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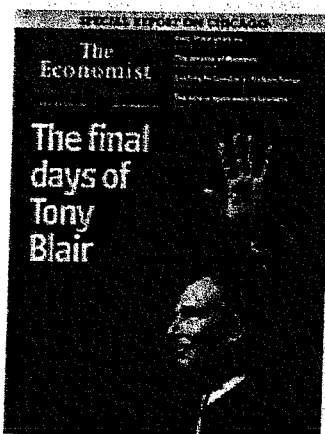
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Planning the new socialist countryside

Mar 9th 2006 | BEIJING

From *The Economist* print edition

Spooked by angry peasants, China raises spending

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IN HIS annual state-of-the-nation address to the National People's Congress, Chinese parliament that meets for only ten days a year, China's prime minister Wen Jiabao, set out what he described as a "major historic task". The aim, he said, was to bring about rapid and significant change in rural areas, which have lagged behind the booming urban ones and witnessed growing unrest. But although Mr Wen pledged more spending to build what Beijing is nowadays calling a "new socialist countryside", he offered few durable remedies. A new five-year plan suggests the rural-urban divide may remain just as wide at the end of the decade.

Speaking on March 5th, Mr Wen was blunt about China's many difficulties, which included continuing overheating of investment in factories, machinery and assets; rising inventories and falling prices; a decline in corporate profits and mounting losses that were creating "greater potential financial risks". But he focused on what has lately become the Communist Party's much proclaimed goal of addressing rural China's woes.

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None of the problems on Mr Wen's list appears to pose any immediate threat to the country's high-speed development. Mr Wen predicted that GDP should grow this year by 8%. But officials have a tendency to underestimate, fearing that higher targets might encourage reckless investment. Many expect something closer to last year's 9.9%. The new five-year plan makes an even more modest prediction of 7.5% annual growth, on average, through to 2010. But the double-digit targets already set by some local governments suggest fewer inhibitions.

Despite the hype, Mr Wen's remedies for the countryside contained little new. It included the scrapping of agricultural tax this year, extending an experiment in health-care insurance scheme to 40% of counties and the elimination by the next year of tuition and other fees for rural students receiving compulsory education. Central-government spending on rural areas for everything from health care to education subsidies for grain producers is to increase by 14.2% this year to 340 billion yuan (\$42 billion). And government spending on infrastructure will be shifted to rural areas. More will be spent on projects such as rural roads, water and power schools and hospitals.

These measures do not herald any remarkable policy shift. Central-government spending on the countryside will still amount to only 8.9% of total government expenditure, up from last year's 8.8% but down from 9.2% in 2004. Abolishing agricultural tax and other fees imposed on peasants will save each rural dweller an average of 156 yuan (\$19) a year—about 4.8% of net income. But despite the transfers of 103 billion yuan annually to fill the resulting hole in local finances, it is not clear that these funds will be sufficient. A quarter of the money is supposed to come from local governments, which may well have other plans for it.

To compensate for the abolition of agricultural taxes, the government will spend an extra 218 billion yuan on rural schools over the next five years. Mr Wen said a way of sharing this between central and local governments would be worked out "gradually". But even if governments at all levels can agree on a formula, it is not clear whether this money will make up the whole shortfall.

How much more will be spent on rural infrastructure is also unclear. As usual in China, the spending detail is mostly secret. The budget report put last year's government spending on rural infrastructure at 81.3 billion yuan. But it gave a figure for 2006. Even the proposed 14.2% increase in total central spending on rural projects is not that remarkable. It is only a little higher than the projected increase of 13.8% in all government spending (central and local) this year. The increase is smaller than the 14.7% rise, to 281 billion yuan, planned in military spending in 2006. (True military expenditure is much higher, say western

The government certainly has the ability to spend more. Total government

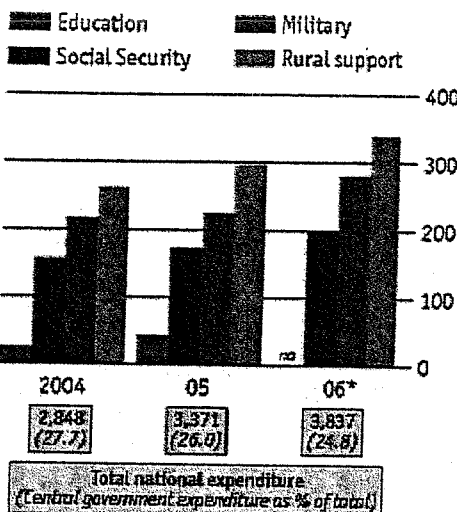


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China's central government expenditure, yuan bn



predicted to rise by 12% this year. The target for the budget deficit is a manageable 1.5% of GDP in 2006 from 1.6% last year.

However, spending can only be a solution to the complex woes of rural areas. Many of these stem from of inter-governmental fiscal transfer place enormous burdens on low governments to finance public services. They are aggravated by a system that shares tax revenues between central and provincial governments to the benefit of the richer regions. The peasants' further disadvantage is that they have no clear legal title to their fields, making them vulnerable to the whims of developers. Mr Wen called for strengthened resolve to "accelerate reforms". But central and local officials dispute how best to tackle such differences.

and Mr Wen provided no details about how he expects them to resolve the differences.

Given that some 200m rural Chinese have little or no work, one way to spend would be to let them to take more productive jobs in urban areas. But Chinese leaders, and many town-dwellers, are already anxious about the numbers of migrants into the cities. Such fears would increase if the remaining barriers to migration were suddenly removed. The plan predicts only a modest increase in official migrant numbers, from an annual average of 8m in the last five years to 9m next. Even if the true number is much higher, this is only the smallest of the valves in the great political pressure-cooker that is China's troubled countryside.

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