Fiscal Policy in the Tibet Autonomous Region under the Hu-Wen Administration:
Effects of New Surge in State Subsidies after 2008

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Analysts and scholars – including Chinese economists and social scientists – have long been critical of Beijing’s model of development in Tibet for its inefficiency and heavy dependence on state subsidies to maintain high levels of economic growth. The state-led strategy for development in Tibet was seen to have led to greater structural dependence, undermining the development of the regional economy and exacerbating inequalities in society. In the wake of the unrest of 2008 followed by the ongoing wave of self-immolations across the region, many observers wondered whether the Hu-Wen administration would re-evaluate its approach of combining hardline tactics with an aggressive economic strategy of high levels of subsidization of the region. Would the popular discontent lead to a shift in policy gears?

Dramatic surge in subsidies in TAR after 2008

A study of fiscal policy in the Tibet Autonomous Region (TAR) from 1990 to 2012 clearly indicates that there was no reversal in Beijing’s economic policy in Tibet after 2008. In fact, an analysis of the government expenditure in the TAR demonstrates only an intensification of its prevailing economic strategy. While state subsidies and investment increased across the ten western provinces of the PRC, subsidization surged dramatically in the TAR after 2008, reaching levels from 2010 onwards never before observed in any other province or in any other period of the PRC.

In 2010, direct budgetary subsidies from the central government to the local government of the TAR exceeded 100 percent of the TAR gross domestic product (GDP) for the first time – exceeding even the levels reached during the peaks of subsidization during the Maoist period in the late 1960s and 1970s. Thereafter, subsidization continued to surge, reaching almost 116 percent of GDP by 2012. These figures do not include subsidized investment not financed by the TAR government expenditure, most of which is also likely subsidized.
By comparison, budgetary subsidies to the government in Qinghai (another strongly Tibetan province) reached 44 percent of GDP. In Guizhou, the poorest province of China, subsidies reached 16 percent, while in Gansu, the second poorest, they reached approximately 18 percent. Subsidies were increasing in these other provinces, but nowhere to the extent they were in the TAR. Unlike in TAR, the economies of these other poorer provinces in China have slowed as the Chinese national economy has slowed.

**TAR meets growth target in 2014**

Given the unprecedented flow of subsidies to the region, it is perhaps not surprising that the TAR was recently announced as the only provincial unit of the PRC to have met its economic growth target in 2014. The TAR economy grew by 12 percent, precisely on the target set by the local government. Since economic activity in the TAR is essentially driven by government spending and investment, the government is able to meet its targeted growth rate by simply adjusting the flow of subsidies. However, to a large extent much of economic growth in the TAR has been an accounting illusion.

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In every other province of the PRC – including Qinghai, the next most subsidized province after the TAR – economic activity is much more a function of the dynamics of local production, mediated by consumption and investment demand. Government spending plays a strong role in such demand, but not nearly to the extent as in the TAR. Moreover, the role of government spending is becoming increasingly complementary and counter-cyclical, meaning that the government increases expenditure in order to compensate for slow-downs in the private sector, as in modern economies elsewhere, including the US.

There is no sense in referring to a counter-cyclical role of government spending in the TAR. Government spending *is* the cycle. Sustained high levels of growth in the TAR is not surprising, given that the numbers are largely a reflection of increasing subsidies from the central government. Instead, what is surprising is that the TAR economy has not grown faster. Under normal circumstances, the multiplier effect would be expected to generate several more yuan of economic activity for every yuan of government expenditure. In the TAR, the multiplier effect has been negative, in the sense that economic growth has been less than the increase in government subsidies, especially since 2008.

**Subsidies and trade imbalance in the TAR**

In searching for an explanation for the economic inefficiencies observed in the TAR, internal critics of the central government’s policies on development in Tibet have tended to emphasize an inability to adapt to local conditions in the delivery of aid. While laudable for its cultural sensitivity, this perspective overlooks a more fundamental driver of inefficiency: the growing import intensity of the TAR, as a significant proportion of government expenditure and subsidies is spent on imports from abroad or elsewhere in the PRC.

The growing import intensity of the TAR is apparent in the international trade balance which fell into deep deficit each time the government increased its subsidies, reaching a deficit of 71 percent of GDP in 2004 at the peak of...
The railway construction in that year, or again to 76 percent of GDP in 2010. These deficits are likely explained by the import of high-tech goods and services related to investment projects in the TAR, such as for high-altitude railway construction. International trade deficits are deducted from GDP calculations, whereas they are not from government expenditure or investment data. The latter can therefore appear inflated in comparison to the GDP data to the extent they are associated with a trade deficit.

The trade imbalance in the TAR indicates that a significant proportion of the government expenditure is spent on imports from abroad and elsewhere in the PRC.

The same situation exists between the TAR and other provinces of the PRC. However, it is more complicated to calculate because of the breakdown of state control over interprovincial trade in the 1980s. Nonetheless, the TAR appears likely to be running a major trade deficit with other Chinese provinces, particularly Sichuan, which supplies much of the goods and services consumed in the TAR. This deficit has likely been worsening with the shift in the economy away from farming and herding, and towards urban areas.

These dynamics are further compounded by interprovincial migration that intensifies the demand for imports. Given the lack of data, it is unclear the extent to which, if at all, interprovincial trade deficits have been deducted from the calculation of provincial GDPs. If they have not, then the GDP data would also be inflated by the extent of the trade deficit with the rest of the PRC. This implies that it is not possible to know the actual level of GDP in the TAR, properly calculated. Instead, the reported value of the GDP could reflect, to a greater or lesser extent, the consumption of imports from elsewhere in the PRC, rather than purely contributions of value-added through the local production of goods and services in the TAR.

Subsidies and growing structural dependence

On a per capita basis, direct budgetary subsidies to the TAR were equivalent to 4.6 times the per capita rural household income in the TAR in 2012, a ratio that had increased from 0.9 in 1990, to 1.6 in 2000 and then to 4.1 in 2010. The divergence in the per capita figures serve as an indication of the extent to which subsidies have been disconnected from living standards of the majority of the permanent resident population (which is primarily Tibetan). The TAR is therefore exceptional not only because of the extraordinary rates of subsidies flowing to the region, but also because of the sheer disassociation between rapid growth in investment, construction and tertiary services on one hand, and sluggish local productive activities on the other.

That said, the minor portion of subsidies that has managed to reach Tibetan rural areas has been large enough, given the overall flow, to induce rising incomes and a notable degree of local socio-economic transformation. The recent surge in intensive subsidization has thereby exacerbated the dependence of local Tibetan livelihoods on these state strategies, while at the same time intensifying the state-led economic integration of the region into the rest of China through externalized patterns of ownership and consolidated state control.

While much of economic growth has been to a large extent an accounting illusion, the socio-economic consequences of the growth have not. Subsidy-driven growth has been associated with the acceleration of substantive changes in the socio-economic structure of Tibetan
society. Most fundamental has been the rapid transition of the local Tibetan labor force out of the primary sector of herding and farming. This transition has been taking place in the Tibetan region at a faster pace than has been occurring elsewhere in the PRC, but without the productive economic foundations or local political autonomy to support these changes as elsewhere.

Final Remarks

The dramatic influx of subsidies under the Hu-Wen administration has greatly increased the dependence of local Tibetan livelihoods on urban-centered state development strategies, even while intensifying the state-led economic integration of the region into the rest of the PRC through externalized patterns of ownership and consolidated state control. At the same time, social tensions have been exacerbated by the fact that this has occurred within a particularly assimilationist context, one that often severely disadvantages Tibetans in competing for urban employment opportunities, among other social and political considerations.

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The common argument that the perverse characteristics of this subsidy-driven economic model are somehow related to marketization diverts attention away from the central role of the state in shaping the deeply structural nature of these transformations, as well as the potential for the state to dramatically change the situation by adopting a very different approach to its policies in Tibet.

Such change would need to go far beyond simply increasing cultural sensitivity in the delivery of economic development strategies. The social tensions and inequities associated with the current economic strategy will continue to persist as long as the structures of ownership and power in the local economy remain unaddressed, and as long as the principles of autonomy that were the original foundation for the incorporation of the Tibetan region into the PRC continue to be eroded.

ENDNOTES


FURTHER READING


ABOUT THE AUTHOR

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