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# From “Blood Transfusion” to “Harmonious Development”: The Political Economy of Fiscal Allocations to China’s Ethnic Regions

Carla FREEMAN

**Abstract:** For six decades, China’s central authorities have promoted development in ethnic regions through special fiscal allocations with the idea that economic development is the key to national integration and inter-ethnic harmony. Yet, inter-ethnic tensions and violence persist in China. Focusing on historical changes to fiscal allocations as the principal policy instrument used by Beijing to promote development in ethnic areas, this analysis finds these changes mirror broad shifts in the country’s national development strategy. As the study argues, this pattern reflects an approach to development policy in ethnic regions whereby policies serve central objectives consistent with a policy process for determining the fiscal allocations to ethnic regions that has been both centrally concentrated and non-participatory. With evidence that this “non-engaging” approach may be exacerbating ethnic tensions, Beijing has made efforts to introduce more “inclusive” approaches to determining policies for ethnic regions; however, whether these approaches will be institutionalized remains unclear.

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**Keywords:** China, Chinese ethnic minorities, ethnic policy, ethnic tensions, fiscal allocations, intergovernmental, autonomous regions, non-engaging policy, inclusive growth

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## Introduction

Over the past six decades, Chinese authorities have committed a steady and substantial stream of financial resources to promoting development in ethnic regions with the idea that economic development is the key to achieving national integration and inter-ethnic harmony. Yet, China's ethnic minorities remain a source of social instability, even as they also continue to pose a development challenge to Beijing. Extensive research has addressed the persistence of inter-ethnic tensions and social inequality between Han and non-Han Chinese. Many studies focus on such primordial dimensions of inter-group conflict as culture, religion and historical experiences. Others look to the dynamics associated with transnational linkages, various forms of nationalism, forced relocation related to development, and other socio-economic factors for an explanation.

There is also a highly politicized body of writing both outside and within China, largely focused on Tibet and Xinjiang, debating the optimal political relationship between China's ethnic regions and Beijing. The spectrum ranges from those who advocate for independence for these regions and others, outside of China as well as within its borders, who argue the case for Chinese sovereignty over these regions. Within China, some scholars argue for greater ethnic autonomy or a federal structure, while others contend that it is necessary to move beyond multiculturalism toward ethnic "fusion" to complete the process of national integration (Leibold 2012). There are few analyses, however, that explicitly explore how the institutions and related policy processes involved in shaping development policy for ethnic regions in China themselves may have contributed to the challenges Beijing has faced in achieving its tandem goals of social stability and economic development in its ethnic regions. This article seeks to make a contribution in this direction. It adopts a narrow lens, focusing on the principal policy instrument used by Beijing to promote development in ethnic areas: special fiscal allocations. Examining how these allocations have changed over time, this article considers how China's development strategy for its ethnic regions has evolved since the People's Republic of China (PRC) was established; how these changes may (or may not) reflect changing conditions within ethnic regions; and, finally, how these changes may relate to the political/ institutional mechanisms involved in determining these allocations.

What emerges from this study's look across the history of China's special fiscal policies for ethnic regions from Mao Zedong to Hu Jintao is that changes to these policies have fundamentally mirrored shifts in

Beijing's broad approaches to national development. These shifts fall into four main periods: first, the early years of the PRC, from 1951 to 1977, when policies under Mao moved from inducing and appeasing concerns on the part of ethnic minorities about the new Chinese Communist Party (CCP)-led government to seeking to more forcibly assimilate non-Han populations and regions into the Chinese nation-state; second, the period beginning with Deng Xiaoping's ascendancy to power in the late 1970s when efforts focused initially on ensuring stability in ethnic regions and then, in the 1980s and early 1990s, on boosting local growth according to comparative advantage; third, a period beginning in the late 1990s under President Jiang Zemin aimed at high-speed infrastructure development based upon substantial central financial support for this purpose; and fourth, with the leadership of Hu Jintao, a period characterized by efforts to promote a more "inclusive growth" framework.

This periodization, with changes to ethnic policy mirroring those in national economic reform and development strategies, is consistent with the findings of this analysis: Policies toward ethnic regions have been subordinate to central strategies for economic development. This subordination is consistent with a political process for determining the allocations of special resources to ethnic regions that is, itself, both centrally concentrated and non-participatory – an approach that, as this analysis reveals, has not changed substantially over the past 60 years. These findings support a characterization of Beijing's fiscal approaches toward ethnic regions as "non-engaging" initiatives. "Non-engaging" initiatives are those that are "imposed rather than negotiated", and are designed principally to serve central priorities. There is growing evidence in support of the hypothesis that such "non-engaging" approaches to development that promote priorities that may not be shared by indigenous populations may themselves be a significant factor in inter-ethnic tensions and even ethno-nationalism and separatism (Koch 2006; Chou 2012).

The following discussion is organized into three broad sections: The first describes both the institutions that structure minority policy in China and the principal types of central allocations to minority regions. The second section forms the main body of the paper, which looks across the four main periods as described above to scan the political economy of Beijing's fiscal policies for ethnic regions and the relationship between China's policies, its broader national development strategies, and related

political and institutional changes. The third section concludes the paper with a brief assessment of these patterns. It also examines a number of new developments in the politics of China's fiscal policies toward ethnic regions, including some that appear to reflect efforts to redress the limitations and problems associated with the "non-engaged" approach, and considers their implications.

## Institutions and Allocations

China's ethnic groups represent just 8.4 per cent of China's population but occupy 60 per cent of its territory, including much of Western China. Groups and individuals in China may self-identify as ethnic minorities (meaning, as ethnically distinct from the Han Chinese majority); however, the ethnic identity of every group and individual in China is ultimately designated by the Chinese state. After 1949, drawing on a set of criteria developed by the Soviets and using ethnographic research, the Chinese government began to distinguish among ethnic groups on the basis of linguistic, cultural, economic and geographic features. From the 38 "ethnic nationalities" initially identified in the mid-1950s, the number of official ethnic minority groups reached its current number of 55 in 1979.

China's 1954 Constitution formally recognized ethnic groups as separate "ethnic nationalities", each with its own unique cultural and linguistic heritage. In addition, it promised that "discrimination against or oppression of any nationality, and acts that undermine the unity of the nationalities, are prohibited" (PRC 1954). Building on a practice introduced with regard to Inner Mongolia even before the Civil War ended, the Constitution granted some ethnic minorities with populations concentrated within certain geographic regions special "autonomous regions" (ARs). The Chinese Constitution and subsequent Regional Ethnic Autonomy Law (REAL) granted ARs such autonomy-related rights as the ability to design local regulations to reflect particular regional conditions, and promised a measure of linguistic and cultural autonomy, as well (Lai 2009). Today, China's 155 autonomous areas include five provincial-level regions (the Inner Mongolian AR, the Guangxi Zhuang AR, the Ningxia Hui AR, the Tibet AR, and the Xinjiang Uyghur AR), 30 ethnic autonomous prefectures, and 120 ethnic autonomous counties and leagues (Information Office of the State Council 2005). ARs are thus key institutional representatives of China's largest ethnic groups within the country's political system. They share the same administrative status

as their non-ethnic counterparts in China's political hierarchy. Provincial-level ARs, for example, have a political stature equivalent to provinces and ministries.

Ethnic issues are also addressed within China's national party-state through other institutional bodies. Among these, the United Front Work Department (UFWD) – the principal party organization for managing key non-party interest groups – has included a bureau for ethnic and religious affairs. Today, the UFWD's most direct link to ethnic affairs is through the State Administration for Religious Affairs. Much of the UFWD's activity at the national level is conducted through the Chinese People's Political Consultative Conference (CPPCC), described below. UFWDs exist at the subnational level as well, where they help localities oversee religious affairs and religious groups, which often involve ethnic minorities, and also assist relevant departments in the training and selection of ethnic-minority cadres (Hangzhou.gov 2012).

The United Front also works closely with the body formerly known as the State Nationalities Affairs Commission (SNAC, 国家民族事务委员会, *Guojia minzu shiwu weiyuanhui*) – now called the State Ethnic Affairs Commission (SEAC). The SNAC/ SEAC remains the principal government body responsible for policies on ethnic issues, including coordinating the work of other departments related to ethnic initiatives and implementing economic and social development policies for ethnic affairs. The first SNAC Chairman, Li Weihai, was ethnically Han; however, his successors have all been ethnic minorities. The current chairman, Yang Jing, is an ethnic Mongolian.

Ethnic groups are also represented at the central level of government in the National People's Congress (NPC), China's law-making body. Approximately 14 per cent of NPC deputies are ethnic minorities, a proportion exceeding that of the overall ethnic population in China. However, the NPC has little impact on policy decisions in the context of a legislative process that is generally one of ratifying the preferences of China's party leadership (Saich 2011).

In addition to the NPC, as mentioned, the CPPCC also plays a role in ethnic policy. The CPPCC is an advisory body to the Chinese government that meets concurrently with the NPC and includes representatives from political parties other than the CCP as well as individual members, including those from ethnic groups. In addition to its close association with the activities of the UFWD, it provides direct policy recommendations. At its 2012 meeting, for example, the CPPCC drafted

policies for additional central support for the development of Xinjiang (Huang 2012).

At and below the provincial level, ethnic minorities may play a larger role in government through leadership in village committees and local people's congresses, as well as within the local administrative leadership. At the time of writing, moreover, all five of the AR governors are ethnic minorities – unprecedented in PRC history (Li 2008). However, governors serve principally as administrative chiefs for provincial affairs, while the interests of the province or AR are addressed and represented first and foremost within the central party leadership by the provincial party secretary, to whom the governor is subordinate.

In addition to limited regional autonomy for ethnic minorities, both China's Constitution and its REAL enshrine the principle that ethnic minorities should be accorded preferential treatment in the area of fiscal policy. China's Constitution indicates that ARs are to be given control over the revenues they accrue, and the REAL explicitly states that the central government will make exceptional fiscal contributions to ethnic regions:

The central government increases the financial input in ethnic autonomous areas to promote their economic development and social progress, and gradually reduce the gap between them and the more developed areas (Information Office of the State Council 2005).

## Special Allocations

China's fiscal system has evolved considerably over the past six decades to reflect changes to the structure of China's economy and Beijing's shifting policy goals. Currently, the central government takes in a large share of the country's fiscal revenues, making routine transfers back to those provincial governments that lack adequate fiscal capacity to meet expenditure. These transfers are determined on the basis of a fixed set of formulae. An ethnic coefficient is included in these calculations for all relevant provinces. Ethnic areas themselves receive general transfers based on a set of criteria more generous than the general standard (Wang 2009).

In addition to these routine transfers, transfers for “special purposes” are also distributed by the central government. Unlike general transfers, such special transfers are ad hoc and are earmarked for specific purposes. They can also result from negotiation among bureaucratic entities. Although they are “special”, they may represent a substantial

share of total transfers: In 1994 they accounted for over 80 per cent of total fiscal transfers; a decade later, even after fiscal reforms were recentralized, the corresponding proportion was 51 per cent (Liu et al. 2009). For the past six decades, ethnic regions have consistently received some level of special transfers. Preferential allocations have included transfers earmarked for education and health, as well as special programmes for industrial and infrastructure development.

The changing array of special transfers (专项转移支付, *zhuānxiàng zhuānyì zhuǎnfù*) has also included so-called “contingency funds” (机动金, *jīdòng jīn*). The former encompasses many different types of special allocations for expenses in ethnic regions; contingency funds are transfers for use in managing crises and special challenges, such as natural disasters, that affect development in ethnic-minority regions. Other special transfers to ethnic-minority areas include supplemental reserve funds (预备费, *yùbèifèi*) for the budgets of autonomous regions, “border-construction funds” (边疆基本建设专项补助投资, *biānjiāng jīběn jiānshe zhuānxiàng bǔzhù tóuzī*), and counterpart aid relationships (对口支援, *duìkǒu zhīyuán*). In addition, central allocations aimed explicitly at alleviating poverty have offered an important set of additional fiscal flows to minority regions.

Accurately aggregating the value of all such flows to ethnic regions to include the full breadth of these allocations is beyond the scope of this analysis. Colin Mackerras uses data on capital construction to estimate that for the period from 1950 to 1989, total state investments in autonomous regions reached nearly 154 billion CNY (Mackerras 1994). Data from various Chinese government reports make clear that billions of *juan* in various special transfers have flowed to ethnic regions since the early 1980s, and hundreds of billions have been invested in infrastructure projects in Western China alone since the late 1990s (Shih, Zhang, and Liu 2008). Official Chinese government reports indicate that accumulated fixed asset investment in ethnic areas totalled 7.8 billion CNY between 1999 and 2008. Other sources show that the various special central transfers to ethnic regions alone totalled approximately 38 billion CNY between 2000 and 2005 (Lei and Cheng 2009).

These transfers have helped stimulate significant growth in per capita incomes in ethnic regions during the past six decades. In Tibet, for example, where state funds account for three-quarters of GDP, annual per capita GDP climbed from 142 CNY in 1959 to 1,000 CNY in 1989, to more than 10,600 CNY in 2005 (*People's Daily* 2009). In recent years, as will be discussed in more detail in the context of China's Western

Development Programme (WDP, 西部大开发, *xibu da kaifa*), growth across ethnic regions more broadly has also been astounding, with growth in per capita GDP between 2000 and 2008 in ethnic areas ranging from just over 15 per cent in Xinjiang to nearly 24 per cent in Inner Mongolia (All China Data Center 1981–2010).

Despite this astounding economic expansion, however, the growth in per capita GDP in most minority areas has failed to keep pace with the rest of China. GDP in ethnic areas remains approximately two-thirds of the national average, with rural per capita GDP even lower. Higher levels of extreme poverty in ethnic areas in China also serve as indicators of this gap. Björn Gustafsson and Ding Sai examine the risk of poverty for ethnic minorities and find that in rural China it is nearly double that for Han Chinese (Gustafsson and Sai 2008). Other factors make ethnic minorities less economically competitive and adaptable than their Han counterparts: Literacy levels in minority areas lag well behind those in Han-dominated regions. Tibet's literacy rate, for example, remains at barely two-thirds of its population, in contrast to a 90 per cent level for all of China (Ross 2005).

Income inequalities within ethnic regions have also grown, a characteristic the regions share with the rest of China, but one that also follows ethnic lines. Work by Andrew Martin Fischer on Tibet has shown that income inequalities widened in the first part of the 2000s, not only between urban and rural sectors in the TAR, but also between Han and Tibetans (Fischer 2005). More recent analyses by Ajit Bhalla and others expose gaps involving differences between Han and minorities within ethnic-minority regions in access to health and education and in literacy levels (Bhalla, Luo, and Yao 2011). These gaps remain key development challenges in ethnic regions and have been acknowledged by authorities in Beijing as barriers to achieving a “harmonious socialist society” (社会主义和谐社会, *Shehui zheyue hexie shehui*) (*People's Daily* 2007).

## The Political Economy of Fiscal Policies Regarding Ethnic Regions

### “Fusion” and “Blood Transfusion” under Mao

Even in the first years of CCP rule, an important goal for Beijing's policy toward ethnic regions was to remedy what was then called the “inequali-

ty in practice” – referring to the goal of equalizing economic conditions between ethnic-minority and Han Chinese in accordance with the party’s stated commitment to the principle of equality among all ethnic groups. The thrust of early policy was economic equity; however, an explicit objective was also to reduce tensions between these groups and the Han majority in the direction of inducing ethnic-minority support for political integration (Mackerras, McMillen, and Watson 1998). In this context, in 1951 the first preferential transfers for ethnic minorities were introduced with special allocations for minority education. Special fiscal transfers directed specifically to provincial-level ARs were introduced soon after in 1955. These were funds earmarked for expenditures in minority regions on various forms of production and health, as well as education, beginning with China’s 1<sup>st</sup> Five-Year Plan (FYP) (1953–1957) (Ma and Ma 2009). As Christine Wong has described, per capita fiscal expenditures in ARs, as well as in Guizhou, Qinghai and Yunnan (provinces with exceptionally large ethnic populations), grew more rapidly than the national average from the mid-1950s to 1970 (Wong 2007). Expenditures accompanied efforts often organized through the People’s Liberation Army (PLA) to improve conditions in ethnic communities, efforts that went hand-in-hand with propagandizing, as the CCP sought to win popular support and expand the ranks of ethnic cadres (Dreyer 1971).

Exactly how these first preferential transfers were determined remains unclear; as Nicolas Lardy describes in his 1978 study of China’s early planned economy, there was a “virtually complete blackout on information concerning the planning process” (Lardy 1978). What is clear is that promoting development in ethnic regions was among the priorities of China’s new leaders, who drew on experience in ethnic areas well ahead of the communist victory. Special central government departments specifically dedicated to ethnic affairs had been established within the newly created central ministries; these included the Departments of Ethnic Trade, Ethnic Education and Ethnic Public Health. An ethnic work conference, convened every two years, provided a platform for discussion and consensus-building across government entities on development in ethnic regions. Representatives from 28 commissions and ministries (Hu 2003) attended the first conference. In these early years, in addition to its convening role, the SNAC had considerable policy-implementation capacity, acting much like a regular ministry (Dreyer 1971).

These institutional arrangements were disrupted along with Mao's radical reconceptualization of the direction of Chinese economic development, begun in the late 1950s with the Great Leap Forward (GLF). According to Mao's new vision, national development included self-reliance; the development of the countryside and of economic sectors rather than regions; and the expansion of the commune structure in agricultural production (Lardy 1978). The Tibet rebellion of 1959 and growing tensions with the Soviet Union and other regional neighbours soon after strengthened Mao's resolve to ensure the loyalty of non-Han regions as he pursued his new policies (Dreyer 1968). While policies fell short of the forcible obliteration of ethnic differences (同化, *tonghua*), an assimilative melding or "fusion" (融合, *ronghe*) of ethnic and Han national identity replaced the simple integration of ethnic regions into China as a goal (Zhu 2012; Clarke 2011).

In keeping with this change, the SNAC was disbanded in 1966, to be reconstituted in 1978, and the new Constitution adopted at the 9th Party Congress of 1969 lacked references to ethnic minorities. Nonetheless, Beijing sustained a number of subsidies and other special economic policies for ethnic regions. A cluster of policies known as the "three preferentials" (三个照顾政策, *sange zhaoguan zhengce*) formed the centrepiece of these allocations. Launched in 1963, these policies made room for a special minorities' subsidy fund for "extraordinary expenses" in ethnic regions (a programme initially launched in 1955); a "minority contingency fund", for extraordinary economic, social and educational expenses; and, finally, the special allocation of reserve or discretionary funds for autonomous regions and counties, including the heavily ethnic Yunnan and Qinghai Provinces. Alongside these policies, a 20 per cent profit-sharing arrangement between autonomous regions and the central-state-owned enterprises, the latter of which were engaged in the extraction of natural resources in the ARs, can be seen as a "fourth preferential". Wong finds that between 1964 and 1979, ARs received 3.5 billion CNY from the "three preferentials" alone, adding approximately 10 per cent to local expenditures above routine transfers (Wong 2007).

That these special fiscal policies toward ethnic regions were sustained during this period seems inconsistent with the shift in Mao's political and economic strategy. Perhaps in the absence of the SEAC or other central institutions to change those policies, they simply were not eliminated. It is also possible that the leaders of the ARs were able to retain these flows of special support by arguing that they were needed to build

political support within the region (by rewarding the loyalty of local ethnic leaders who had passed the frequently brutal political litmus tests of the Cultural Revolution). Whatever the reason, from an institutional perspective, a significant outcome of these policies was that, despite Mao's push toward ethnic assimilation, not only the system of preferential policies for ethnic regions, but also the ARs themselves survived as the structural cornerstone of China's management of its ethnic-minority groups (Dreyer 1971).

### “Blood Creation” as a Strategy under Deng

Deng Xiaoping's emergence as China's paramount leader in the late 1970s marked a new chapter in the central government's approach to economic development, again with implications for development policy regarding ethnic regions. Deng's efforts to boost Chinese economic growth included decentralizing considerable authority to subnational administrative regions over the management of their local economies. In addition, he sought to engage the outside world in China's economic development, inviting participation from foreign and multilateral donors and seeking to attract foreign direct investment.

The design of policies toward ethnic regions under Deng Xiaoping supported conditions for Deng's “reform and opening” strategy. Amid the loosening of central controls over localities and the opening of China's economy and society to international influences – key pillars of Deng's reforms – ensuring domestic and cross-border stability became a priority. Expanded commitments to ethnic regions beginning as early as 1977 included a promise to routinely increase fiscal subsidies for ethnic ARs by 10 per cent each year, as well as the addition of Guizhou, Qinghai and Yunnan to the existing five ARs eligible for these special allocations (Government of Hainan 2008). In addition, allocations were authorized explicitly for the “construction of border areas” (边疆基本建设补助投资, *bianjiang jiben jianshe buzhu touzi*), regions along often-contested international borders typically heavily populated by ethnic minorities. These subsidies could be directed toward everything from improving sanitation to education. Introduced in 1977, they were routinely increased by 10 per cent each year until the programme was abolished in 1988 (China's Ethnic and Religion Net 2010). Beijing also added additional working funds (民族工作经费, *minzu gongzuo jingfei*) for “special challenges” that were affecting development in ethnic-minority areas. In addition, ARs were permitted to retain all fiscal revenue (Government of

Hainan 2008). Thus, as the fiscal contracting system first got underway and responsibility for economic growth (划分收支, 分级包干, *huafen shouzhī, fēnji bāogan*, income and expenditure) was decentralized to local governments, including to ARs, ethnic regions were handled with special care (Mackerras 1994).

However, as the reform process progressed, ARs began to see their special allocations eliminated. With the push to dismantle the state-owned enterprise system in the absence of an effective taxation system, central leaders anticipated a drop in central revenues (Wong 2000). In addition, decentralization and attendant local initiative appeared to be a key stimulus for the rapid economic growth achieved by many provinces. In this context, Chinese experts and planners began to question the need for special transfers to support ethnic areas, now seen as inefficient within the devolved fiscal structure that granted localities such extensive authority over local expenditures. The prevailing view of reformers was that mechanisms to promote investment in ARs would be more beneficial to growth than would preferential subsidies, which they argued tended to reinforce dependency on central largesse rather than stimulate local initiative. Many observers framed these contending views as a debate between the long-standing so-called “blood-transfusion” (输血, *shuoxie*) model of direct subsidies in contrast to a more market-oriented, capacity-building approach aimed at local “blood creation” (造血, *zhaoxie*) (Chen 2005; Yang 1990). As will be discussed further, this policy debate also extended to poverty-reduction strategies.

From the late 1980s to early 1990s, advocates of “blood creation” captured the policy-making momentum. While, as noted, basic subsidies to ethnic regions were robust through much of the 1980s, by the late 1980s, as the fiscal contracting system was introduced, many other preferential earmarks to ethnic-minority regions were removed or restructured as loans (Cao 1987; Gan 1991). For example, the subsidy for the “construction of border areas” – a substantial source of budgetary support for ethnic areas (1.2 billion CNY from 1978 to 1988) – became a loan managed by the body known then as the State Planning Commission (SPC) (Zhao 2004). By 1988, and with the introduction of the fiscal contracting system, basic transfers to ethnic regions were fixed as part of a general policy affecting all equalizing transfers to Chinese provinces. As Wong points out, in the context of the double-digit inflation of the day, this meant that the real value of these subsidies plummeted (Wong 2007).

As noted, even new poverty-alleviation programmes introduced during this period were designed to discourage financial dependency on Beijing and encourage local initiative. Poverty funds across the officially designated “poverty counties” under the 8–7 National Poverty Reduction Programme launched in 1993, a plan which sought to lift 80 million people out of poverty in seven years, delivered substantial allocations to poor minority regions. However, this funding required matching transfers – that is, matching funds from the provincial and AR governments, as well as from lower-level localities – a challenging requirement for the poor regions these allocations were to serve (Shanghai Conference no date; World Bank 2005).

This bias toward so-called “blood-creation” policies continued through much of the 1990s, and many more special subsidies and other transfers to ethnic regions were eliminated. This included revenue-sharing arrangements related to natural-resource extraction that ethnic regions had enjoyed, along with the preferential provisions granting them special contingency funds (Wong 2007). Many local governments within ARs found themselves unable to meet their commitments to provide social services. One study reported that two-thirds of ethnic-minority counties were unable to meet payroll for their civil servants during this period (Wong 2007). The impact of these budget cuts can also be seen in the shift of healthcare costs from local governments to rural households in the decade from 1985 to 1995. Health expenditures by rural households show a steep increase in ethnic regions, a period that also corresponded with a sharp decline in rural household income in Western China (Keidel 2007; All China Data Center 1981–2010).

There were important institutional factors at play in the loss of many of the special allocations previously enjoyed by ethnic regions. As David M. Lampton’s work from this period shows, bargaining for preferential policies and resources played a key role in the outcome of policies in the Chinese political system. As Lampton observes, this was a process exclusive to institutions and actors within the party-state structure. Among the features he identifies as typical of bargaining in the Chinese system are that it occurs most frequently among parties with similar resources and equal rank or between immediate subordinates and their superiors. In addition, Lampton’s work concludes that the capacity of a given actor to “affect policy content [...] diminishes as one moves downward *from the point of decision*”. With specific reference to how allocations of fiscal resources are made, Lampton refers to Barry Naughton’s

observation that “actual allocation decisions are determined largely by the influence that different Beijing-based bureaucracies can bring to bear” (Lampton 1992).

As described above, in contrast to Han-dominated provinces, ARs lacked powerful advocates for their particular interests who might have enabled them to engage in effective bargaining within the system to better serve these interests. In recognition of the threat to national unity that localism represented, China’s party leadership generally practised the “law of avoidance” for its provincial-level heads. For ARs, this meant that their party secretaries were, with rare exception, ethnically Han and not from the region. Since these party secretaries were not stakeholders from the ARs, but rather individuals selected by the party to achieve national goals within the regions, they were accountable foremost to the central leadership rather than advocates for the particular local concerns and development needs of ethnic regions at the apex of China’s political system where policy priorities are decided. This was not the case within ARs. Deng Xiaoping sought to increase the number of ethnic-minority cadres, beginning in Tibet as early as 1981, when he and Premier Hu Yaobang recalled many Han cadres in the AR back to Beijing. Ethnic minorities had begun to rise to senior government posts across post-Mao China. However, again, these largely state, not party, positions were, to use Lampton’s phraseology, too far from the point of decision in the policy-making process to have a significant impact on the central policy process.

In addition, within the structure of policy-making entities at the top of China’s institutional hierarchy, key institutional actors such as the SEAC that had played a role at the central level in determining the direction of policies for ethnic regions had grown weak in comparison to many of their bureaucratic cousins. As a commission, for example, the SEAC’s purview remained that of building consensus on the direction of policy toward development in ethnic regions among various ministries. It also maintained a network of educational institutions, such as the Central Ethnic University. However, with the exception of the Ministry of Education, the special ethnic offices within government ministries that had been established in the initial years of the PRC had never been reconstituted. Furthermore, the SEAC lacked local implementation capacity: The ethnic and religious affairs commissions of local governments were not its agents (Shi 2008).

In contrast, the SPC had seen its role grow as a driver of economic policy: It had been restructured with the reforms to reflect the transition from planning for production in a command economy to providing strategic guidance to an increasingly diversified economic system. In its new capacity as an emerging super-ministry, the SPC – which would become the State Development Planning Commission (SDPC) in 1998 and then the National Development and Reform Commission (NDRC) in 2006 – had already begun to assume a more direct role in some aspects of economic policy formerly managed by other ministries and to press for those structural reforms that would facilitate local initiative in economic development (Chow 2011). The commission’s evolving role and impact on policy for ethnic regions is evinced by its role in the management of the aforementioned loans for border construction.

Notably, the Leading Group on Poverty (LGOP, later the Leading Group on Poverty Alleviation and Development) was established during this period, with a purview specifically including reducing poverty in ethnic regions. However, while the LGOP was the chief coordinating body in China’s government (State Council) for poverty alleviation work and poverty reduction – including working with international development agencies such as the World Bank – it also faced many constraints on its autonomy. As a “leading group”, it brought together ministries and other government bodies relevant to poverty alleviation, including most importantly the SPC (NDRC), the Ministry of Finance, the People’s Bank of China, the Ministry of Agriculture, the Ministry of Education, the Ministry of Health, the Ministry of Civil Affairs and the National Bureau of Statistics (Tan 2010). Setting poverty priorities involved consensus-building among all of these entities. Anecdotal reports suggest that as the SPC strengthened, the LGOP struggled to see its programmatic priorities adopted. In addition, its influence was also constrained by limitations to its local capacity. Roughly 40 to 45 per cent of its funding was designated for so-called “poverty-stricken ethnic-minority counties”, mirroring the share of these counties in China’s total designated poverty counties (*Xinhua* 2011). However, the LGOP had fewer than 30 staff members in its six offices in Beijing when it was founded in 1986, and very limited representation in local administrative entities. The actual distribution of the funds it oversaw fell to bureaus of ministries at the provincial level and below (Piazza et al. 2001).

## Toward Regional Balance and Unity in National Development under Jiang

By the early 1990s, concerns had emerged among China's central authorities over decentralization and its attendant impact on the relative fiscal capacity of China's central government and provinces. The central government's share of total government revenue had plummeted from approximately two thirds as the reforms were launched to just one third in 1993, even as the economy had sextupled in size over this period (Wang 1997). Famously, economists Hu Angang and Wang Shaoguang worried that Beijing's fiscal power had weakened to the extent that it invited a resurgence of China's historic centrifugal tendencies, also opening the door wider to the potential for ethnic separatism (Wang and Hu 1999). Similar to other localities, ARs responded to Beijing's relative retreat from direct command of their local economies by asserting local interests. Xinjiang, for example, had stipulated in local legislation what proportion of products it would not "export" beyond its administrative limits and what share of profits centrally controlled, state-owned enterprises located within its borders could retain. It reportedly listed 48 commodities as being damaging to its economic development and banned them from being brought across its administrative borders (Chao 1993). Xinjiang had also sought to expand its control over foreign trade and currency (Zhou 2010). Concerns about the potential for ethnic regions to press for greater autonomy were also fuelled by sea changes in the international dynamics of the region, including the emergence of new nation-states along China's already complex borders from the former Soviet republics following the collapse of the Soviet Union.

It had also become clear to Chinese policymakers that the "coast-first" strategy had set in motion widening regional inequalities that would require a strong policy intervention on the part of Beijing to redress. While incomes had climbed steadily in China's ethnic regions, as mentioned previously, per capita incomes in most ethnic regions, particularly those in Western China, lagged well behind those in coastal areas. For example, in 1998 per capita GDP in Shanghai – the country's highest – was nearly ten times that of Guizhou, the country's lowest. There was also evidence that, in the absence of a change in development strategy, regional disparities were likely to continue to widen. In the two decades from 1978 to 1998, Fujian, China's fastest-growing province, experienced an average annual growth rate of 13.9 per cent in real GDP. In contrast, Yunnan, like many provinces in Western China, grew at just

below 10 per cent during this period – a figure to some extent also inflated by the surge in growth experienced by many provinces at the outset of the reforms. Other evidence came from urbanization trends. The share of agricultural employment fell between 1978 and 1998 from 74 per cent to 41 per cent in Guangdong; however, during the same period in Guizhou it fell from 83 per cent to just 70 per cent (Demurger et al. 2002; Zhang and Zou 2012).

To address these challenges, Beijing sought to tackle the reversal of its fiscal capacity with tax reform that aimed to recentralize the bulk of fiscal revenues. It also began a process of moving away from the “coast-first” strategy of the previous decade toward more balanced regional growth (Fan 1997). Beijing adjusted its strategy on ethnic regions to reflect these new priorities, explicitly emphasizing “ethnic unity” over special characteristics and regional autonomy. National development goals were explicitly given priority with the aim of “speed[ing] up economic development but [...] downplay[ing] the national question” (加快经济发展淡化民族问题, *Jiakuai jingji fazhan, danhua minzu wenti*) (Zhou 2010). As the Chinese premier at the time, Li Peng, commented, “economic development and improvement of the living standards of the people will lay a firmer foundation for further consolidating ethnic unity” (Li 1996). Among developments symbolic of these shifts, in 1995, the State Nationality Affairs Commission changed its official English translation to the State Commission on Ethnic Affairs (Bulag 2003). The funding earmarked in the 9<sup>th</sup> FYP (1996–2000) for a feasibility study on the potential railroad to Lhasa, which would make it possible for Chinese citizens to travel by train between Shanghai and Lhasa, can also be seen as a reflection of this change in direction.

The earmark for the rail line to Lhasa was a harbinger of the Western Development Programme, rolled out by Jiang Zemin in 1999. The WDP promised to reduce the regional development gap through development stimulated in part by the construction of new transportation networks that would help overcome geographic limitations to growth in China’s West, and tie the West to inner China through roads and rails, as well as through new energy pipelines and electricity grids. Thus, as Naughton suggests, the WDP was designed to address not only uneven regional development, but also concerns about national unity (Naughton 2004). Made public at the national conference “Reform and Development of State-Owned Enterprises (SOEs) in the Five Northwestern Provinces”, the WDP also anticipated the likelihood that China’s immi-

ment accession to the World Trade Organization (WTO) would only exacerbate existing gaps in the regional distribution of income. The WDP's growth strategy was capital-intensive, stimulating growth by channelling substantial new central resources into major infrastructure projects.

That regions with large concentrations of ethnic minorities generally not included in official groupings of Western provinces were part of the WDP from its inception is additional evidence that accelerating development explicitly within ethnic regions was among the objectives of the programme (Naughton 2004). Ethnic prefectures, including the ethnic Korean autonomous prefecture of Yanbian in Jilin Province in North-east China, were also included in the WDP. Many other regions sought to be awarded preferential policies like the WDP on the grounds that they shared the development challenges of these regions: Hainan, for example, lobbied (ultimately to no avail) to receive WDP funding on the grounds that there were 35 ethnic-minority groups living within its administrative purview (Sasaki 2001). According to a Chinese government white paper on economic and social development, after a decade of the WDP not just Western China but all of China's ARs, including autonomous prefectures and autonomous counties, were receiving special fiscal support and were benefitting from other special policies under the WDP, or were receiving government support equivalent to that of WDP recipients (Government White Paper 2009).

Alongside the WDP, additional preferential policies for ethnic regions were also introduced to improve relative economic conditions within ethnic regions. In 2005, Beijing reinstated compensation for the extraction of natural resources by central-state-owned enterprises in ethnic regions (State Council 2005). In addition, a programme launched by the SEAC alongside the WDP provided funds, not only for education, but also for infrastructure construction along the borders aimed at promoting border trade in the 135 counties along China's international borders, many heavily populated by ethnic groups. Known as Prosperous Borders, Wealthy Minorities (兴边富民行动, *xingbian fumin xingdong*, PBWM), the programme, announced in 1998, would involve substantial allocations, totalling 1.45 billion CNY by 2009 (*China Daily* 2008; Government White Paper 2009; Freeman and Thompson 2011).

When the WDP was initiated, China's central leadership appeared convinced that rapid development in ethnic regions would result in improved relations between Chinese minorities and Han. They anticipated

that there could be tensions associated with the rapid economic transformation that the WDP would bring about. However, the view was that accelerating development in these regions would improve inter-ethnic relations over time. As the head of the SEAC at the time, Li Dezhu (an ethnic Korean), observed,

the final solution for these problems lies in developing social productivity in areas of minority nationalities. The strategy to promote social and economic development [in] Western China is a fundamental way to speed up the development of minority nationalities, and a necessary choice to solve China's nationality problems under new historical circumstances (Clarke 2007).

This view of rapid economic development as the antidote to “nationality problems” was reinforced by revisions to the REAL in 2001. These revisions reasserted the primacy of Beijing's development priorities for ethnic regions. State Council provisions for the implementation of the new portions of the law mandated certain development priorities by ARs, from a focus on their international border areas to the expansion of the non-state sector (*Inner Mongolia News* 2005). As an article from the *Xinhua News Agency* on the amended law noted, the primary purpose of the changes to it was to address

some practical problems in the economic and social development in localities under ethnic autonomy, so as to accelerate the economic and social development in ethnic regions and promote nationality solidarity (Wang and Shen 2001).

Critics of the revisions have observed that the law also pushed against the “nativization” of local cadres introduced in the post-Mao period. The 1984 version of the law indicated that officials should “as far as possible” (尽量, *jinliang*) be chosen from among ethnic minorities in their regions; its 2001 iteration suggests merely a “reasonable” (合理, *hebi*) apportionment of positions among groups. One expert observed that this would only feed the trend he observed in Xinjiang, where the share of non-Han party members was declining. In 1987, 38.4 per cent of party members in Xinjiang were non-Han – well below the 60 per cent non-Han share of the population in Xinjiang; in 1994, the percentage of non-Han party members had decreased to 36.7 per cent – a significant drop, he argued, since leading positions in the political hierarchy are party positions (Congressional Executive Committee on China 2005).

In terms of boosting economic growth, the WDP and associated programmes (such as the PBWM) were dramatically successful as new fiscal resources and other investment funds surged into recipient regions. According to a study by Lu Zheng and Deng Xiang, fiscal flows related to the WDP jumped by more than 10 per cent between 1999 and 2010. In addition, under government direction, state-owned banks increased loans to the region. Government mandates also underlay the proliferation of so-called “counterpart aid programmes”, whereby Western regions were paired with coastal partners or mutually advantageous industry-to-industry partnerships were set up in order to boost investment and transfer technical know-how from China’s more developed regions and successful businesses into Western China (Lu and Deng 2011). The official WDP website indicates that more than 1.74 trillion CNY (252 billion USD) was invested in 102 key projects in the West from 2000 to 2008 alone. At the same time, local incentives boosted private investment from Chinese and foreign sources in the region. Actual utilized FDI grew at an average annual rate of nearly 19 per cent over this period, from below 3.5 billion USD in 1990 to over 105.7 billion USD in 2010 (*Xinhua* 2009).

These programmes raised the annual growth rate in Western China from single to double digits: The average growth rate there from 2000 to 2010 was 13.58 per cent, a rate surpassing that of China’s coastal areas beginning in 2006. In addition, the ratio of per capita GDP in Western China to national per capita GDP began to rise rather than decline, from over 61 per cent in 2000 to more than 71 per cent in 2010 (Lu and Deng 2011).

However, despite this evidence of rising aggregate growth, income disparities within Western China also grew substantially thanks to the WDP. These included not only intraregional disparities but also urban–rural income disparities. Much WDP and related investment targeted urban areas, which, along with their environs, developed much more quickly than rural areas, putting the urban–rural income gap in the region well beyond the national average. By the end of the decade, estimates suggest that 60 per cent of China’s rural poverty population was located in Western China. Other perversities included the unanticipated brain drain from the region, as people migrated toward opportunities in central and coastal China, even as government investment in education sought to boost educational opportunities for youth in poorer regions (Lu and Deng 2011). As others have described, furthermore, the adverse envir-

onmental impact of rapid development in a region characterized by fragile ecosystems not only represented long-term economic costs, it also came with social costs, such as negative impacts on health, and the displacement of local communities (Padovani 2006).

These negative effects from the WDP affected the ethnic population of the region disproportionately, in part simply by virtue of the over-representation of non-Han among the rural poor in the region (Hannum 2002). Substantial empirical research on Xinjiang has also documented a correlation between real and perceived inequalities between Han Chinese and Xinjiang Uyghurs, in particular, and rising inter-ethnic tensions that were the context for the 2009 ethnic violence in Urumqi. Studies show that ethnic Uyghurs perceive Han Chinese as moving into Xinjiang to take local jobs. Evidence suggests that Han workers do dominate high-skilled jobs in Xinjiang, including in the energy service sector (Howell and Fan 2011). Other sources indicate that smaller social disturbances with an ethnic component could be endemic to many rapidly developing regions in Western China. One report by a researcher at the Yunnan Academy of Social Sciences, a government think tank, reported that between 2002 and 2009, provincial offices investigated or were involved in mediating as many as 6,000 “disputes” involving members of ethnic groups (Guo 2010).

## From Balancing Regional Growth to Promoting “Inclusive Growth” under Hu

Such reports were consistent with mounting evidence across China that the top-down and capital-intensive development approach to remedying regional inequalities was contributing to local inequality. Indeed, a 2005 report commissioned by China’s Ministry of Labour and Social Security warned that China had entered a “yellow-light” zone in regards to the threat to stability posed by the growing gap between rich and poor, and predicted that the country would hit a “red-light scenario after 2010 if there [were] no effective solutions in the next few years” (Spencer 2005). That year, at the 2005 National People’s Congress, China’s president and party secretary, Hu Jintao, proposed a new socio-economic vision for China – a “harmonious society” that would seek to deliver more equitable growth alongside social stability, or “harmonious growth”.

The concept of “harmonious growth” resonated closely with the idea of “inclusive growth”. As used by the Asian Development Bank, the World Bank, and other international development organizations, the

term “inclusive growth” refers to both an objective – that is, ensuring that the benefits of growth extend broadly throughout society – and a process, or growth, that is both reflective of more equity in economic opportunity and more responsive to the diverse needs of a complex society. At the 5<sup>th</sup> APEC Human Resources Development Ministerial Meeting held in Beijing in 2010, Hu specifically linked the two concepts, stating: “China is a strong supporter and follower of inclusive growth, a concept consistent with our pursuit of scientific development and social harmony” (Hu 2010). Articles in *Qiushi* and *Guangming Daily* subsequently referred to the concept, with an article in the latter observing:

This [...] commitment to balanced economic and social development [...] also represents a more thorough application of the Scientific Outlook on Development in the administration of government affairs. From the perspective of policy-making, inclusive growth also offers an effective way to build a harmonious society in all respects (Sun 2010).

Hu’s harmonious growth – or, inclusive growth – formulation triggered a flurry of discussion among academics and policy experts about how to realize this ambitious vision. Most agreed that market-correcting mechanisms needed to be strengthened in the form of tightened regulation, less regressive taxation, and better and more effective delivery of social services, such as healthcare and other forms of social welfare and security (Xu 2007).

Hu’s use of the concept also provided an opening for new discussions among China’s policy elite about reforms to the policy process that would introduce measures for broader participation by various groups in the policy-making process. This included the five-year planning process. Building on an initiative introduced during the mapping out of the 10<sup>th</sup> FYP, planners for the 11<sup>th</sup> FYP included a greater number of experts from outside government circles. Among those outsiders publicly acknowledged as consultants in the process were the World Bank (particularly in the areas of monitoring and evaluation), the United Nations Development Programme (UNDP) (social development), as well as the Asian Development Bank (ADB) (institutional development related to the economic-planning and implementation processes themselves). The process also solicited advice and commentary from research institutions and individuals on hundreds of topics, some of whom were also invited to discuss their ideas and concerns at high-level meetings chaired by Premier Wen Jiabao (Xu 2007). (Premier Wen has served as the head of

the Finance and Economics Leading Group that has reported to the party's Central Committee since 2002 and has been personally associated with the redistributive orientation of China's economic policies of the last decade.) The 11<sup>th</sup> FYP included among its objectives "people-centered growth", which by "bearing the overall development concept that combines economic, political, cultural and social construction" would enable development of a "socialist harmonious society" (Ma 2006).

According to Southwest Nationalities University scholar Shi Yazhou, this "inclusive" process was also applied to the design of new policies for ethnic minorities. Shi highlights the role of non-governmental or non-institutional participation in the development of a policy aimed at improving conditions for minority groups with populations of at least 100,000 (Shi 2008). In what is also a normative discussion of the benefits of broader public engagement for ethnic minorities in determining preferential policies that affect them, Shi recounts how consultation and survey data informed both the design and focus of new ethnic policies. The process he describes involved leading academic experts, including eminent sociologist Fei Xiaotong, who, partnering with SEAC officials, formed a special task force on minority issues to gather information and survey data from ethnic minorities to inform a proposal for development support to be submitted to the State Council (Shi 2008). Descriptions of the survey process as carried out by local cadres in ethnic areas of Yunnan have been published as examples of how to collect data that "[examines ...] the ideas and understandings [...] of the development in ethnic areas by the local cadres [...] for policy-making" (Wen and Hu 2002).

The process Shi describes is certainly not participatory, but one with a clear non-governmental, consultative element that, he argues, was instrumental in focusing national attention on those ethnic-minority groups previously largely excluded from policy attention. Commitments made by the central government following Hu and Wen's endorsement of the policy were substantial. Yunnan, Inner Mongolia, Heilongjiang, Fujian, Guangxi, Guizhou, Tibet, Gansu, Qinghai and Xinjiang all received shares of the 3.751 billion CNY in central funding allocated for development in areas inhabited by ethnic groups with smaller populations during the 11<sup>th</sup> FYP. Yunnan fared particularly well in central allocations, receiving 209 million CNY of the total 738 million CNY during the period from 2005 to 2008 (Ministry of Finance 2008). For purposes of comparison, Xinjiang reportedly received a total of 92 million CNY

during the same period (People's Government of Xinjiang Uygur Autonomous Region 2009).

The focus on these particularly marginalized groups, as Shi recalls sociologist Fei Xiaotong himself had observed, had symbolic value in the context of the commitment by China's senior leadership to principles of harmonious, or inclusive, development (Shi 2008). This raises the question of whether the policy would have been funded had it not dovetailed so closely with the leadership's development agenda. It also says little about whether or not the fiscal allocations will be directed toward the aspects of development that these populations view as most valuable.

Nonetheless, this process, even if more consultative than participatory, took place at a time when China appeared to be experimenting with new ways of engaging more groups and non-governmental interests in policy-making. Most of these approaches, from legislative hearings to environmental impact assessments to stakeholder participation in urban planning, have been introduced only experimentally and only at the local level (Cai 2008). This was also the case for poverty alleviation and poor rural community development programmes, including those in counties with high concentrations of ethnic groups that, drawing on designs often recommended by or associated with international development agencies, included participatory processes for prioritizing budgetary allocations for special projects (World Bank 2005).

## Conclusion

These examples suggest that efforts to change the process by which special allocations to ethnic regions are determined in China have been modest at best. However, they also offer evidence that the Chinese leadership has begun to explore ways to make development policy for ethnic regions more inclusive and responsive. This is consistent with the expression of support by both Hu Jintao and Wen Jiabao between the 17<sup>th</sup> Party Congress through the National People's Congress the following spring not only for improved administrative accountability, but also for more "scientific" decision-making to be carried out with greater public participation (Hu 2007; Wen 2008).

A document prepared for the 12<sup>th</sup> Five-Year Plan by the Ministry of Finance's Research Institute for Fiscal Science (with assistance from the SEAC and the UNDP/ UNESCO) suggests how this might apply to policy-making for development policies in ethnic regions. The document

recommends “compiling [...] a development plan that fully takes the economic, educational, cultural and other characteristics of ethnic-minority areas into consideration”. The document gives particular attention to improving conditions in poor ethnic-minority counties across China, advising the central government to

provid[e] relevant policy, human resource and financial support on the basis of [an] economic and social development strategy chosen by each ethnic area respectively, and gradually formulate the mutual interaction between [the] central government’s favour[ed] policy and local development strategy (Kong 2011).

A consultative approach may help meet this goal of enhancing the quality of many policy choices and even, as in the case of the policy for minorities with small populations, to draw attention to social challenges that might not otherwise capture the imagination of China’s central policymakers. It may, however, also reinforce a bias toward elite participation or cronyism – both recognized pitfalls of this approach (Yaacob and Mansor 2005). However, a key point remains that within China there is not yet an institutional basis for consultative governance.

In the lead-up to the transition to a Xi Jinping-led China, evidence began accumulating of a retreat from at least some experiments to broaden local participation in decision-making regarding local development. On the poverty front, for example, informal discussions with experts by the author suggest that the participatory approach is no longer being promoted in LGOP-led anti-poverty efforts, including in ethnic villages. Instead, there is a strong focus on “rural industrialization” through infrastructure development and agricultural modernization, along with a greater role of banks and other financing vehicles in spurring rural growth, linked perhaps to the strengthened role given to the NDRC in overseeing rural poverty programmes. This may be evidence of an interest by Beijing in further concentrating central control over fiscal policies for ethnic regions, including reinforcing the role of national macro-economic planners in this process.

In such a centralized approach to determining “who gets what, when and how”, without institutional reform, ethnic groups will remain both central and marginal to China’s policy process. China’s central leadership continues to see ethnic regions as potential threats to social stability and remains committed to trying to mitigate this challenge through economic development. In this sense, it can be argued that ethnic minorities exert a steady source of pressure on the Chinese system, compelling

it to regularly inject special fiscal support to ethnic regions. At the same time, however, as the history of China's fiscal approach to ethnic regions shows, these allocations reflect central priorities. This is consistent with institutional changes in China that have reinforced Beijing's role in setting these priorities, as in the case of revisions to the Regional Ethnic Autonomy Law of 2001. It is also consistent with China's political institutional structure, which continues to provide few opportunities for ethnic-minority Chinese to play a role at the central level of government in shaping the policies that are helping to transform their communities, a non-engaging approach to development that must be considered a factor in the ongoing social instability involving ethnic regions in China.

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