

What to Expect at the 20th CPC Central Committee's Third Plenary Session

I. Background

On 23 May, President Xi Jinping stressed the importance of further deepening reform across the board when chairing a symposium in Jinan, Shandong, to solicit opinions from representatives of both domestic and international businesses and academia. This symposium was believed to be part of the preparation for the third plenary session of the 20th Communist Party of China (CPC) Central Committee in July. The session will primarily study issues concerning **further comprehensively deepening reform and advancing Chinese modernization**.

Every time the CPC Central Committee makes major decisions or formulates important documents, it conducts in-depth research and widely solicits opinions from various sectors. This is an established practice of the CPC.

II. Importance of the Coming Plenary Session

This year's third plenum could have immense significance as it offers President Xi Jinping and the new leadership **an opportunity to outline their planning for the Chinese economy** amid short-term challenges (e.g., a slumping property sector and subdued consumer and business confidence) and structural issues (e.g., weakening demographics and geopolitical headwinds).

Furthermore, 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. Those precedents, together with a Chinese economy facing severe challenges, thus **raise expectations for reforms at the coming plenary session**.

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III. What to Expect at the Coming Plenary Session

We believe that new major policies and policy directions will be announced in the four key areas below:

1. Deepening reform in the systems for education, science and technology, and promoting technological and innovative development

a. Tech self-reliance

China regards technological independence and self-reliance as the strategic support for national development.

The Chinese authorities are expected to take further steps to develop a high-quality education system to cultivate talent, deepen the reform of the scientific and technological system, and further mobilize resources nationwide to make key technological breakthroughs.

As technology is the key to the next stage of China's development, we also expect new policies to be announced in high-tech areas such as advanced chips, artificial intelligence, and quantum technology.

b. New productive forces

Amid an aging and shrinking population, productivity gains will be required to drive growth going forward. It is in this context that the China has proposed 'new productive forces' as the answer to sustaining growth momentum.

The Chinese authorities are expected to introduce reform measures to accelerate the development of new quality productive forces, nurture and expand emerging industries, advance the development of future industries, and accelerate the construction of a modern industrial system.

China is also likely to promote the application of advanced technologies to transform and upgrade traditional industries, so as to bypass the US's 'small yard and high fence' trade protectionist measures against China's tech exports.

2. Promoting high-level opening-up

China has always been promoting reform through opening-up, facilitating domestic openness through openness to the outside world.

Meanwhile, 'de-risking' by the developed world and the restructuring of global supply chains have reduced China's exports to developed countries and foreign direct investment (FDI) into China.

In our view, China will continue to expand high-level opening-up, especially in institutional opening-up in rules, regulations, management, and standards. The Chinese authorities are also expected to take steps to improve China's export competitiveness and China's attractiveness as a destination for foreign investment.

3. Promoting green development

The Chinese government is expected to roll out policies to support green development in finance and investment, and improve the ecological protection compensation system. It will take measures to achieve carbon peaking and carbon neutrality, accelerate the creation of green and low-carbon industrial and supply chains, and form green and low-carbon production and lifestyles.

China will accelerate the green and low-carbon transformation of the energy structure. It will continue to develop new energy sources such as photovoltaic and wind power, strengthen the research and application of frontier technologies in energy storage and hydrogen energy, and ensure the clean and efficient use of traditional energy.

4. Deepening reforms in the field of people's livelihood, and promoting common prosperity and shared development

At the Jinan symposium on 23 May, President Xi noted that the ultimate goal of promoting reforms and development is to meet the people's aspirations for a better life. We expect that the Chinese government will launch new policies to further improve the well-being of the people. In particular, it will work to achieve fuller and higher-quality employment for the people, provide more equitable access to basic public services such as education and public health, and improve the social security system.

The government 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 is expected to take steps to promote rural revitalization and further develop the rural areas. It will deepen the reform of the household registration system and accelerate the urbanization of citizens transferred from agriculture, and promote the comprehensive coverage of basic public services for permanent residents in urban areas.

The government will accelerate the development of the less-developed western, northeastern, and central regions, so as to promote regional coordinated development. It will also further promote regional development initiatives such as the construction of the Guangdong-Hong Kong-Macao Greater Bay Area and the integrated development of the Yangtze River Delta.

IV. Implications for Businesses

1. China's commitment to reform and opening-up improves its growth prospects

China has reaffirmed its continued commitment to reform and opening-up. China's policies to further 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. As one of the fastest growing economies in the world, China still offers the best opportunity for any foreign companies looking for long-term business growth.

2. New business opportunities abound in foreign trade and investment

China's opening-up focuses on promoting foreign trade and greater openness to foreign investment. Policies we expect the Chinese authorities to adopt include:

a. Promoting 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 is likely to expand cross-border e-commerce through, for example, 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. Helping Chinese enterprises 'go global'

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. This will provide numerous partnership opportunities for suppliers, manufacturers and service providers in the overseas markets.

We expect that the Chinese government will take steps to help selected medium-sized enterprises 'go global', such as establishing partnerships with other developing countries to build industrial parks, simplifying foreign exchange procedures for go-global enterprises, encouraging banks to provide cross-border financial services for enterprises, etc.

The government is also likely to encourage Chinese enterprise to make good use of Hong Kong's services to 'go global'. Hong Kong, leveraging its financial and professional services, has long been a multinational supply chain management centre for multinational corporations from all over the world. We believe that it has the potential to serve as a strategic hub for the international operations of Chinese medium-sized enterprise as well. Hong Kong can not only provide trade financing, corporate funds management and other financial services for these enterprises, it can also offer training and certification programmes to them to improve their compliance with environmental, social, and governance (ESG) standards abroad.

c. Leveraging FTZs to promote greater openness

Free Trade Zones (FTZs) will play a key role in fostering a favourable business environment for foreign investors and will serve to demonstrate China's commitment to institutional opening-up.

We expect that the Chinese government will establish more FTZs, and further open up existing FTZs by implementing a range of international trade regulations that will align trade practices with international standards. Chinese government is also likely to grant FTZs greater autonomy in reform, so as to explore alternative high-level opening-up measures.

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

3. Seize the opportunities from China's innovation and digitalization push

Innovation and digitalization are at the core of China's economic restructuring and development plans. China will leverage innovation and digital transformation to drive progress in social and economic development.

Additional preferential policies and huge investments are expected in digital economy, industrial digitalization, smart manufacturing, FinTech, and artificial intelligence in the coming years. These offer an opportunity for innovation-driven and digital-native enterprises to establish, grow and develop their business in China.

4. Embrace the new paradigm of green development

China is witnessing a trend towards green development driven by government policies and increased consumer demand for sustainability. For example, Chinese consumers are shifting away from the internal combustion engine vehicles to electric vehicles (EVs), leading to a surge in EVs sales in the past few years. Moreover, consumers are willing to pay a premium for some green products, particularly in health and beauty categories, as well as for sustainable experiences like cultural tourism.

Apart from introducing eco-friendly products, brands and retail businesses should also adopt sustainable practices in operations and actively engage consumers in green consumption to successfully catch the green wave.

5. Tap the rural market potential

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 rural consumption, enterprises should further explore the opportunities and expand their footprint in rural areas. They could expand their e-commerce engagement and reach out to consumers in rural areas through various channels such as e-commerce platforms, livestreaming, social commerce and short video apps.

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.

Listed entities of the Group include Retail Asia Limited (SEHK: 00831). Privately-held entities include Li & Fung Limited, LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

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