investment in the TAR that would also be subsidized by the central government, as discussed below. These fiscal dynamics – especially the exceptional fiscal deluge of the TAR – are clearly demonstrated in figures 1 and 2. Figure 1 shows the local government deficit of each province as a proportion of total expenditure (i.e. the degree to which expenditure is financed by central government revenues). Figure 2 shows the magnitude of this deficit (subsidized to various degrees) as a proportion of GDP.

The sharp rise in the measure of deficit to expenditure in 1994 in all provinces besides the TAR, as shown in figure 1, is a reflection of the tax reform in that year. Through this reform, the central government share of total central and provincial revenues shifted from 22 percent to almost 56 percent in one year, as discussed above. Subsequent increases in the western provinces above the regional total norm (i.e. the sum of provincial budgets) is reflective of more intensive subsidization, first with focus on western development in the Ninth Five-Year Plan, then under the Tenth and Eleventh Five-Year Plans. In the case of Sichuan, the sharp increase in 2008 is explained by the Wenchuan earthquake in that year. This event led to a large transfer of resources to the province by the central government for several years to cover increased expenditures related to recovery and reconstruction activities, which is evident in the disaggregated government expenditure data.⁶ More generally and to a

⁵ These two shares are not entirely comparable because the latter calculation of government revenues as a proportion of GDP is not calculated from the income approach of GDP accounting data but from the government fiscal data. However, the comparison between the two shares seems to give a rough indication of the magnitude of central government taxation in a province relative to provincial/local taxation.

⁶ The category of 'Expenditure for Post-earthquake Recovery and Reconstruction' in the Sichuan government expenditure data was 19 percent of total expenditure in 2008 (CSY 2009, table 7-8). It remained at the same level in 2009 and 2010. The category was not reported prior to the 2008 data.

lesser extent, there was a surge in this ratio in 2009 in Qinghai, Gansu and the regional total, which is probably reflective of government efforts to bolster domestic growth in the face of the global economic crisis.



Sources: calculated from CSY (2011, tables 2-14, 8-7 and 8-8) and equivalent in previous yearbooks.

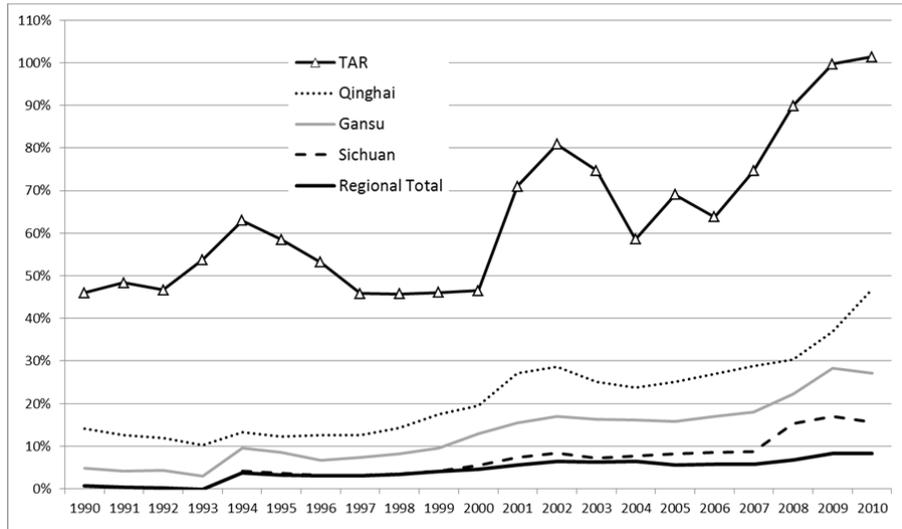
In contrast, the TAR was exceptional in the degree to which an extreme level of subsidy dependence was maintained throughout the entire period shown. The share in the TAR was already very high in the early 1990s, at almost one hundred percent, and then declined slightly throughout the 1990s as economic growth was resuscitated in this autonomous region. The ratio nonetheless consistently remained well above 90 percent throughout this period – a pattern that started in the late 1960s and has simply not abated with intensive development efforts since the 1990s. Because such expenditure was increasing rapidly as a proportion of GDP, the magnitude of subsidies in the local economy of the TAR has never been higher, as shown in in figure 2.

Figure 2 clearly shows that it is only the TAR that is treated with an almost absurd degree of subsidization priority. The TAR government deficit and, hence, direct budgetary subsidies from Beijing, surpassed one hundred percent in 2010, following a previous peak of 81 percent in 2002 and then a trough of 64 percent in 2006. This is the highest level ever observed for this measure, even in comparison to the peaks of subsidization during the Maoist period. Although government expenditure was heavily subsidized during the peaks of Maoist subsidization – sometimes in excess of one hundred percent (see Wang and Bai 1991[1986], 73) – government expenditure (and hence subsidies) was proportionately lower relative to GDP.⁷ By 2010, government expenditure in

⁷ Wang and Bai (1991[1986], 73) state that subsidies were equal to the older national accounting measure of ‘gross value of agricultural and industrial output.’ However, this older

the TAR was equivalent to almost 109 percent of GDP. Given that 93.3 percent of this expenditure was deficit/subsidy financed, the deficit/subsidies were equivalent to 101.4 percent of the TAR GDP.

FIGURE 2
Local government deficit as a proportion of provincial GDP, 1990-2010



Sources: calculated from CSY (2011, tables 2-14, 8-7 and 8-8) and equivalent in previous yearbooks.

Ideally, this measure should be combined with investment data (analysed below), given that most of investment in the TAR would have also been subsidized, whether directly or indirectly. It was possible to approximate subsidized investment in the TAR up to 2006 because government expenditure data reported up to CSY (2007, table 8-15) included a category of ‘expenditure for capital construction,’ although this was discontinued in the expenditure reporting from CSY (2008) onwards. By assuming that all investment in the TAR was subsidized and adding this to the deficit/subsidy measures above, albeit deducting expenditure on capital construction from the measure of government subsidy so as to avoid double counting with the investment data, this approximate measure of direct and indirect subsidies passed 100 percent in 2001 and rose to 123 percent of GDP by 2006. It would have been much greater by 2010 given the sharp subsequent rises in both deficit and investment as proportions of GDP, although the data has not been available since CSY (2007) to continue calculating this particular measure.

Notably, there is a striking degree of similarity in the trends for the TAR observed in figure 2 and the GDP shares of construction and the tertiary sector.⁸ In particular, the increasing magnitude of deficit/subsidies from 2006 up to 2010 was almost identical in trend to the increase in the GDP share of

measure did not include tertiary output and was hence lower than the equivalent GDP measure.

⁸ See Fischer (2009, 40) for data up to 2006 and Fischer (2013) for data up to 2010.

construction, which increased from 18 percent of GDP in 2005 to almost 25 percent in 2010, even though this was after the completion of the completion of the Golmud-Lhasa railway. The previous subsidy surge from 2001 to 2004 slightly preceded this railway construction by one or two years, although the huge bulge in the proportion of expenditure and subsidies to GDP in the TAR from 2000 to 2004, as shown in figure 2, and the shorter bulge in 2005 were related almost entirely to government expenditure on capital construction, in the sense that if such expenditure were deducted from the total, the share of the deficit/subsidy to GDP would have remained more or less constant throughout these years at less than 50 percent. In addition, the surge in those years also appears to bear close correlation with the sharp increase in the share of tertiary sector, which jumped from 46 percent of GDP in 2000 to 55 percent in 2002.

There was also a rising weight of the deficit (relative to GDP) in the three other western provinces shown in figure 2, particularly from 2008 onwards. This would imply rising subsidies as well, as a proportion of both government expenditure and GDP, which in turn would have been related to government efforts to rebalance the economy towards a stronger domestic orientation in the face of the global economic crisis, as mentioned above. Among these three other case, Qinghai represents the second highest level of subsidy dependence in China and, in this respect, Qinghai is increasingly starting to resemble the TAR with about a ten year lag. The ratio of deficit to provincial government expenditure in Qinghai reached 85 percent in 2010 and the ratio of deficit/subsidy to GDP reached 47 percent in 2010. However, the deficit in Qinghai is associated with a much stronger productive focus in the economy, particularly in industry, which is suggestive of a very different role played by subsidization compared to the TAR, where industry and mining has remained very marginal in the local economy, particularly in comparison to every other province in China. Moreover, as noted above, a larger proportion of this deficit would have been funded by revenue raised locally by the central government in Qinghai (and even more so in other western provinces) than would have been the case in the TAR, although this local revenue generating capacity obviously became quite limited at the level of deficit to expenditure and deficit to GDP observed in Qinghai by 2010. It remains to be seen whether such levels reached in Qinghai and other western provinces will prove to be a one-off surge or else the beginning of a new and sustained pattern of regional redistribution as China strives to rebalance its economy towards its interior.

Indeed, the high and increasing deficits of various western provinces do raise some concern as to the degree to which these are sustainable. However, this is less of a concern for the smaller provinces such as TAR and Qinghai. For instance, the budget deficit of the TAR, at 101 percent of its GDP in 2010, accounted for only 1.5 percent of the regional total of provincial government deficits in 2010 (albeit, for only 0.2 percent of the national population). The budget deficit of Qinghai, at 47 percent of its GDP in 2010, similarly accounted for only 1.9 percent of the total regional deficit (for 0.4 percent of the national population). The sustainability issue is more of a concern for large provinces such as Sichuan, with a deficit at 16 percent of its GDP in 2010 accounting for 8.1 percent of the total regional deficit, for six percent of the

national population, or Xinjiang, with a deficit of 22 percent of its GDP accounting for 3.6 percent of the total regional deficit, for 1.6 percent of the national population. Nonetheless, such deficits are sustainable in principle to the extent that they are counterbalanced by the central fiscal surplus, as discussed above, together with a sustained political commitment by the central government to regional redistribution.

Rather, it is the intensity of subsidies in the less populated provinces that has consistently raised political attention among public opinion in China, both past and present. There are two common concerns. One regards equity, leading to perceptions that Tibetans are being pandered and spoiled even though most of subsidies probably never reach the average Tibetan. The other concern regards efficiency, i.e. the increasing degree of subsidization that is required in order to sustain a consistent rate of growth.

Equity of subsidization in the TAR

In terms of equity, there is no doubt that the TAR (although not necessarily Tibetans) receive much more subsidies per person than other provinces in western or central China. For instance, per capita subsidies (deficit) in the TAR reached 17,105 yuan in 2010, versus a per capita GDP of 16,904 yuan.⁹ In comparison, the per capita local government deficit in Qinghai was 11,237 yuan in 2010, 4,355 yuan in Gansu, 3,352 yuan in Sichuan, and 2,481 for the regional total. The ratio of the TAR with the regional total – at 6.9 times in 2010 – had not changed much since the late 1990s, although it jumped to about nine times in 2002, after which it gradually fell. Keeping in mind that the deficit in the regional total would not entirely represent central subsidies, as explained above, but also central revenues raised locally, the ratio nonetheless reflects that, despite the phenomenal rise in subsidies in the TAR after 2006, they had not risen relative to the regional total per capita deficit, which would have been increasingly subsidized over this period as well. Hence, although the TAR remained disproportionately privileged (although not necessarily Tibetans in the TAR), the extent of this privileging remained more or less constant over time given that the subsidization of other provinces also intensified.

However, the extent to which this level of subsidization in the TAR was disconnected from most Tibetans is important to bear in mind with regard to arguments that Tibetans (rather than the TAR) have been disproportionately privileged. For instance, the per capita deficit/subsidy in the TAR in 1990 was 0.9 times the average per capita rural household income in the TAR in the same year, whereas it was 1.6 times in 2000. This reveals the extent to which the increasing value of subsidies had very little relation to actual wealth conditions in the rural areas of the TAR, where 85 percent of TAR Tibetans lived in 2000.

⁹ I calculated this per capita GDP measure myself on the basis of the aggregate GDP data and total population reported in CSY (2011), although for some reason it does not correspond to the per capita GDP cited elsewhere in CSY (2011, table 2-15) as 17,309 yuan. My measure is the relevant comparator for the exercise here because it corresponds to the same data used to measure the overall deficit/GDP ratio.

After 2000, the divergence became even more accentuated. The ratio of per person subsidies to per capita rural incomes in the TAR had risen to 4.1 by 2010, even despite strong growth in per capita rural household incomes after 2003. Per person subsidies in 2010 were even equivalent to over 1.1 times the per capita urban disposable income. In other words, if the TAR government had simply divided these subsidies equally among all permanent residents of the TAR – urban and rural, Tibetans, Han and others – and if these residents did nothing other than receive these subsidies, then the net income of the average rural Tibetan in the TAR would have been more than four times higher than it was in 2010, and that of the average urban resident ten percent higher than it was in 2010. Considering that subsidies in effect would have only accounted for a fraction of total rural incomes in the TAR (whether as direct transfer payments to households or else as subsidies for various rural development and construction projects that indirectly feed into rural incomes), in addition to the traditional activities of farming and herding as well as new activities such as caterpillar fungus harvesting, it is clear the degree of trickle down from subsidization to the rural areas and Tibetan households more generally has been very limited relative to the sheer deluge of subsidies.

Obviously, it could be argued that the concentration of subsidies on large scale infrastructure projects and other forms of capital accumulation has allowed for the sustained increases in rural and urban incomes that have been observed, as per classical processes of capitalist development. However, this proposition is tenuous in the case of Tibet where subsidies have risen to over one hundred percent of the provincial GDP and have been generally and increasingly disconnected from local processes of capital accumulation and, instead, channelled through circuits based elsewhere in China, as discussed below.

Moreover, while per capita expenditure in various people-oriented categories of government expenditure such as education are also higher in the TAR than in other western provinces, the difference is much less so than in the case of the deficit ratios discussed above. For instance, government expenditure in education amounted to 2027 yuan per person in the TAR in 2010, versus 1465 yuan in Qinghai, 892 yuan in Gansu, 672 yuan in Sichuan and 883 yuan for the regional provincial total. The difference with the regional total – about two and a half times in 2010 – was not nearly as high as the deficit ratio of seven-to-one mentioned above, although it was substantial enough to support claims that the government was nonetheless prioritizing education in the TAR. However, per capita education outputs in the TAR – particularly the per capita number of teachers¹⁰ – were generally on par with other provinces in 2010 (although there was still a strong lag at the level of vocational education). This represents a catch-up from the severe lags in education supply in the early 2000s, particularly at the secondary level, although this is the extent of the privileging, so to speak: to bring the TAR up

¹⁰ The per capita supply of schools is no longer a useful measure since the national policy of school consolidation, which appears to be more advanced in Sichuan and nationally than in the TAR or Qinghai, although it started in 2009 in Qinghai. For an excellent discussion of the disturbing implications of the school consolidation policy in a Tibetan area of Qinghai, see Cencetti (2012, Chapter 10).

to a national standard of teacher supply, not beyond it in any obvious way despite a much greater need due to a much younger population, much higher levels of illiteracy and much lower schooling attainments.

From this perspective, the apparent privileging of the TAR in per capita government expenditure, whereby the TAR government spent almost two and a half times more per person on education in 2010 than the all provincial average, is not reflected by an equivalent privileging in the supply of educational infrastructural outputs. Instead, the much higher expenditure reflects the higher costs of supplying education in the TAR relative to other locations, largely due to the policies that guide such servicing. The most substantial cost in this respect is wages (given that education is a labour-intensive activity). For instance, average wages in the education sector of employed persons in urban units in the TAR in 2010 were 1.4 times that national average in 2010, which probably accounted for a large share of the difference in education expenditure. Other factors include the fact that it is relatively more expensive to service a low population density region than a high population density region because the catchment area of one school covers a much smaller population, and thus the costs of providing school infrastructure per student are higher, particularly where subsidised boarding is supplied or required. In addition to this, the education infrastructure in the TAR remains top-heavy in the sense that there were fewer secondary schools per person in 2010 than in the rest of China, but there were more higher education institutions per person and, within these institutions, lower staff-to-student ratios. Because higher education institutions are more expensive than primary and secondary schools, and a higher staff-to-student ratio accentuates this costliness, the top-heavy education structure in the TAR requires proportionately more funding per person than in the rest of China.

After accounting for all of the considerations, it is not at all clear that people-oriented expenditures in the TAR are privileged beyond the structural costs of providing the services associated to such expenditures. It is open to debate whether these structural costs are inherent to social provisioning in remote regions or else whether they are more specifically related to central government policies designed to accelerate the integration of the TAR into the rest of China, particularly through wage policies designed to attract human resources from around the country in an increasingly open employment and migration context. However, it is also clear that a large part of subsidies are simply bypassing these categories of spending altogether and are focused on government administration and capital construction. Indeed, the TAR government has consistently spent more of its expenditure on government administration (16 percent of total expenditure in 2006) than on education (10 percent in 2006), opposite to the case of every other province in China and the regional total.¹¹

¹¹ Government administration was no longer reported as a separate category of government expenditure in the CSY data from 2007 onwards.

Efficiency of subsidization

The efficiency concern has been particularly acute with respect to the TAR, as earlier highlighted by Wang and Bai (1991[1986]) and also by Dreyer (2003, 421) in her discussion of public debates in China in the 1990s regarding the subsidy dependence and declining economic rates of return in the TAR. The efficiency concern is usually measured in terms of the elasticity of growth to subsidies (or the multiplying effect of subsidies on growth), calculated as the increase in GDP value associated with a per unit increase in the value of deficit/subsidies, as has been conventionally measured in the Chinese debates cited above (e.g. Wang and Bai 1991[1986]; Dreyer 2003).¹² A ratio of one (i.e. one yuan of subsidy increase matched by one yuan of GDP increase in the same year) represents no multiplier effect of subsidies on immediate growth, i.e. the economy merely expands by the increase in the value of subsidies or investment injected. In the context of a trade balance, this would be a minimum expectation, given that actually-used investment in one year would show up as construction and other activity in that year, and direct budgetary subsidies will similarly stimulate economic activity within the same year through salaries and other expansions in economic activity, including construction itself. A ratio below one represents a negative multiplier effect, i.e. an increase in subsidies by one yuan is matched by less than a one yuan increase in GDP.

Obviously, this measure must be treated with much circumspection given that growth is due to many factors other than subsidies, particularly investment, especially in the larger provinces, where subsidies might only play a minor share in growth. Hence, elasticity measures would tend to overemphasise the effect of subsidies in provinces such as Sichuan, where a very small value of subsidy might be associated with a large value of GDP growth, implying a very high multiplier effect even though most of the growth might not have been related to the subsidies. Indeed, this is also a problem in attempts to judge the growth effect of international official development assistance through similar measures, which are common in cross-country regression analyses of this nature. Nonetheless, this measure of elasticity is probably useful to reflect the effectiveness of subsidies in the TAR given the predominance of subsidies in this province, although ideally the measure of subsidies should include subsidized investments, whereas data has not been available for this purpose since 2006, as noted above.

If calculated on a five-year basis, roughly matching the five-year plans,¹³ the results in the TAR definitely show a declining efficiency of subsidies.

¹² Dreyer (2003, 421) also refers to declining economic rates of return, although she does not explain how these are measured. Presumably, these measures are based on a marginal measure, which is more or less the same as the measure described here. She also refers to measures based on total factor productivity – from which she appears to derive her conclusion of extensive versus intensive growth.

¹³ Five-year calculations are preferred because annual calculations make this measure erratic in the TAR given large swings in the alteration between subsidies and investment from year to year, which can give the impression of a huge role of subsidies in one year and little in the next, even though subsidies are operating through investment rather than government expenditure in the off-years. The five-year period also allows for consideration of some lagged effect of

Elasticity of growth to deficit/subsidies declined from 2.8 during the Ninth Five-Year Plan (1996-2000), to 1.1 during the Tenth Five-Year Plan (2001-2005), when subsidies surged as a proportion of GDP. This elasticity measure then actually fell below one (i.e. a negative multiplier effect) during the Twelfth Five-Year Plan (2006-2010), meaning that for every one yuan increase in subsidies, the GDP actually only increased three-quarters of a yuan. The government was effectively increasing the value of subsidies faster than the growth of value-added in the economy.

Moreover, this measure does not include subsidized investments, which if included, would lower the multiplier effect even further and would also make it appear negative earlier. For instance, expenditure on capital construction was reported in the fiscal data up to 2006, which could then be deducted from the deficit in order to avoid double counting and then the result added to investment for an overall assessment of total subsidies in the TAR economy (assuming that most investment in the TAR is subsidized). According to this measure, the elasticity measure of growth to subsidies and investment was negative (below one) from 1999 onwards (calculated up to 2004; see Fischer 2007, 156), to the extent that in 2001 there was only 0.5 yuan of GDP increase for every one yuan of increase in subsidies and investment combined. In comparison, the equivalent multiplier in Qinghai, the next most subsidised province in China, fell below one for a few years in the late 1990s and early 2000s, reflecting the intense subsidisation of western development strategies over these years. However, the multiplier returned positive (above one) after a few years, reflecting that such subsidisation was directed towards a productive restructuring of the industrial base of the province.

The negative multiplier effect of subsidies in the TAR (where we can reasonably talk of a multiplier effect of subsidies) effectively represents a return to the state of affairs during the Maoist period. Wang and Bai (1991[1986], 68-73) pointed out that for every one yuan increase in the value of output between 1957 and 1983 in the TAR, subsidies increased by 1.24 yuan, i.e. a negative multiplier effect. They also recorded a similar, although less dramatic, trend in Qinghai. According to their data for the TAR, local revenue (or what they call 'local financial income') turned negative and the level of subsidy started to increase sharply precisely in 1968. The proportion of central government subsidies to output value (equivalent to the subsidy/GDP measure above, although not including the tertiary sector)¹⁴ increased from 31 percent in the 1950s, to 45 percent in the 1960s, 80 percent in the 1970s, and 97 percent in 1980-1983. Or, the negative multiplier effect that they measured from 1957 to 1983 was mostly concentrated from 1968 onwards and it would be much more accentuated if the calculation were correspondingly adjusted. Notably, they did not clarify that this intensification of subsidies occurred simultaneously with the late implementation of rural collectivisation in the TAR, which only started to be fully implemented in 1969,¹⁵ as well as in the midst of the Cultural

subsidies on growth, at least for the beginning of the five year period, which in this case corresponds to the beginning of a five-year planning cycle.

¹⁴ See footnote 7 above.

¹⁵ Personal communication with Melvyn Goldstein, January 2006. Also see Dreyer (2003).

Revolution and intensive interior industrialisation strategies. Similar patterns continued even in the context of reform, to the extent that the real per capita GDP of the TAR was recessionary from the mid-1980s to the mid-1990s, after which the combined immensity of investment and subsidy increases served to buoy up real per capita GDP, although in an extremely inefficient manner.¹⁶ In sum, recent development strategies in the TAR have not altered the structural trend of very intense and very inefficient subsidisation observed since the late 1960s in any significant way. This point will be explored further below, after a discussion of investment, the other major (and also largely subsidized) source of growth in the TAR.

2.2 Investment in fixed assets

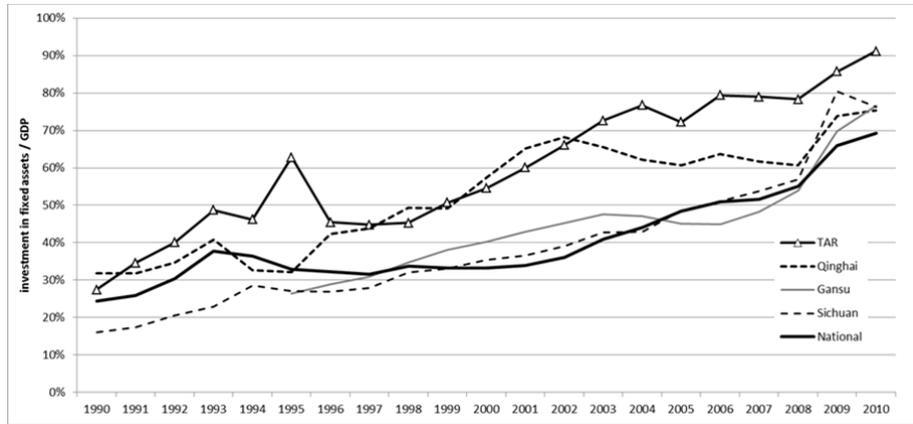
The other major source of subsidies in the TAR is investment in fixed assets (investment for short). Investment is also subsidized to a lesser extent in other western provinces, with the extent of subsidization declining with the size of the province, similar to subsidies as a proportion of the deficit. In the TAR, the bulk of investment is financed by the central government or, to a lesser extent, by various coastal provincial governments (such as the railway, which was entirely subsidized by Beijing, or provincial aid projects, which are entirely subsidized by various rich coastal provinces). Investment in the TAR might therefore be used as a proxy for indirect subsidies. Such a proxy would not be reasonable in any of the larger provinces, where much of investment is financed from within the province.

Data is not available to be able to track whether investment funding originates in-province or from outside a province. However, as an indirect indication, 62 percent of investment in the TAR was funded by ‘state budget’ in 2010 (which could be the TAR government budget, the central government budget, or the budget of another province). Given that the entire TAR government revenue amounted to 7.2 percent of GDP in 2010, as analysed above, whereas investment in the TAR amounted to 91.2 percent of GDP in the same year, it is clear that most of these state budget funds for investment were from outside the TAR. In contrast, ‘state budget’ funded only five percent of investment in China, nine percent in Sichuan and 14 percent in Qinghai. Only two percent of investment in the TAR was funded through domestic loans (an important source of local financing in many provinces, especially since 2008 as mentioned in the previous section), versus 15 percent in China, 16 percent in Sichuan and 17 percent in Qinghai. The largest source of funds in China was ‘self-raised funds’ (the largest component of which is probably reinvested earnings), which accounted for 63 percent of investment funds in China, versus 57 percent in Sichuan, 52 percent in Qinghai, and only 31 percent in the TAR (calculated from CSY 2011, table 5-5). Similar to the state budget category, much of the self-raised funding in the TAR probably came from outside the province, such as a state-owned enterprise in Sichuan raising its own funds for a project in the TAR, whereas in other provinces it would include a substantial local element.

¹⁶ See Fischer (2013, chapter two) for a detailed discussion of these macroeconomic data for the TAR in the 1980s.

As with deficit/subsidies, the level of total investment to GDP in the TAR (mostly subsidised) reached levels unparalleled anywhere in China in recent history, at almost 80 percent of GDP in 2006 and then rising even further after 2008, to 91 percent of GDP in 2010 (see figure 3). Whereas such levels of investment once appeared exceptional to the TAR and Qinghai, particularly in the early to mid-2000s, they actually became the norm in western China after 2008. Even nationally, investment apparently surpassed 69 percent of GDP in 2010 (and gross capital formation reached 49 percent of GDP). The difference with the TAR is that, as noted above, such levels of investment in the other provinces and nationally would have been locally financed much more than in the TAR.

FIGURE 3
Investment in fixed assets as a ratio of the GDP, 1990-2010 (current value)



Sources: calculated from CSY (2011, tables 2-1, 2-13 and 5-3) and equivalent in earlier CSYs.

The earlier trends in the investment data are discussed in Fischer (2005a; 2007; 2009), although some perspective is worth noting here. Investment in both the TAR and Qinghai started from more or less the same level as the national average in 1990 (for the TAR) and 1995 (for Qinghai). There was a short one-year investment spurt in 1995 in TAR, when investment reached 63 percent of GDP, but then the TAR resumed a level of investment to GDP that was more or less identical to Qinghai, both substantially higher than the national pattern up to 2002. After 2002, levels of investment to GDP continued to climb in the TAR. They fell in Qinghai, converging back towards the (rising) national pattern up until 2008. After 2008, investment surged in all cases, as noted above. The especially large spike in Sichuan in 2009 is probably related to earthquake reconstruction. Nationally, this measure of investment – at over 69 percent in 2010 (or 49 percent in terms of gross capital formation data) – shows the extent to which investment in fixed assets drove China’s response to the global financial crisis. The sharp increases in all the western provinces – as with the levels of deficits shown earlier – are reflections of the effort of the central government to reorient aggregate demand in China

towards domestic sources, in which western development strategies have played a key role.

As with government expenditure, several unique characteristics sharply differentiate investment in the TAR from all other provinces in China. One is the fact that state-owned units (SOUs) accounted 72 percent of investment in the TAR in 2010, versus 46 percent in Qinghai, 53 percent in Gansu, 38 percent in Sichuan, and 30 percent in China. This share in the TAR had fallen since 2001, when SOUs accounted for 95 percent of total investment (see Fischer 2005, 72), although the fall was mostly compensated by a rise in the vague category of ‘other,’ which had risen from 3.4 to 12.3 percent of total investment between 2004 and 2010, whereas it was marginal in most other provinces. The category might refer to certain grey areas of state-ownership or control, such as military units or various ambiguously defined para-statal units. Second, the three largest sectors of investment in the TAR in 2010 – as in 2004 – continued to be ‘transport, storage and post’ (at 25 percent of total investment in 2010 versus 35.8 percent in 2004), ‘public management and social organisations’ (12.5 percent in 2010 versus 14 percent in 2004) and ‘production and supply of electricity, gas and water’ (12.1 percent in 2010 versus 9.8 percent in 2004). Notably, investment in public management in the TAR in 2010 was almost five times investment in education in 2010 and almost 16 times investment in health, social security and social welfare, in stark reversal of the priorities in other provinces such as Sichuan, where investment in education was greater than in public management. From the perspective of these characteristics and the sheer weight of investment in the TAR economy in contrast to the very limited capacity to finance such investment locally, it is clear that most of the funding, ownership and priorities guiding such investment came from outside the TAR.

3 Explaining economic absurdity in the TAR

Turning back to the bigger picture, the TAR economy has been growing rapidly – although no longer as rapidly as some other western provinces – in a context of a seemingly inconceivable deluge of subsidized government expenditure (at 109 percent of GDP in 2010, most subsidized) and investment (at 91 percent of GDP in 2010, probably most subsidized). The combination of these two amounted to 200 percent of GDP in 2010, i.e. the amount of money that the TAR government was spending in the TAR in 2010 or that various entities were investing in the TAR in 2010 was equivalent to double the value-added economic activity of the TAR in that year. As noted above, this combined measure includes some double counting given that some government expenditure is spent as investment, although the data to account for this has not been available since 2006. In 2006, when TAR government expenditure was 69 percent of GDP and investment 79 percent, the combined total minus government expenditure on capital construction amounted to 128 percent of GDP. The equivalent was surely much higher in 2010, quite probably in excess of 150 percent of GDP. The only other province that would have come close to the same level of subsidization was Qinghai, where the local government deficit reached 47 percent of GDP in 2010 and investment

reached 75 percent of GDP, although given that investment in Qinghai was only 13.6 percent financed through state budgetary appropriation, the overall level of subsidization was most likely well below one hundred percent of GDP. It is only in the TAR where such absurd levels of subsidization have been observed. With such intensive subsidisation, that there would be high rates of per capita GDP growth is not at all surprising. Rather, it is the apparent sheer inefficiency of such subsidization that is striking, as discussed above.

The most straightforward reason why government expenditure and investment could be so much larger than GDP is simple: a large proportion of subsidies were spent on imports from abroad or from elsewhere in China. Obviously, this import dependence might itself be the product of many of the perverse institutional dynamics apparent in the economic management of the TAR (as I have discussed in detail in Fischer 2005; 2009), insofar as externalized patterns of ownership would also tend to accentuate the demand for and use of imported goods and services. Indeed, this dimension reflects the rapid rerouting of the productive and consumptive structures of the TAR in ways that would be very difficult to reverse, particularly within a context of urbanization as it is occurring in the TAR.

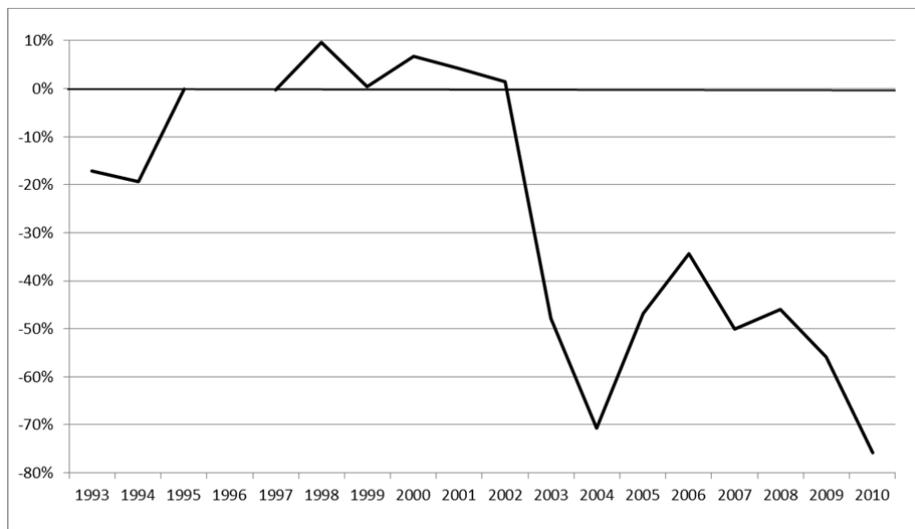
To start with the international dimension, a large proportion of government expenditure and investment was effectively being spent on imports from abroad, whether directly or indirectly. This is revealed by the expenditure approach of GDP accounting for the TAR. According to the expenditure approach, net imports (i.e. imports in excess of exports) are deducted from GDP calculations (e.g. $GDP = \text{consumption} + \text{investment} + \text{net exports}$), whereas they are not from government expenditure or investment data. Hence, the expenditure or investment data can appear inflated in comparison to the GDP data to the extent they are associated with a trade deficit, particularly if they are the cause of the trade deficit.

This has been the case from 2003 onwards in the TAR. According to the expenditure approach, the trade balance for the TAR suddenly fell from a slight surplus in 2002 to a massive deficit equivalent to 48 percent of GDP in 2003 and 71 percent in 2004. There was a correction after 2004, although the trade deficit remained at a level around 50 percent of GDP, until it plunged again in 2010 to 76 percent of GDP (see figure 4).¹⁷ The two periods when the trade account plunged into severe deficit – 2003-04 and 2010 – both corresponded to strong increases in the ratio of investment to GDP (as shown in figure 3). The re-descent into deficit in 2010 was also strongly associated with the sharp increase in government expenditure to GDP over several years (figure 2), suggesting a continued use of government expenditure for investment and capital formation. In 2003-04, the trade deficit was probably

¹⁷ Note that these trade data do not correspond at all to the trade data reported in the *Tibet Statistical Yearbook*, which for some reason show a trade surplus rather than a deficit over these years, as well as a much smaller value of trade (e.g. see TSY 2010, table 13-1). The discrepancy must derive from the fact that the trade statistics reported in TSY (2010), which are obtained from local government customs sources, only account for a small portion of international trade occurring in the TAR. This is probably explained by the fact that most of the trade – especially imports – has been conducted by central government procurement or by national or other provincial enterprises not bound by reporting to local TAR customs authorities.

explained by the import of high-tech goods and related services for the railway construction that took off in the TAR in 2003 and peaked in 2004, such as rail carriages from Bombardier in Canada, IT goods and services from Nortel, also in Canada, and the subcontracting of Japanese and other international engineers. The variations in the trade deficit since then probably similarly reflect the import-intensive input needs of various large infrastructure projects in the TAR, such as the continued extensions of the rail network. The trade deficit of Qinghai also fell to 40 percent of GDP in 2003 – probably also related to the railway and related constructions – but after this point it remained more stable, gradually falling to around 30 percent of GDP later in the decade.

FIGURE 4
Net Exports of the TAR as a percent of the TAR GDP, 1993-2010



Sources: calculated from CSY (2011, table 2-21) and equivalent in earlier yearbooks.

Assuming that overall subsidies to the TAR, including government expenditure and investment, was in the range of about 150 percent of GDP in 2010 (probably a fair if not underestimated guess), then deducting the trade deficit of 76 percent of GDP from this amount would leave an effective rate of subsidization of about 75 percent of GDP. Obviously, not all subsidies would have been spent on imports, but the monetary result is the same: government subsidies amount to a direct and immediate monetary injection into the local economy (if they are not syphoned off before arriving in the province that is), while the trade deficit amounts to a direct and immediate monetary drain out of the local economy (or at least, in the accounts of those state and corporate entities controlling both subsidies and import purchases – both transactions might simply amount to a credit and debit balance sheet entry in terms of their relevance to the local economy of the TAR). In either respect, this aspect of national accounting explains for much of the apparent absurdity of the surge of subsidies in the 2000s, although not all. Notably, total subsidies (direct and

indirect) in the TAR probably started to exceed GDP from 2001 onwards, as noted above, even though the province recorded 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 spending spree by the government on the latest high-tech railway and related gadgetry.

The more inherent and intractable dimension of this problem essentially follows the same logic, except with respect to the rest of China rather than the international economy. Similar to international trade, the TAR is most likely running a very large trade deficit with other provinces in China – particularly provinces such as Sichuan, which supplies much of the interprovincial goods and services to the TAR. Data is simply not available to measure this, although it is actually the simplest and most straightforward explanation for the various macroeconomic attributes of the TAR and is in accordance with earlier analyses made by Wang and Bai (1991[1986]), as discussed further below.

It became impossible to measure interprovincial trade balances since the breakdown of state control over such trade in the early 1980s (which is also why Wang and Bai were able to measure these balances in the early 1980s). Indeed, the situation is similar to the oft-noted anomaly that provincial GDP growth rates in China are often all higher than the national GDP growth rate. The response to this by statisticians knowledgeable of national accounting in China is that the anomaly is not due to deception but to a technical problem of double-counting output – particularly intermediate goods – given the effective impossibility of monitoring the flow of goods across porous provincial borders and the lack of interprovincial trade data since the breakdown of state control over interprovincial trade in the early 1980s.¹⁸ The problem of accounting for intermediate goods is not necessarily a concern in the TAR because this province is not involved in any significant way within interprovincial production networks, but the lack of interprovincial trade data is a problem because it means that an interprovincial trade deficit does not get deducted from the provincial GDP.

In this respect, we actually have little idea of the actual level of GDP in the TAR, if properly calculated, in the sense that an unknown but definitely large and probably increasing portion of the GDP would effectively represent the net purchases of goods and services from other parts of China rather than value-added produced in the TAR. In this way, an increase in subsidies that is used to finance the purchase of imports from elsewhere in China is effectively reflected in GDP accounting as an increase in value-added even though it is not. The same concern would face other provinces, although if we are to judge

¹⁸ For a good discussion of this in China, see Rabinovitch (2012), although his explanation is not precisely accurate. The problem with double counting is that the value of an intermediate input to the production of a final good in another province is not deducted from the value-added of that final good in the other province, hence the value-added of the input in specific is counted twice, once in both provinces (whereas it should only be counted in the first if it is a question of calculating the GDP of that province, and deducted from the value-added of the second province respectively). This is similar to the reason why the traded value of a good processed across several countries in an international production network – as according to standard trade accounting – will be several times the actual value-added of that good.

by the international trade balances, presumably no other province faces the extent of interprovincial trade deficit as does the TAR.

While we do not know the magnitude of the interprovincial trade deficit in the TAR, we can surmise, however, that it is very large and is probably increasingly given structural shifts in the local economy that proportionately shift the structure of demand towards imports (from instant noodles and mobile phones to motorcycles, sedans and beyond). These shifts include the intensified integration of the TAR to the rest of China, the relative shift of economic activities out of the primary sector, which is the only sector that is largely based on locally-produced inputs in the TAR, and into import-intensive activities such as construction and infrastructure, and the related urbanization of the TAR population, which then adopts more import-intensive consumption patterns. An important corrective on the export side would be the booming trade in caterpillar fungus, although this too mostly goes unrecorded. The expansion of tourism in the TAR can also be seen as one strategy to right the trade imbalance through the service account, although tourist industries have an endemic tendency – particularly in poor peripheral regions where the tourism sector is dominated by outsiders, as it is in the TAR – to intensify import demand and also to exacerbate other forms of financial outflow, thereby cancelling out much (and sometimes all) of the impact this sector can have on improving a trade balance. Beyond these obvious counterweights, it is likely that a substantial portion of subsidies are financing a large and probably increasing interprovincial trade deficit and are thereby being directly and immediately siphoned out of the local economy.

Once deducting for both the international trade deficit and the interprovincial trade deficit, the effective weight of subsidies in the local economy would be considerably reduced, perhaps to a level not much greater than in other western provinces (albeit with an augmented consumption of imports in the wake). This helps to explain, for instance, why the deficit/subsidy per person in the TAR was seven times provincial regional average in 2010, whereas government expenditure on education per person was only about two and a half times the provincial regional average (education spending is not import intensive). The subsidies that do manage to trickle down past the major diversions and drains of monetary aggregate demand still might amount to considerable economic stimulus for the local economy, generating the types of activity studied, for instance, by Goldstein et al (2008; 2010) and Childs et al (2011) around Shigatse in the TAR. However, it is also clear how, in the highly perforated nature of such an increasingly and pervasively import-dependent economy, these activities could become quite cloistered and underlain with a strong tendency for outflows of monetary aggregate demand if and when there would be any lapse in the constant institutional vigilance of directing monetary flows to various peripheral parts of the province (i.e. to most areas outside urban areas).

A revenge of fiscal Maoism?

This situation is not new, but has been a consistent feature of the TAR since the government started to intensively subsidise the region in the late 1960s. It was one of the main critiques made by Wang and Bai (1991[1986], 71-76), who

argued that the negative multiplier of subsidies on growth in the TAR from 1957 to 1983, as discussed above, was due to the interaction of four key issues in the TAR and other western provinces, namely: financial flows; the external trade gap; the marked failure of state-sponsored industrialisation projects; and the 'profit feedback loop'. They noted, for instance, that the trade gap between Qinghai and the rest of China was equivalent to 84 percent of total subsidies to Qinghai in 1983, and the trade gap of the TAR was equivalent to over 58 percent of total subsidies to the TAR (or the same proportion of total output, given that subsidies were equal to total output in that year). They also pointed out that 94 percent of merchandise sold in the TAR in 1983 was imported from the rest of China and that financial outflows from these provinces in some cases were also equivalent to the entire sum of central government subsidies flowing into the same provinces. Finally, they gave substantial evidence of the failure of local industrial development in the TAR, highlighting cases of loss-making ventures, projects that fell flat, were written off or that otherwise went to waste, or funds that disappeared without a trace (ibid. 88-89). They argued that this is related to what they call the 'profit feedback loop,' leading through the financial flow of funds to 'a covert compensation mechanism... from the developing to the developed areas, at the same time as the central government is taking from the rich regions to assist the poorer areas' (ibid. 79).

Beyond the pertinence of these economic arguments, however, Wang and Bai (1991[1986]) used their observations to make the case for a deeper, culturally-derogative interpretation of these perversions of development. They attributed the causes of the four highlighted issues and the apparent lack of entrepreneurship in these minority areas as stemming from the 'intrinsic backwardness' of the minority populations, thereby effectively blaming the victims, so to speak. Such backwardness, they claimed, resulted in a lack of investment demand rather than a shortage of savings. As a result, subsidies remained under or poorly utilised, local capital accumulation did not take off as it had among the eastern Han, and nothing inhibited funds from flowing out of the region or being spent on imported consumption goods rather than synergising a nascent capitalist ethos (see pages 71-72).

In other words, while Wang and Bai offered a variety of interesting findings and criticisms of central government policies, their ultimate diagnosis ironically deflected criticism away from central government policies by way of locating the central source of blame on local or minority modes of production and accumulation, thereby reinforcing a wider 'Han chauvinism' towards these minority areas. This is similar, for instance, to the way that the so-called 'Post Washington Consensus' in international development policy emerged as a critique, not of previous 'Washington Consensus' structural adjustment policies per se, but of the fact that these were poorly or mis-implemented in developing countries due to a variety of governance and institutional problems inherent to these countries, which prevented market reforms from functioning in the way they are presumed to function in developed economies. While the policy content is different in these two examples, the logic is similar in terms of blaming the victim, or to borrow from the famous words of Carlos Diaz-Alejandro (1984, 335) in his seminal post-mortem of the Latin American debt crisis in 1982: 'Blaming victims is an appealing evasion of responsibility,

especially when the victims are far from virtuous.’ The logic thereby tends to undermine arguments for empowering local agency through the enhancement of local ownership, and instead evokes the need for a return to vanguard state paternalism in dealing with minority regions. This is especially ironic given that the TAR rural economy had barely de-collectivised at the time of the field research of Wang and Bai, after being completely collectivised a little more than a decade earlier. Or, there was little that was particularly traditional or intrinsic in the conditions the authors had observed during their stint through these regions. The urban economy itself remained almost entirely state-controlled, more likely managed by Han rather than Tibetan cadres up to 1981, both probably somewhat disoriented by the ambiguous and often lagged reforms coming by way of directives from the east.

Various versions of such argumentation have remained common among scholars and officials, and even the general erudite public in China, since the Chinese publication of this book in 1986, as I regularly noted during my field work and continue to note in my regular visits to China.¹⁹ Whether Wang and Bai were the origin of this particular narrative or else simply putting an academic voice to commonly held views is a moot point, although the influence of a particular variant of Marxist modernisation theory is notable, similar for instance to certain Marxist arguments in the west regarding the historically progressive impacts of colonialism.²⁰

4 Conclusion: instituting extreme dependence in Tibet

The economic model in the TAR and its various polarised attributes have been rooted in heavily-subsidized state-led development strategies of expenditure and investment, which together have reached heights never observed before in the history of the TAR or elsewhere in China. In particular, direct budgetary subsidies from the central government to the TAR surpassed one hundred percent of GDP for the first time ever in 2010, while investment in fixed assets reached more than 91 percent of GDP. This situation is explained by the fact that development strategies have intensified international and interprovincial trade deficits as well as financial outflows at the expense of local productive accumulation. While the recently completed railway from Qinghai to the TAR, ongoing extensions of the railway to other locations in the TAR, and other large-scale projects (including the recently announced building of a thirty billion yuan tourist theme park outside Lhasa)²¹ are extreme examples of such strategies, the institutional character of these strategies was well entrenched since the late 1960s.

From this perspective, the evocation of Maoism in this paper is not meant in a literal sense, but as an indication that despite almost twenty years of intensified development efforts in the later part of the reform era, the TAR remains locked in the institutional norms that have guided the subsidisation of this politically-sensitive autonomous region since the Maoist period,

¹⁹ For an excellent discussion of these narratives, see Yeh (2007).

²⁰ See Warren (1973; 1980) for a classic example.

²¹ For instance, see Smith (2012).

particularly since the first intensification of subsidisation in the late 1960s. As a result, recent strategies have not altered in any significant way the long-term trend of very intense and very inefficient subsidisation. Rapid economic growth since the mid-1990s has been a reflection of the intensification of subsidies, with more infrastructure and increased import consumption riding in the wake, to the extent that we do not even know the true value of the GDP given the pervasive dependence on imports in the local economy. There is little that would offer hope that growth could be sustained beyond such subsidy intensifications. Indeed, the much touted tourism and mining activities still pale in comparison to government administration and related activities that are the main targets of the subsidisation strategy and which do not appear to carry any particularly coherent economic rationale, in terms of profitability or other local economic criteria. In contrast to every other province in China, these institutional norms appear to have been predominantly guided by security and ideological rather than primarily (political) economic concerns.

Moreover, the recent phase of intensive subsidisation has completed two principal tasks envisaged during the Maoist era. One is the state-led engineering of a deep integration of the region into China through externalized patterns of ownership as the institutional basis for the TAR economy, thereby entrenching an extreme form of dependency as the economic logic and modus operandi of the local economy. The second is the consolidation of the very visible hand of the state in the structuring of most aspects of the economy, including the rural economies, albeit through a different mode of governmentality attuned to the current era of 'market socialism' rather than Maoist collectivisation. As a result, the economy of the TAR can be aptly described in structural terms as having become a peripheral subsidiary of the central government and related interests. Local development dynamics (and people) are increasingly captive to the discretion of these central interests, particularly in the context of their rapid transition away from the traditional bases of subsistence in the rural economy, as discussed in Fischer (2011). Indeed, the fact that these development dynamics have occurred alongside a rapid shift in peoples' livelihoods out of agriculture implies that this most recent phase of subsidization has probably irreversibly or irremediably locked the province – perhaps intentionally – into a trajectory of extreme economic dependence with the central government. In this sense, the perverse characteristics of this subsidised economic model can hardly be attributed to local Tibetans – as is often done by Chinese scholars starting from the seminal work by Wang and Bai (1991[1986]) – given that local Tibetans have had little to do with the conception or path of this model, particularly since western development strategies were invigorated in the mid-1990s.

As a final cautionary note, one of the tendencies in this context is that ideological zeal can easily overrun practical local considerations. This is partly because the deluge of subsidies encourages officials, often on short tours of duty and pressed to match the funds available with concrete achievements, but with little experience or knowledge of local circumstances, to concoct and hatch projects that meet an abstracted and idealised (and usually prejudiced) notion of the development problem in Tibetan areas, albeit usually with little or no critical introspection of the broader structural issues analysed in this

paper. The risk is that projects are poorly conceived – even by the usual standards applied to policy making and implementation in China Proper – and could be irrevocably destructive to local Tibetan livelihoods and cultural transmission. One notable example in Qinghai – and probably already being implemented in the TAR – is the policy of primary school consolidation, in addition to secondary school consolidation. This policy was started in parts of Qinghai in 2009 (and possibly before this time in Sichuan), and has been complemented with further schooling reforms in 2010 to increase the use of Chinese language in primary schools.²² While the consolidation reforms have been happening throughout China, they have implied the boarding of primary school aged children in Tibetan areas given the topographic and demographic characteristics of these areas, whereas boarding in the more densely populated areas of most of China proper would not necessarily be required for school consolidation. Moreover, these schooling reforms are being implemented according to a uniform national logic despite the fact that these Tibetan areas have not yet caught up in their massive educational lag with other parts of China, including with closely neighbouring areas and sources of migration into these Tibetan areas (such as the Han Chinese parts of Sichuan).

In this manner, the new primary schooling model in the Tibetan areas has quickly come to resemble some of the worst past practices of, say, Canada, in terms of the experiences of the residential schools and their devastating impact on several generations of aboriginal children and communities in Canada. However, despite these lessons, there is a strong possibility in the zeal of mega-development planning currently enveloping Tibet that, like during the Cultural Revolution in China Proper, these policies will severely debilitate a generation of young students now being forced through these schools, often in complete violation of parental rights and in a manner that Han Chinese people would probably never accept. The reforms in the Tibetan areas are motivated by an effort to overcome some of the apparent obstacles to improving education in these areas and also to enhance the integration of young Tibetans into mainstream Han society and economy. However, the reforms are possibly one of the most tragic aspects of current policy shifts in Tibetan areas. The tragedy is not only in terms of the imposition of Chinese language instruction in most subjects on unilingual primary school students despite profuse evidence both in China and internationally that such students would learn much better if taught in their own mother tongue and, hence, are being imposed with a severe learning disability from a young and formative age. The tragedy is also in terms of the separation of young children from their families for long periods of time, in conditions that are best described as factory schools with sub-standard care. This intimate aspect of radical dislocation and alienation cannot be underestimated as background to the current unrest and protest in much of these Tibetan areas.

The policy is certainly not necessary, even if the government wishes to otherwise spend its money on a variety of large-scale high-tech projects. It is also not dictated by an abstract notion of the demands of the so-called socialist

²² See Cencetti (2012, chapter ten) for an excellent ethnography of these schooling policies in one Tibetan area in Qinghai.

market economy. Indeed, given the sheer scale and inefficiency of the subsidy deluge in the TAR, the government could well afford any variety of other schooling models, even if these would prove to be more costly.

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