

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.

The meeting was not a platform for pushing specific new stimulus measures

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.

Green development is a priority

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central

Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.