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# Success of Chinese Leader's Ambitious Economic Plan May Rest on Rural Regions

By CHRIS BUCKLEY

HONG KONG — China's Communist Party has burnished President Xi Jinping's plans for an economic overhaul with exultant propaganda about a historic turning point. But the success of his proposals, and the long-term health of the Chinese economy, could rest on policy battles reaching down into thousands of towns and villages over land, money and a misshapen fiscal system that has bred public discontent and financial hazards.

The Communist Party Central Committee under Mr. Xi endorsed a package of 60 overhaul goals, released to the public on Friday, that the government said would propel China closer to becoming a secure, powerful and well-off country by the end of this decade. The economic goals include expanding the role of markets in energy and natural resources, encouraging private investment in finance and easing state controls on interest rates.

"If the implementation of these reforms is successful, the structures of the Chinese economy and society will change in profound ways," said Eswar S. Prasad, a professor of economics at Cornell University who was previously in charge of the China division of the International Monetary Fund. "The timeline for accomplishing them is ambitious."

But the Central Committee's decision and Mr. Xi's accompanying statement also dwelled on another set of problems, far from bank headquarters, that could matter just as much for China's economic health: farmland rights and revenues, local government taxes and finances, and chronic shortfalls between many local governments' outlays and the money they receive from the central government.

Mr. Xi spent part of his career as a county official, becoming familiar with the countryside; he said in a statement accompanying the overhaul goals that the barriers to rural development were among China's biggest worries.

"There has been not-fundamental reversal of the constantly growing disparity and rural development," he said in the statement, which was issued through th



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agency, Xinhua.

In many ways, China's rural problems are a knot of issues about land and revenues. Local governments have grown dependent on taking farmers' land for relatively little compensation and selling it to developers for a profit. They have been encouraged to do so because the central government takes the bulk of revenues, while assigning many tasks to local governments that require expenditures. In China, farmland is, by law, owned by the village collectively, but in practice, the land is controlled by the state, giving officials a powerful voice over when to develop land and on what terms.

The central government transfers revenues to local governments, but many town and county officials say the amount is not enough to meet ambitions set by central leaders, economists who study China said. Officials in county and city governments, eager to secure jobs for their constituents and to advance their careers, have also gone into dangerous debt to pay for building and business projects that often use that land as collateral for loans, or as a lure for investors.

"Some acute problems in our country's economic and social development are also related to the inadequacies of the fiscal and taxation system," Mr. Xi said.

The national audit office last made an estimate of local government debt in 2010, when it reached a figure of 10.72 trillion yuan, or about \$1.7 trillion. Many economists expect that a recent audit, using broader criteria, will produce a much higher estimate.

Solving these problems is all the more pressing for Mr. Xi and Prime Minister Li Keqiang because absorbing tens of millions of rural residents into cities is a crucial part of their policy.

Unless China's leadership finds a way to unravel this knot of land and finance problems, many farmers will remain too poorly compensated to make a safe passage to life in cities, said Hua Sheng, an economist at Southeast University in Nanjing, Jiangsu Province. Chinese cities also impose household registration restrictions that exclude rural newcomers from services, such as clinics and schools.

"Without making changes in land policy, the household registration system and government finances, it will be very difficult to advance urbanization of the population," Professor Hua said. "China's future growth also depends on solving these grass-roots problems."

The plan endorsed by the Central Committee last week showed that the government is exploring how to defuse problems by shoring up the finances of local governments, clearing up their dangerous debts and giving farmers more secure legal rights over their land, economists

said. The government intends to build on policies that allow farmers to lease out land, encouraging the aggregation of fragmented plots into larger, modern family farms.

“The government is signaling a desire to blunt local government opposition to land reforms,” said Professor Prasad of Cornell, noting language in an earlier statement from the Central Committee meeting. “Loss of revenue for local governments as a result of land reforms will presumably be partially compensated by changes to the tax and expenditure systems.”

But many local officials will still resist or try to evade policies that reduce land revenues, said Tao Ran, the director of the China Center for Public Economics and Governance at Renmin University in Beijing. The officials do not believe that the new transfers from the central government will be enough to compensate for their loss of those revenues, he said.

“There will be strong opposition in terms of implementation,” said Professor Tao in a telephone interview. “The local governments often have such big debts that they don’t want to give up their monopoly control of farmland. A lot of their borrowing is mortgaged by land.”

The Chinese government could also try to ease fiscal imbalances by giving more power to local governments to set their own spending and tax policies, partly reversing centralizing changes made 20 years ago. But the central leadership is reluctant to give local officials a great deal of leeway, said Arthur R. Kroeber, the managing director at GaveKal Dragonomics, an economic research firm.

“If you give local governments more power, they’re less accountable, and the central government has less ability to control the behavior of local governments,” Mr. Kroeber said. “But the problem with centralization is that it’s a gigantic country.”

*Jonathan Ansfield contributed reporting from Beijing.*