20th CPC Central Committee's Third Plenary Session: Highlights and Implications

I. Background

The 20th Central Committee of the Communist Party of China (CPC) convened its third plenary session in Beijing from 15 to 18 July 2024. At this highly anticipated leadership meeting, the CPC Central Committee considered and adopted the *Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization* (hereinafter 'the *Resolution*'). Chinese President Xi Jinping also delivered explanatory remarks on the draft version of the *Resolution*. A brief communique was published on the evening of 18 July after the plenary session concluded, and the full document of the *Resolution* was released on 21 July.

II. Significance of the 2024 Third Plenary Session

Third plenums have typically focused on reforms. For instance, the third plenum in December 1978 ushered in China's reform and opening-up, while the third plenum in November 2013 pledged to allow the market to play a 'decisive role' in allocating resources in the economy. This year is no exception. Through the *Resolution* adopted in this year's third plenary session, the central leadership of the CPC unveiled a master plan to deepen China's reform and modernize the country, while also detailing major reform directions and more than 300 reform initiatives in various fields and aspects (see pp. 2-4 for details).

It is worth noting that the third plenary session this year has not only outlined the reform priorities for the long term, but also committed to meeting short-term economic targets, which is uncommon. Historically, third plenums have largely focused on long-range planning. Therefore, the mention of 'accomplishing the goals for this year's economic and social development' in the communique this year comes as unexpected.

Another point to note is that this year's *Resolution* has devoted noticeably more coverage to Hong Kong and the Guangdong-Hong Kong-Macao Greater Bay Area (GBA). The *Resolution* not only reiterates China's support for Hong Kong to consolidate and enhance its status as an international financial, shipping, and trade centre, but also details the role of Hong Kong and the GBA in China's opening-up (see pp. 8-9 for details).

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III. Key highlights from the *Resolution*

The *Resolution* provides a five-year reform blueprint for China. The overall objectives of further deepening reform are to 'continue to improve and develop the system of socialism with Chinese characteristics and modernize China's system and capacity for governance'. Below are the key highlights:

1. Over 300 reform tasks to be completed in five years

The *Resolution* puts forward over 300 tasks, all of which involve reforms in systems, mechanisms, and institutions, across 60 categories. The scale of reform is comparable to the milestone third plenum of the 18th CPC Central Committee in 2013.

The *Resolution* requires that the 300+ reform tasks be completed by 2029, which means only a 5-year timeframe to implement the reforms. This indicates that China is aware of the pressing need for reforms and is likely to put reform measures into effect quickly.

Based on the implementation experience of the reform tasks outlined in the third plenum of the 18th CPC Central Committee in 2013, a slew of implementation details of reform plans could be announced in the coming year or two, in particular in the the Central Economic Work Conference at this year-end and the 'Two Sessions' in early 2025. We can expect to see significant changes taking place in China over the next few years.

2. Leveraging 'new quality productive forces' to promote high-quality economic development

High-quality development is regarded as 'the primary task in building China into a modern socialist country in all respects', and developing 'new quality productive forces' is the top priority for facilitating high-quality development.

Policy makers aim to improve the institutions and mechanisms for fostering 'new quality productive forces' in line with local realities. China will work to facilitate revolutionary breakthroughs in technology, innovative allocation of production factors, and in-depth industrial transformation and upgrading. All this will give rise to new industries, new business models, and new growth drivers, and promote the development of new quality productive forces characterized by high technology, high performance, and high quality.

To promote high-quality development, China will also promote a deep integration of the real economy and digital economy, and enhance the resilience and security of industrial and supply chains.

3. Promoting high-standard opening-up

China has always been promoting reform through opening-up, facilitating domestic openness through openness to the outside world. As such, a major emphasis of the *Resolution* is on further opening up and attracting foreign investment.

China will continue to expand institutional opening-up through bringing domestic rules and regulations to international standards, such as those on property rights, induatrial subsidies, government procurement, and e-commerce. It will also further open up the commodity, services, capital, and laboor markets to the outside world – which is a relatively new suggestion by the CPC.

Moreover, China will take steps to improve China's attractiveness as a destination for foreign investment. It will foster a world-class business environment that is market-oriented and law-based. It will shorten the 'negative list' for foreign investment, remove all market access restrictions in the manufacturing sector, and further open up the services sector for foreign investment. It will also protect the rights and interests of foreign investors and ensure national treatment for foreign-funded enterprises.

China will also continue to promote the Belt and Road Initiative (BRI) and push for high-quality cooperation with other BRI countries in green development, the digital economy, artificial intelligence, energy, and other areas.

4. Supporting innovation and technological advancement

China regards technological self-reliance and strength as the strategic support for Chinese modernization.

The *Resolution* states that China will organize major scientific and technological innovation projects in order to mount a concerted push for breakthroughs in core technologies in key fields. It will strengthen basic research, and raise the share of science and technology expenditure that goes toward basic research.

China will make efforts to pursue innovation in key generic technologies, cutting-edge technologies, modern engineering technologies, and disruptive technologies. Enterprises will be encouraged to apply digital, intelligent, and green technologies to transform and upgrade traditional industries.

Policy support will be provided for strategic industries, including next-generation information technology, artificial intelligence, aviation and aerospace, new energy, new materials, high-end equipment, biomedicine, and quantum technology.

Deepening reforms related to education and talent development are also emphasized in the *Resolution*, including steps to develop a high-quality education system to cultivate talent, and to improve the support mechanisms for recruiting talent from overseas.

5. Improving people's livelihood

As President Xi said, the ultimate goal of promoting reforms and development is to meet the people's aspirations for a better life. Thereofre, enhancing people's well-being remains a key policy focus in the *Resolution*.

Chinese policy makers will improve the institutional framework for income distribution, with increased wages for labourers, effective utilization of redistribution mechanisms such as taxation, social security, and transfer payments, and better development of public interest activities and charities. Policy makers also look to put in place systems to boost the incomes of low-income earners, expand the size of the middle-income group, and properly regulate excessive incomes. They will also work to promote high-quality and full employment, and tackle structural unemployment.

China will provide more equitable access to basic public services such as housing, public health, medical care, childcare and elderly care, and improve the social security system, providing better protection for the elderly, the disabled, women and children.

China will also implement policies to reduce inequality between urban and rural areas, and regional inequality among different parts of China.

To reduce the urban-rural gap, the Chinese government will take steps to further promote rural revitalization and facilitate greater urban-rural integration. The *Resolution* also proposes the implementation of a system for the provision of basic public services through permanent residence, which will allow people who have moved to cities from rural areas to enjoy the same rights as registered local residents.

The Chinese government will accelerate the development of the less-developed western, northeastern, and central regions, so as to promote coordinated regional development. It will also further promote regional development initiatives such as the construction of the GBA and the integrated development of the Yangtze River Delta.

IV. Implications for Businesses

1. China's commitment to reform and opening-up boosts business confidence and improves growth prospects

The renewed emphasis on deepening reform suggests that the China recognizes the need of tackling the various structural obstacles to growth. The short timeframe given to implement the 300 reform tasks is a strong indication that China is serious about a quick implementation of reforms and looking for immediate results. Meanwhile, the unusual committment to meeting the 2024 economic targets could suggest additional stimulus measures underway. These should answer lots of questions about China's commitment to reform and opening-up, and bolster business confidence in the Chinese economy.

Over the long haul, China's policies to further reform its economic systems, develop technology, spur innovation, and open up itself to the world will also boost the country's long-term growth momentum and help the Chinese economy to become more resilient.

All in all, as one of the fastest growing economies in the world, China still offers the best opportunity for any companies looking for long-term business growth.

2. China's consumer market is full of opportunities

With a population of 1.4 billion, the Chinese consumer market is bursting with great potential. As a market of such immense size, it represents a significant opportunity for businesses looking to expand and tap into a diverse customer base.

The current reforms, which include creating a unified national market by removing various institutional barriors, lifting domestic demand by boosting both public spending and private consumption, and raising the incomes of low-income earners and expanding the size of the middle-income group, will surely provide new impetus for consumption growth and facilitate consumption upgrades.

Moreover, the Chinese government has made solid progress in developing the rural areas and narrowing the urban-rural gap, which will be conducive to rural consumption growth in the long term.

Given the huge market potential of the Chinese consumer market, enterprises should further explore the opportunities and expand their footprint in China. They could reach out to Chinese consumers through various channels such as e-commerce platforms, livestreaming e-commerce, social commerce, as well as brick-and-morter stores.

3. New business opportunities abound in international trade and investment

Chinese policy makers has stated that opening up is a defining feature of Chinese modernization, and vowed to further promote international trade and investment. Sectors worth looking at include:

(a) Cross-border e-commerce

With Chinese companies like Shein, Temu, AliExpress shipping made-in-China products to markets around the world, cross-border e-commerce has emerged as a driving force for China's foreign trade and it presents significant business potential for trading companies.

The Chinese government will promote the development of integrated pilot zones for cross-border e-commerce. It is also likely to expand cross-border e-commerce through promoting the construction of overseas warehouses, encouraging cross-border e-commerce companies to build sale networks and brand operation centers in overseas markets, streamlining customs clearance and taxation processes, etc.

(b) Offshore trade

According to the *Resolution*, China will work to promote offshore trade and develop new types of transactions in offshore international trade.

In light of the intricate geopolitical landscape, Chinese enterprises, in particular the medium-sized ones, have been actively adopting the 'indirect export' strategy – They are 'going global' and relocating their labour-intensive manufacturing processes to other developing countries to bypass trade barriers established by developed countries.

Such a development will give rise to offshore trade, a trade model in which goods are purchased from third countries and shipped directly to foreign markets without passing the domestic territory. The essence of offshore trade is that the China-headquartered companies conduct global supply chain management and provide overseas buyers and sellers with diversified commercial services such as sourcing solutions, product design, production management, logistics planning, financing, etc. This will provide numerous partnership opportunities for suppliers, manufacturers and service providers in the overseas markets.

We believe that Hong Kong, a multinational supply chain management centre for multinational corporations from all over the world, has the potential to serve as a strategic hub for the international operations of Chinese enterprises. Hong Kong can not only provide trade financing, corporate funds management and other financial services for Chinese 'go-global' enterprises, it can also offer training and certification programmes to them to improve their compliance with environmental, social, and governance (ESG) standards abroad.

(c) FTZs and Hainan Free Trade Port

China will upgrade pilot free trade zones (FTZs) and encourage FTZs to engage in pioneering and integrated explorations, and accelerate the development of Hainan Free Trade Port, said the *Resolution*.

FTZs and Hainan Free Trade Port play a key role in China's institutional opening-up. For example, China is already trialling a range of international trade rules and regulations within five FTZs and Hainan Free Trade Port. Hainan Free Trade Port is also preparing for island-wide independent customs operation by 2025 to further promote free trade.

Foreign investors are advised to take advantage of the greater benefits and increased flexibility offered in China's FTZs and Hainan Free Trade Port.

4. Business environment is getting better and better

Chinese policy makers vowed to foster a first-rate business environment that is market-oriented, law-based, and internationalized, and protect the rights and interests of foreign investors. China will also create more opportunities for the private sector and ensure a level playing field for all types of enterprises, by removing market barriers, formulating a law on promoting the private economy, and so on.

These measures signal that China's business environment will only get better and better, which is a strong 'morale booster' not only to private enterprises at home, but also to foreign investors. Private businesses and foreign companies can confidently explore and expand into the Chinese market without any worries.

5. Seize the opportunities from China's technology and innovation push

Technology and innovation are at the core of China's economic reform and development plans. China will leverage tenology and innovation to drive progress in social and economic development.

Sectors emphasized in the *Resolution* include (1) strategic industries, such as next-generation information technology, artificial intelligence, new energy, and new materials; (2) advanced manufacturing, and the upgrade, intelligentization, and green development of manufacturing; (3) digital economy and the digitalization of traditional industries; and (4) resilience and security of industrial and supply chains, covering integrated circuits, industrial machine tools, medical equipment, instruments, basic software, industrial software, and advanced materials.

Additional policy support and huge investments are expected in these sectors in the coming years. These offer an opportunity for innovation-driven and technology-based enterprises to establish, grow and develop their business in China.

V. Implications for Hong Kong and the Greater Bay Area

The *Resolution* has outlined key measures to be implemented in the coming years to achieve China's goal to realize modernization by 2035, which will have enormous impact on the development of the GBA in general and Hong Kong in specific.

The *Resolution* sets forth multiple tasks and expectations for the region – it requires to 'consolidate and enhance Hong Kong's status as an international financial, shipping, and trade center, support Hong Kong and Macao in building themselves into international hubs for high-caliber talent, and improve relevant mechanisms to see the two regions playing a greater role in China's opening to the outside world' and to 'encourage cooperation between Guangdong, Hong Kong, and Macao in the Greater Bay Area by promoting closer alignment of rules and mechanisms'. The policy support underlying these statements will not only accelerate the region's current transformation efforts to adapt to the changing geopolitical and economic environment globally, but also offer certain directions for these transformations. Opportunities for the GBA, and Hong Kong in specific, lie in the following aspects:

1. Finance

China's explicitly stated support of Hong Kong to consolidate and enhance its status as a financial centre will enable Hong Kong to further optimize its financial functions to focus on both offshore business and local economy, enhance the competitiveness of its fin-tech sector, and develop into a pilot zone for digital Renminbi outside the GBA. This commitment also implies that regulatory barriers that hinder Hong Kong's ability to better provide financial services for the Chinese mainland market and limit closer financial cooperation within the GBA could be removed more swiftly.

Hong Kong should also play an important role in realizing China's aspiration to 'actively participate in international financial governance', as put forward by the *Resolution*. This can be achieved by leveraging its wealth of experience in international finance and its extensive global business network.

2. Trade

Hong Kong's status as a trade and shipping centre is closely related to one of its four traditional pillar sectors – trading and logistics, which contributed to 22.5% of Hong Kong's GDP and generated 16.4% of Hong Kong's total employment in 2022. While Hong Kong is diligently shifting its focus from physical international trading to offshore trade and service trade, the advocacy in the *Resolution* signifies the central government's recognition of the sector's importance, which ensures that these efforts will receive further support from the central government.

Additionally, China's increasing expansion in the BRI countries will allow Hong Kong's principal advantages as an international trading and logistics hub to be extended to vast new markets, thus being utilized to the fullest extent. This is expected to stimulate significant growth in cross-border trade volume.

3. High-value-added supply chain and higher education

The commitment to supporting all-round innovation, facilitating revolutionary breakthroughs in technology, and ensuring the security and resilience of industrial and supply chain in the *Resolution* will enable the advanced service-oriented industrial and supply chains in the GBA, primarily being formed through Hong Kong-Pearl River Delta cooperation, to be replicated in a wider region of China. This will, in turn, increase the demand for Hong Kong's research and development output and producer services. It also makes Hong Kong an increasingly attractive hub for higher education and research, given its unmatched higher education resources in China.

4. Regulatory alignment with the world

China's promise in the *Resolution* to voluntarily promote alignment with high-standard international economic and trade rules will provide strong support to the GBA's current efforts to create an integrated market within the GBA. This will be achieved by the formulation of a uniform set of market standards, using international market rules and standards as a reference. This effort will also contribute to the country's reform goal to establish compliance mechanisms that are aligned with prevailing international rules.

5. A hub for dealing with foreign-related affairs

The country's requirement to strengthen the rule of law in foreign-related affairs and actively participate in the formulation of international rules will enhance Hong Kong's position in the country. This is because, with Hong Kong's independent judicial system and world-class legal professional services, Hong Kong is best suited to acting as a hub in dealing with international legal business in the process of China's participation in economic globalization.

6. Effective international communication

An impartial view on China and the world matters significantly to the prosperity of Hong Kong as a small and open economy. With the increased influence of China in the world and the country's increasing need for effective international communication, as stated in the *Resolution*, Hong Kong has the capability, and necessity, to be the place to provide objective and comprehensive information and knowledge for the world to understand China and vice versa.

Hong Kong could shoulder the responsibility to gather international suggestions and better convey the country's international strategies and policy intentions better to the international community. This, in turn, could enhance the city's reputation and stature in the global community.

Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including sourcing, logistics, distribution and retail. The Fung Group comprises over 15,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

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