



ASSESSING THE EFFICACY OF STATE SUBSIDIES IN TIBET ATONOMOUS REGION

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Beijing's economic development policy towards Tibet entailed state subsidies since the 1950s to an extent that it has rendered Tibetan Autonomous Region (TAR) ¹ economy and administration excessively dependent on state subsidies till present. Yet, the massive economic assistance from the centre has failed to pull TAR out of the bottom in the national rankings amongst the provinces and autonomous regions under the People's Republic of China (PRC). In terms of human development index and average education level, TAR falls much below the national average. In fact, some of Tibet's indices are either at the bottom of national ranking or behind most of its counterparts. As per statistics, over 90% of the expenditure incurred on the functioning of the administration and its economy is met by the central government through fiscal transfer payment. More interestingly, the growth rate of central government's financial subsidies is higher than the growth rate of TAR's financial revenues.² Only 5-7% of the total expenditure is met by the local

revenue and most of the fiscal deficits are covered from subsidies.³ Although subsidies are provided with the purpose of stimulating economic development of the region, yet, persistence of increasing state subsidies in TAR even at present raises crucial questions over the efficacy of these state subsidies and creation of subsidies centric economy in TAR. Thus, the paper attempts to assess the efficacy of state subsidies in TAR and why the latter remains exceedingly dependent on it.

In order to understand state subsidies by China, it must be noted that subsidies can be categorised as direct and indirect subsidies. The former denotes direct budgetary support from the central government to the provinces to cover the provincial deficits. The latter denotes subsidised investments that encompass all investment made in TAR by Beijing or by other provinces.

Two major areas that absorb state subsidies and investment are local government

administration and capital construction. The central government's subsidies maintain TAR's government administration and high salaries of its officials. In terms of construction projects, tenders for possibly all of the large construction projects and even small projects are contracted to companies which are not based in the region. For instance, the Golmud-Lhasa Railway project involves consortium of state owned construction and engineering companies mainly from the coastal areas. Likewise, irrigation works in farming valleys around and between Lhasa, Shigatse and Lhoka were constructed by similar construction companies. Although these irrigation works had in fact aided agricultural development of the region, benefits of the actual construction such as wages, business experience, and profits are largely reaped by these companies, which in other words mean - loss to the local economy. Most of the construction works in urban areas were carried out by the migrant Han workers including small scale construction projects that could use local Tibetan workforce. Participation of the local population in such projects was restricted to the lowest skill levels.⁴ Thus, the development of locally owned business and local expertise are sidelined.

The study of the growth rate of TAR from 1990s to 2000s brings out certain important features. Firstly, rapid growth rate in TAR was delinked from productive sectors, primarily the agriculture. Although GDP increased steadily, yet agriculture's contribution towards GDP fell from

42% in 1995 to 17.5% in 2006. Industry and mining contribution to GDP was around 7%. Conversely, construction contribution towards GDP increased from 11% in 1996 to 20% in 2006. Tertiary sector's contribution towards GDP increased from 34% in 1996 to 55% in 2006, thus, becoming the largest sector in TAR. Hence essentially, TAR's rapid growth has been stimulated by rapid tertiarisation and construction boom accompanied by falling share of secondary sector in the GDP. On the contrary, China as a whole depicts a different picture where the secondary sector was the largest sector driving the growth of the economy.⁵ In TAR's economy the tertiary sector is the largest sector albeit catering to only 30% of the total population that includes Chinese along with Tibetans. It is alarming that this sector where only 30% of population is concentrated absorbs the largest amount of state subsidies. In fact, the tertiary sector has been regarded as a new pillar of growth in TAR region by the central government.⁶ Besides, TAR's impressive double digit growth rate is driven by high subsidies and investment from the central government through financial transfer payment, and not by surplus revenues generated by the local economy.

Although rapid tertiarisation has greatly stimulated growth rate in TAR, however, even within tertiary sector, two key areas in which Tibetans have advantage against Chinese competitors and from which Tibetans can draw enough benefits have been curtailed due to

increasing Han Chinese hold over these areas. It has been rightly pointed out that even tourism industry is concentrated in few hands and is largely confined to urban areas. Besides, most of the companies that control tourism industry are based outside the Tibetan region, hence large share of tourism revenue is eventually channelled out of the region, thus limiting the sector's contribution to the growth of the local economy. With regard to Tibetan medicine industries, it shares a similar story where ownership and distribution centres and head offices are increasingly located outside Tibetan areas thus impacting the flow of revenue to the sector.⁷

The status of the primary sector that feeds more than 70% of Tibetan population as a weakest sector acts as a major impediment towards achieving self-sufficiency for TAR's economy. The primary sector not only remains as a weakest sector but is also deprived of much needed reforms. The main reason behind primary sector's dismal performance can be attributed to China's urban biased developmental policies. It was during eleventh five year plan (2006 – 2010) when the rural development and social development took centre stage. The shift in government's approach towards rural development was referred as 'people first' initiative.

The central government's irrational decision to embark on industrialisation of TAR

that was essentially divorced from TAR's distinctiveness in terms of its geography, history and culture, traditional modes of production, market growth level, human resources has proved disastrous as after initial success it started to incur losses, which continue even today. In 2013, the amount of losses incurred by Tibet's enterprises, i.e. 1.341 billion yuan had exceeded profits of 0.734 billion yuan.⁸ Large amount of losses incurred by these industries are covered by none other than state subsidies. Furthermore, large share of subsidies are consumed by the state owned units (SOU), which absorbed 65% of investment in TAR in 2012.⁹

The chief reason behind dismal performance of industry was mainly attributed to the following reasons: firstly, the investments in a particular industry have not been based on economic viability; secondly, subsidies were distributed to the units irrespective of their capacity for production, performance in terms of outputs. Some scholars have referred to it as a vicious cycle in which the more the units incur loss, more the subsidies they receive and ultimately more they become dependent on subsidies.¹⁰ Furthermore, it has been argued that policy of such nature serves purely political needs. China's investment in TAR largely orients towards cosmetic manifestation of Chinese development of Tibet.¹¹ This partly explains China's attempt to build legitimacy in Tibet based on economic development.

One scholar underscored the negative multiplier effect of state subsidies on GDP growth, i.e. one Yuan of increase in government expenditure resulted in 0.47 Yuan GDP increase. Normally one Yuan of subsidies or investment produces several Yuan of growth but not in case of subsidies in TAR. This clearly exhibits negative impact of subsidies on the economy of TAR and largely impacts TAR's continued dependence on subsidies.¹²

There is no denying that Tibetans have not benefited from economic growth in TAR, as there has been a gradual improvement of economic situation of some Tibetans. The majority of the Tibetan people, however, have not benefited from various developmental policies, as the benefits from these policies have largely been appropriated by the Han migrants.

Some scholars have attributed failure of state subsidy policy to three key reasons; firstly, large share of subsidies is taken by large administrative superstructure; secondly, to support a large number of PLA personnel stationed in Tibet; and thirdly, to buy goods from other provinces thereby generating local production.¹³ What is interesting is that major sectors that absorb considerable amount of subsidies and investment are unproductive sectors.

Thus, various reasons behind TAR's continuous dependence on state subsidies have been sufficiently covered. Based on the above

arguments regarding the subsidies granted to TAR and its impact, an attempt in this regard has been made in finding solutions to address the problems related to the policies implemented by China. The suggested solutions are: a) any kind of central government's assistance policy should stimulate economic growth and social development, b) the central government should reflect on its economic assistance policies and evaluate efficacy of these policies, c) development of local economy is crucial, and hence, appropriate measures should be taken in this direction. Accordingly, d) development of primary sector, human resources, educational level and other vital facilities deserve due attention. More significantly, e) any kind of developmental policies or activities should essentially involve local people, capital, resources and local industries. Finally, implementation of any policy should be directed towards cultivating self-development capability and must address the local needs. If TAR's economy continues to grow without significant local development in the long term, it would lead to increasing poverty in the region irrespective of subsidies and investment from the central government.

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

Notes

¹This article is restricted to TAR because data from the Chinese government are available only on TAR region as

China regards only TAR as Tibet, remaining Tibetan areas are incorporated into various other Chinese provinces.

²Jin Wei, Tibet as Recipient of Assistance and Its Sustainable Development, China Policy Institute Policy Paper, 2015, no. 9, p. 1

³Dolma Tsering, Economic Development of Tibet under the People's Republic of China: Issues and Challenges, in *Changes on the Roof of the World: Reflections on Tibet*, edited by Jigme Yeshe Lama, (New Delhi: Pentagon press, 2016), p. 99

⁴Andrew M. Fischer, *State Growth and Social Exclusion in Tibet: Challenges of the Recent Economic Growth*, (Copenhagen: NIAS Press, 2005), p. 77

⁵Andrew M. Fischer, The Political Economy of Boomerang Aid in China's Tibet, *China Perspective*, 2009, p. 41

⁶Lama, n. 3, p. 112

⁷Fischer, n. 4, p. 52

⁸Wei, n. 2, p. 9

⁹Lama, n. 3, p. 101

¹⁰Tsetan W. Sharlho, Economic Development and Subsidies : Impact of the Reform Policies in Tibet, <http://www.columbia.edu/cu/lweb/indiv/area/tibet-potomac/enviro/econ/wangchuk.html>, accessed on January 8, 2016, p. 6

¹¹Ibid

¹²Fischer, n. 4, p. 74

¹³Lama, n. 3, p. 102