

The 2024 Third Plenum: Six Key Takeaways



What is the Third Plenum and why is it important?

On July 15-18, 2024, the 20th Central Committee of the Communist Party of China (CPC) convened its Third Plenum, which typically occurs once every five to six years. Historically, Third Plenums have focused on outlining China's long-term reform agenda, especially in the economic sector, having become one of the most significant events in the Chinese political calendar. Given the array of economic and social issues that China currently faces, this year's Third Plenum has attracted heightened attention from the foreign business community.

On July 21, state media released the final Resolution of the Third Plenum, following a brief Communiqué and a press conference held a few days prior. Under the theme of "Further Deepening Reform Comprehensively to Advance Chinese Modernization," the documents and statements provide an outline of the government's vision for achieving China's national development objectives by 2029.

Key takeaways

1 The Third Plenum signaled continued efforts to balance the public and private sectors, with increasing support for the latter.

The Third Plenum this year largely builds on the decisions made at other major political events in recent years with respect to national development goals and key areas for reform. For example, the reference to “deepening reforms in economic systems” echoes a priority set at the Third Plenum in 2013. This year’s Plenum also reiterated the goal of “building a *high-standard* socialist market economy,” which was first announced at the 20th National Congress of the CPC in 2022, stressing the need to ensure a balanced relationship between the public and private sectors.

While reaffirming the goal of making state-owned enterprises (SOEs) “bigger, better and stronger,” the Resolution also details a series of measures to bolster the growth of the private economy. In particular, it reemphasizes treating equally all enterprises irrespective of their ownership, lowering market entry barriers for private firms and enhancing their financial support. These are all measures that the government has stressed in recent years to address low business confidence amid the slower-than-expected recovery of China’s post-pandemic economy. One noteworthy absence is the phrase “public ownership remains mainstay,” potentially hinting at stronger government support for the private sector going forward.

How does the government plan to manage the economy? Notably, the Resolution mentions the need to “enhance the consistency of macro policy orientation.” This principle, which was first mentioned at the Central Economic Work Conference in 2023, seeks to ensure that non-economic policies – no matter how well-intentioned from the policymakers’ perspective – do not hamper economic growth. While all of these proposed measures are relatively positive for the private sector, their successful implementation will be critical in ensuring they can boost business confidence.

2 The government wants to build a robust national innovation ecosystem.

As anticipated, the Resolution identifies science and technology as one of the bases of Chinese modernization. It particularly emphasizes the need for breakthroughs in “industries of the future” and “strategic industries” – the foundation of the new high-quality productive forces – including artificial intelligence, aviation and aerospace, quantum technology, high-end equipment and biomedicine. To bolster the growth of these

sectors, the government intends to increase funding, enhance policy support, foster innovation in universities and SOEs, improve the national laboratory system and develop a variety of technological innovation and testing platforms, among other initiatives.

In an effort to further drive innovation, the government is calling on support not just from state entities but also private enterprises. The Resolution commits to establishing a reserve fund system for corporate research and development (R&D), granting private enterprises more access to major national scientific research infrastructure and increasing the rate of additional tax deductions for small and medium enterprises’ R&D expenditures. More private investment in innovation will be encouraged. Given the importance of achieving technological self-reliance amid increasing restrictions on China’s access to foreign high-end technology, the government will continue enhancing support measures for both public and private entities to foster a robust national innovation ecosystem.

To address the existing acute talent shortage in strategic industries, the Third Plenum underscored the significance of education and talent, presenting them as the other two pillars of Chinese modernization. In line with this year’s Two Sessions report, the Resolution promises to hasten the development of world-class universities as well as disciplines and majors to support China’s scientific and technological advancement. Notably, the Resolution also reaffirms China’s goal to broaden international science and technology cooperation, especially through universities, a priority underscored by the recent establishment of the International Science and Technology Cooperation Center under the Ministry of Science and Technology. While achieving “educational autonomy” will require considerable time and effort, it will ultimately create a better talent pool for both domestic and foreign companies.

3 Local governments will be given more powers but will also be subject to increased oversight.

One of the most significant policy changes proposed by the Third Plenum involves transferring more power from the central government to local governments. This includes permitting local governments to retain a larger share of fiscal revenues, including the consumption tax, and granting them increased authority over tax management, such as adjusting local surtax rates within a certain limit. These measures are designed to provide them with additional revenue sources to alleviate the escalating local government debt issue, which stood at over RMB 42 trillion in May. Furthermore, the Resolution stipulates that municipal governments will be granted enhanced decision-making powers to regulate the local property market based on

local conditions, indicating that more Chinese cities are likely to ease or eliminate property purchasing restrictions in the upcoming months.

At the same time, the Resolution suggests that the central government will intensify its oversight of local governments' conduct. It vows to "establish a system for monitoring and regulating all local government debt," which the central government continues to see as one of the major risks to the economy. Additionally, it commits to "bring local regulations and institutions for attracting investment under regulation and strictly prohibit policy incentives in breach of laws and regulations." This initiative arises from instances where local governments have overstepped their mandates by making unrealistic commitments during investment attraction processes, thereby disrupting the local business environment and intensifying competition among regions. While companies with incentives from existing agreements should be unaffected, the central government's long-term focus will be on identifying and correcting incentive violations, albeit keeping in mind both business challenges and local government concerns.

4 **The government aims to boost consumption in the long term by solving pressing economic and social challenges.**

The Third Plenum underlined that increasing domestic demand, which has largely stagnated so far this year, remains a key goal for the Chinese government in both the short and long term. While the announcement of short-term stimulus measures, widely hoped for by foreign media and investors, was always an unlikely outcome given the Third Plenum's focus on the country's long-term reform agenda, the Communiqué notably included a mention of the need to "strive to expand domestic demand" this year. This suggests that the central government is increasingly concerned by sluggish growth and that incremental support measures could follow in the remaining part of the year. The next Politburo meeting, which typically concentrates on economic issues at this time of the year, may provide further indications of the government's plans to prop up demand.

In a bid to restore longer-term domestic demand, the Third Plenum sought to address major social and economic issues. The Resolution reiterates the need to implement mechanisms to improve the integration of rural and urban populations, tackle unemployment, especially among struggling groups such as college graduates, and improve the income distribution system. Specific measures will include relaxing the household registration ("hukou") system, allowing more people to obtain "hukous" and access basic public services in their place of permanent residence, and ensuring that "eligible people" with rural "hukous" living in urban areas have access to social insurance, housing support and education for their children. The "hukou" issue presents both enormous opportunities and challenges: greater state support could encourage increased spending by the country's 180 million economic migrants, but

it could also raise costs for municipal governments already burdened by high local debt.

5 **Green transformation is positioned as a key component in achieving China's national development goals.**

The multiple mentions of green transformation throughout the Resolution indicate the Chinese government's view of it as a necessity in accomplishing its key national goals. This marks a notable shift from the 2013 and 2018 Third Plenum, where the development of green solutions was not tied to numerous other core government objectives. This time, the Resolution outlines the need for enterprises to deploy green technologies to upgrade traditional industries, as well as calls for mechanisms that incentivize "eco-friendly consumer spending." Other key areas that touch on green development include manufacturing, trade and financial system reform, suggesting that we may expect an increasing focus on green development in China's future policies across sectors.

The Third Plenum also introduced measures to help China realize its carbon neutrality goal by 2060. The Resolution vows to create standards, develop industries and improve incentives for low-carbon development. The government specifically plans to establish a carbon emissions statistics and accounting system, as well as a carbon footprint management system. It also announced plans to improve the cap-and-trade system for carbon emissions and the trading system for voluntary greenhouse gas emissions reduction. These plans align with recent ministry-level actions. In May-June, the State Council issued a plan for energy conservation and carbon reduction for 2024-2025, while the Ministry of Ecology and Environment unveiled a plan for the establishment of a carbon footprint management system, set to be implemented in 2027.

Based on official data, China appears on track to reach its carbon peaking goal of 2030 way ahead of schedule, which demonstrates its resolve on achieving its climate objectives. However, reaching its 2060 net-zero goal will be much more difficult. This will heavily hinge not only on China's capacity to continue releasing green policies, but also on its ability to effectively enforce them. Transitioning from a manufacturing and export-driven economy to one that is more focused on consumption, as such economies inherently generate fewer emissions, will also be key.

6 **China's rhetoric around opening up continues, while it is also preparing for more trade tensions.**

In contrast to the increasing economic protectionism in the United States and EU, China continues to uphold a pro-foreign investment and pro-trade stance. In response to the accelerating decline in foreign direct investment (FDI) into China this year, the government has reiterated its commitment to cultivate a business environment that is "market-oriented, law-based, and

internationalized.” While no new significant pledges were made regarding sectoral opening up, the Third Plenum highlighted manufacturing and service sectors, including education, financial services, medical services and telecommunications, as the continued priority sectors for gradual opening up. In line with the latest government measures to ease visa requirements, make foreigners’ hotel registration more convenient and expand the acceptance of foreign bank cards in China, the Resolution commits to continue making it easier for foreigners to visit and live in China.

However, the Third Plenum also signaled that while the Chinese government continues to adhere to an “independent foreign

policy of peace,” it is bracing for more trade tensions with Western nations. This is evident in the inclusion of objectives such as “improving mechanisms for preventing and controlling trade risks,” “protecting Chinese investment abroad” and “establishing self-reliant and risk-controllable industrial and supply chains.” Furthermore, the Resolution emphasizes the necessity to develop a “domestic, controllable cross-border payment system.” This likely refers to the Cross-Border Interbank System (CIPS), which can be used in case any potential sanctions severe China’s access to Western alternatives. This highlights that sensitive areas, especially those crucial to China’s national security, will continue to be off limits for foreign investment.

Implications for MNCs

Overall, the Third Plenum portrayed a relatively optimistic outlook for MNCs in China, reaffirming the government’s support for the growth of the private economy and its welcoming stance toward foreign investment and trade. However, the impact of the outlined agenda will significantly depend on its implementation by ministries and local governments. Foreign businesses operating in sectors that China is prioritizing for further opening up, including the manufacturing and services sectors, stand to gain. Similarly, foreign companies that can help China in bolstering its domestic industrial chains in high-priority sectors such as medical equipment, advanced materials and industrial machine tools are poised to seize more opportunities in China in the coming years.

MNCs across all sectors that can contribute to China’s national development objectives will also be well-placed to enhance their reputation and relationships with government stakeholders. Potential areas of contribution could include establishing R&D centers and partnerships in China to bolster its goal of scientific and technological innovation or opening flagship stores and introducing unique products and experiences in China to support the “debut economy,” which the Third Plenum elevated to a national priority.

At the same time, MNCs should stay vigilant of any potential challenges that may affect their profits and operations in China. Among the most notable risks for MNCs will be the apparent preparation by the Chinese government for increased trade risks with Western nations, including the establishment of mechanisms to respond to them, which can target specific imports or companies. Additionally, MNCs will increasingly grapple with criticism and scrutiny from their home countries and head offices, which may hold a progressively negative view of China due to rising geopolitical tensions.

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