

In-depth Analysis of the 20th Communist Party of China Third Plenary Session and its Likely Impact on China's Economic Policy

Executive Summary

The 20th Central Committee of the Communist Party of China ("CPC") Third Plenary Session (also known as Third Plenum) held in Beijing and concluded on 18 July 2024 was a closely-watched event in particular for the global investment community. The market was more anxious regarding this meeting relative to those in the recent past because China's economy had been weighed on by various headwinds, ranging from military conflicts in Ukraine in Europe and Gaza Strip in the Middle East, sanctions, export controls and other restrictions imposed specifically on China, mostly uninspiring economic data out of the country, to increasing risks associated with polarization between the West and the East.

Third plenums have held special significance since the 11th CPC Third Plenum took place in 1978. In that session, Chinese top policymakers formulated long-term policy agenda, especially on issues about launching unprecedented reforms, modernizing China's economy, and opening up the nation to the outside world. Thus, that session set the stage for the spectacular economic achievements the country has made in the following decades and enabled China to become the world's second-largest economy, trailing only the U.S. in terms of GDP measured in the dollar. However, China already overtook the U.S. in GDP as measured by purchasing power parity¹ years ago.

A broad range of consequential reform measures to be implemented over the next five years were endorsed by the July 2024 Third Plenary Session, including the approval of the "Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform and Promoting Chinese-Style Modernization" (hereinafter called the "Resolution"). Measures approved cover several areas such as economic and fiscal policies together with social programs and others. All of them are likely to reshape China's business and investment landscapes. Nonetheless, the proposed changes were not as dramatic and without a massive stimulus package as some people had hoped for, resulting in generally a lackluster response. But we believe it is a prudent and practical decision, potentially boding well for the long-term performance of Chinese financial assets because of long-lasting positive impacts on the fundamentals of the overall economy rather than introducing something that entices merely short-lived complacency.

The Resolution calls for two key goals to maintain the vitality of the Chinese economy and better off its constituents, namely i) further **deepening reforms** in a comprehensive manner by ongoing opening up of China's economy and ii) **modernizing the country** through innovation-driven high-quality development that will contribute to a stronger pace of global economic growth as well, as China has become the largest trading partner for over 120 nations².

- **Equal playing field for state-owned and private enterprises as well as domestic companies versus foreign players to foster fair competition via continued opening up.** It can be done by further reforming state-owned enterprises and their assets, while enhancing at the same time the business environment for private enterprises to operate in. Ultimately, rules and regulations will be unified nationwide with legal rights and market entry for all companies fortified and enforced without bias;

¹ A popular macroeconomic analysis metric used to compare economic productivity and standards of living between countries

² "China de-linking talk is overdone and it's still key to the global economy, Asian Development Bank says" *CNBC*, 25 Feb 2024

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