

# China's long-term goals emphasised in Third Plenum communique

China's four-day Third Plenum, which usually takes place twice a decade, has just wrapped up. The government is keen to present a solid long-term vision where innovation, green development, and consumption are the keys to future growth



China's Third Plenum has been taking place in Beijing

## A first look at the key focus points for China's long term development

China's government released a communique on the Third Plenum, which historically has acted as a relatively brief overview of the key topics discussed. A more in-depth document is typically released in the following days. A press conference on Friday should also provide further details. As such, it's worth noting that areas that may be missing in the current communique could be subsequently added, and it is by no means an exhaustive document. Nevertheless, we'll try to give a quick overview of our initial takeaways.

The Third Plenum focusses primarily on medium to long-term goals rather than addressing short-term issues. The key themes were deepening reform and pursuing Chinese-style modernisation, and China aims to establish a high-level socialist market economic system by 2035.

The goals stated throughout the communique appear to be worthwhile. Specific ones include giving a bigger role to market mechanisms, creating a fairer and more dynamic market environment, opening up to the outside world, and expanding international cooperation via reform of foreign trade and investment. The government continues to present a solid long-term vision where innovation, green development, and consumption are keys to modernisation and growth drivers. However, policy specifics on how all of these goals will be achieved will be more important to convince markets.

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As expected, the meeting was not a platform for pushing specific new stimulus measures. Though we (nor most China economists) did not expect any specific stimulus package or measures given this has historically not been the content of Third Plenum sessions, there were still many voices in markets expecting specific stimulus or support for the property sector or consumption. While real estate was identified as one of the three key risks China prioritised solving (along with risks from local government debt and small and medium-sized financial institutions), there was not too much detail given on the property sector in the initial communique, focusing on new urbanisation, improving urban-rural integration and development, and deepening land reform as the longer term strategic directions, but nothing on expanding affordable housing plans or specific efforts to address the current property market decline.

Many economists were expecting news on fiscal reforms, particularly the potential for new consumption or property taxes to offset the loss of land sale revenue for local governments. The initial communique did not go into detail on this front, noting it was necessary to “deepen the reform of the fiscal and taxation system.” While it is necessary to explore new fiscal revenue sources eventually, we believe it is prudent to avoid signalling new taxes at this current stage as it would likely further add to the current weak confidence currently dragging the economy.

An area we were looking at previously was if we'd see a more supportive tone taken on private sector enterprises or foreign investment. The Third Plenum maintained a positive tone on this topic, ensuring that all types of ownership economies have equal use of production factors in accordance with the law. The document also called for deepening foreign trade and investment systems reform but did not indicate what direction this reform could take.

## **Innovation, green development, and consumption remain the long-term strategic direction**

China's modernisation will be built on several key pillars, namely innovation, green development, and consumption. Regarding innovation, the Third Plenum identified the three main foundations of China's modernization: education, science & technology, and cultivating talent. The overarching theme appears to be to cultivate innovation via reforms in these categories; this is easier said than done, so we will likely need to see what form these changes may take.

China already excels at adopting, refining, and implementing existing technologies, and the next step, in our view, is to foster breakthrough innovations. Aside from the expected technological

innovation, the communique also mentioned stimulating cultural innovation and creativity, including drawing upon traditional Chinese culture; given China's scale, we think this area is currently underutilised and underdeveloped and has potential for significant growth.

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## *Green development is a priority*

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Green development continues to be a priority, with the Third Plenum calling for the promotion of green development through carbon reduction, pollution reduction, and improvement of environmental governance systems and low-carbon development mechanisms. With China's goals to hit peak carbon by 2030 and carbon neutrality by 2060, the green economy will likely remain a major long-term area of growth. Many economists have also called for more focus on demand-side policies to boost household wealth and purchasing power.

The Third Plenum continued to emphasise goals to protect and improve people's livelihoods and continue with poverty alleviation efforts. Calls to improve income distribution, social security, healthcare, and public services are all big-picture goals in the right direction to further strengthen the role of the consumer in China's long-term future.

While some may be disappointed that the Third Plenum does not provide much to address the short-term issues, this was never meant to be the purpose of the meeting. Looking at the big picture, many of the Third Plenum's key themes and messages remain consistent with and set the stage for [China's Great Transition](#), which we have frequently discussed throughout the year.

The key will be the follow-up on this meeting. In the end, whether or not China can successfully transition its economy to the next stage of development will depend on how effective policymakers are in achieving these long-term goals.

## Author

### Lynn Song

Chief Economist, Greater China

[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

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