

#### Explainer

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# China's 2024 Third Plenum: Great Expectations or Hard Times?

### By Charles Parton

Since 2007, Chinese Communist Party (CCP) leaders have described the economic model of the People's Republic of China (PRC) as 'unbalanced, uncoordinated and unsustainable'. The 2013 Third Plenum prescribed over 300 reforms, but in the following decade their implementation has been patchy. Five crucial areas remain insufficiently addressed:

- 1. Relations between the party-state and the market/private enterprise;
- 2. State owned enterprises (SOEs);
- 3. Fiscal systems, particularly tax reform and balancing central/local government shares of expenditure/revenue;
- 4. Labour mobility (the household registration system or hukou and land reform); and,
- 5. Health care reform.

The CCP has announced that the Third Plenum of the 20th Central Committee will be held in July with an agenda which will focus on 'studying further comprehensive deepening of reforms and advancing Chinese-style modernisation'. Last December, the Central Economic Work Conference

indicated that reform was likely to cover much of the same ground as in 2013. But earlier pronouncements indicate that there will be increased emphasis on several themes.

Building a unified national market will aim to get rid of the age-old problem of barriers and protectionism at provincial and lower levels, thereby promoting the free flow of goods, services and the means of production. At the macro level, the regional plans (for example, Beijing-Tianjin-Hebei, Guangdong and the Greater Bay Area) of Xi Jinping, General Secretary of the CCP, will serve the same purpose.

Another theme will be 'new quality productive forces' (the application of new technologies, innovative use of production factors and the upgrading of industry and labour). Others are likely to be 'common prosperity' (the reduction of inequalities between regions, urban and rural populations, and people's incomes) and 'whole process people's democracy' (the CCP-centred system of governance).

There will also be a nod in the direction of foreign enterprises in the PRC through language about promoting opening up.

None of this is new. The CCP will need to go beyond raising the efficiency of the current system. Unless it tackles the five crucial areas of the market/private enterprise, SOEs, fiscal reform, labour mobility, and health, the outcomes of this Third Plenum will follow the way of its 2013 predecessor: much wind, little rain.

If the economic model remains 'unbalanced, uncoordinated and unsustainable' – and ten years on, the domestic and external climate is less favourable to reform – then it becomes relevant to ask whether it will be sufficient to match the ambitions which Xi has for the PRC to become the world's leading power by mid-century. If the economic model does prove to be inadequate, a deeper question is whether the blame lies more with the political model behind it. But one thing is certain: meaningful reform of the political system will not be on the Third Plenum agenda.

#### Introduction to reform in Xi's China

In the past, Third Plenums have usually taken place in the autumn following a Party Congress and have centred on an economic and reform agenda. At its April meeting the Politburo announced that the Third plenum would be held in July. 'The main agenda will include a report...with a focus on studying further comprehensive deepening of reforms and advancing Chinese-style



modernisation'.¹ The reason for the delay is not clear, but, given the control which Xi exercises over the CCP, it is more likely to be the intrinsic difficulties of the reform agenda than disagreement with Xi's intentions.

The need for reform has been a perennial theme since Xi came to power in March 2013. The 2013 Third Plenum put forward a comprehensive programme 'covering 16 areas, 60 articles, and more than 300 reform measures.' According to a recently published document 'Chinese Modernisation: the Way Forward', put out by a think tank under the important Central History and Literature Department of the CCP, 'Reform and opening up is an ongoing endeavour that will continue for a long time to come... China finds itself facing broad and profound changes in both its internal and external environments.'

That is the truth, but not the whole truth. While the passage of a decade inevitably necessitates further reforms, the CCP has been unable to implement 'comprehensively' much of its 2013 agenda (the theme of the Council on Geostrategy's paper published last autumn 'Plateau China: Reform in the ten years after the Third Plenum of 2013', which based its assessment on Chinese evaluations<sup>4</sup>). Senior Chinese officials continue to underline the inadequate implementation of the 2013 reforms and the need for renewed efforts:

The economy is the No 1 priority for the party and government, and matters have come to a point that only real reforms, not piecemeal adjustments, can secure future growth. Some hard reforms are yet to be carried out and others are so controversial that there are not yet any implementation plans for them.<sup>5</sup>

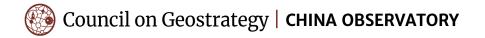
That is the assessment of Yang Weimin. Yang is now the Deputy Director General of the China Centre for International Economic Exchange, a top government-affiliated think tank. In the past he was a long-term aide to Liu He,

¹许建文 [Xu Jianwen], '工作 审议 "关于持续深入推进长三角一体化高质量发展若干政策措施的意见"中共中央总书记习近平主持会议' ['CPC Central Committee Holds Meeting to Decide on Third Plenary Session of 20th CPC Central Committee, Analyse Current Economic Situation and Work, and Review Policies for High-Quality Integrated Development of the Yangtze River Delta; Presided by General Secretary Xi Jinping'], 新华社 [ Xinhua News], 30/04/2024, https://www.12371.cn/ (checked: 18/06/2024).
² 林兆木 [Lin Zhaomu], '构建高水平社会主义市场经济体制' ['Constructing a High-Level Socialist Market

<sup>&</sup>lt;sup>2</sup> 林兆木 [Lin Zhaomu],'构建高水平社会主义市场经济体制'['Constructing a High-Level Socialist Market Economy System'], 人民日报 [*People's Daily*], 17/05/2024, http://www.qstheory.cn/ (checked: 18/06/2024). <sup>3</sup> '中国式现代化: 发展之路' ['Chinese Modernisation: The Way Forward'], Institute of Party History and Literature of the Central Committee of the Communist Party of China, 04/05/2024, https://english.news.cn/ (checked: 18/06/2024).

<sup>&</sup>lt;sup>4</sup> Charles Parton, 'Plateau China: reform in the ten years after the third plenum of 2013', Council on Geostrategy, 09/11/2023, https://www.geostrategy.org.uk/ (checked: 18/06/2024).

Frank Chen, 'China needs deep reform, not temporary fixes, to reanimate economy, former official says', South China Morning Post, 25/10/2024, https://www.scmp.com/ (checked: 18/06/2024).



who was director of the Office serving the Central Financial and Economic Affairs Commission from 2013 to 2023. Yang is surely in a position to know.

#### What needs to change?

For at least 17 years, Chinese leaders have been saying that the PRC's economic and social model had reached the end of its useful life. In 2007, Wen Jiabao, then Premier, described it as 'unstable, unbalanced, uncoordinated and unsustainable'. Xi repeated the description – minus 'unstable' – in his Explanation of the 2013 plenum.

The problem boils down to the balance between the three drivers of economic growth: investment, exports, and domestic consumption. While the CCP has hitherto relied on the first two elements, for over a decade it has been seeking to rebalance towards the third – so far without success. In a 2017 publication, the Institute of Economic System and Management (IESM), a think tank under the National Development and Reform Commission – as its name suggests, the organisation in charge of effecting change – summarised the bones of reform under five headings:

- 1. Relations between the party-state and the market/private enterprise;
- 2. Reforms to state owned enterprises (SOEs);
- 3. Fiscal reform, particularly tax reform and balancing central/local government shares of expenditure/revenue (local governments are responsible for over 80% of expenditure, but receive only around 50% of tax revenue);
- 4. Labour mobility (the closely linked issues of the PRC's household registration system or hukou [户口] and land reform);
- 5. Health care reform.8

These issues spill over into each other. The last three in particular affect the well-being of the people and would go some way to ease long held concerns which encourage them to save for the future rather than consume in the present. They were also designed to ensure better use of investment, by reviving the

<sup>&</sup>lt;sup>6</sup> 'Wen confident in maintaining economic growth', *China Daily*, 16/03/2007, https://www.chinadaily.com.cn/ (checked: 18/06/2024).

<sup>&</sup>lt;sup>7</sup> 'Explanation concerning the 'CCP Central Committee Resolution Concerning Some Major Issues in Comprehensively Deepening Reform', China Copyright and Media, 19/11/2013, https://chinacopyrightandmedia.wordpress.com/ (checked: 18/06/2024).

<sup>&</sup>lt;sup>8</sup> 张林山 [Zhang Linshan] and 孙凤仪 [Sun Fengyi], 改革梗阻现象: 表现, 根源与治理 [The Phenomenon of the Reform Obstruction in China: the Performance, Origin and Solution] (Beijing: Social Sciences Academic Press, 2017).

performance of the SOEs and by allowing the private sector, freer from government interference, to flourish.

## How does Xi intend to improve matters?

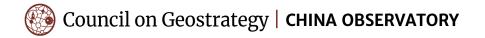
It is not difficult to find generalised statements outlining the areas and themes currently in need of reform. Such a summary can be found in reports after the December Central Economic Work Conference. That meeting generally sets the economic agenda for the next year, but with a plenum looming it also outlined the reform agenda. As Xi explains:

It is necessary to plan major measures to further comprehensively deepen reforms and continue to inject strong impetus into promoting high-quality development and accelerating Chinese-style modernisation...[it is necessary to] deeply implement reform and improve the actions of state-owned enterprises in order to enhance core functions and improve core competitiveness; to promote the development and growth of private enterprises and implement a number of measures in terms of market access, acquisition of inputs, fair law enforcement, and protection of their rights; to promote the development of specialisation and innovation in small and medium-sized enterprises; to accelerate the construction of a unified national market and to strive to eliminate various forms of local protectionism and market fragmentation; to effectively reduce logistics costs for the whole society. It is necessary to plan a new round of fiscal and taxation system reform and to implement reform of the financial system.<sup>9</sup>

A further important commentary two weeks later stressed that:

It is necessary to...give full play to the decisive role of the market in the allocation of resources, give better play to the role of the government, accelerate the construction of a new development pattern, build a unified national market...It is necessary to deepen the reform of the scientific and technological system...strive to break through key core technologies, and

<sup>9 &#</sup>x27;中央经济工作会议在北京举行 习近平发表重要讲话' ['Central Economic Work Conference Held in Beijing: Xi Jinping Delivers Important Speech'], 中华人民共和国中央人民政府 [Central People's Government of the People's Republic of China], 12/12/2023, https://www.gov.cn/ (checked: 18/06/2024).



promote the realisation of high-level scientific and technological independence and self-reliance.<sup>10</sup>

Taken at face value, we might conclude that the upcoming plenum will announce that the market is to be given a greater role (as was promised – but not delivered a decade ago – and which should help the private sector); and that SOE reform, unifying the national market, fiscal and taxation reform, and reforms to promote science and technology are the main priorities.

## Politics intrude: What's not going to change?

The phrase that the market is to play a decisive role in the allocation of resources is one that formed the backbone of the Third Plenum in 2013. But too few commentators at the time — and now — note that it is only half of the prescription. 'Giving better play to the role of the government' is the overall context in which the market is to operate.

This goes beyond merely improving administration, strengthening rule by law – and ensuring that private companies are aligned with the CCP's domestic and foreign aims, not least through the ever more pervasive and intrusive party cells and branches now required within them. Xi himself may say:

The historical contribution of the private economy is indelible. The role of the private economy is unquestionable. Any speech or practice that denies or weakens the private economy is wrong.<sup>11</sup>

But the reality is that no matter that the SOE sector is less efficient, it will remain the backbone of the CCP's economic system. Good Leninist that Xi is, he knows that economic power results in demands for political power (look no further than his treatment of entrepreneurs such as Jack Ma of Alibaba and Zhang Yiming of ByteDance):

<sup>10</sup> Xi Jinping, Speech: '习近平: 在纪念毛泽东同志诞辰130周' [Speech: 'Xi Jinping: Speech at the symposium commemorating the 130th anniversary of Mao Zedong's birth'], 中华人民共和国中央人民政府 [Central People's Government of the People's Republic of Chinal, 26/12/2023, https://www.gov.cn/ (checked: 18/06/2024).

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Government of the People's Republic of China], 26/12/2023, https://www.gov.cn/ (checked: 18/06/2024).

" 曹鹏程 [Cao Pengcheng], '人民日报评论员观察: 共同发展, "两个毫不动摇"不会变' ['People's Daily Commentator's Observation: Common Development, the "Two Unswervings" Will Not Change'], 人民网一人民日报 [People's Daily Online – People's Daily], 24/10/2018, http://opinion.people.com.cn/ (checked:

General Secretary Xi Jinping pointed out that state-owned enterprises are an important material and political basis for socialism with Chinese characteristics, which are related to the consolidation of the dominant position of public ownership, the party's ruling position and ability to govern, and my country's socialist system.<sup>12</sup>

Political intrusion depends on more than just this question of private business and the SOEs. Ever since 2012, the slogan 'seek progress amidst security' (穩中求进) has made regular appearances in important documents and reports.¹³ Xi continues to emphasise the importance of security. Even in terms of economic reform, the crucial security is political security – the maintenance of CCP power – and therefore of social control and stability. This is a major factor in hukou reform (cost is also an important consideration). One element in the delay in implementing a real estate tax – an issue which in 2003 the CCP's Central Committee resolved would be introduced 'when conditions permit' – is the potential for public protest. There are also sensitive ideological issues: a foundation of CCP legitimacy in the early days of its reign was taking land into state ownership. Changing this has been a block to rural revitalisation.

# What are the likely big themes?

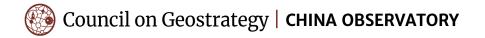
While we must wait until July to see the details of reform measures, we can be confident of the themes which will feature and become the guiding lines for the next few years. None of them is new; rather it is a case of renewed emphasis.

#### Unified national market and regional/provincial cluster building

In the last few years constructing a unified national market has become a major theme. Ever since Deng Xiaoping, former leader of the PRC, announced his reform and opening up programme in December 1978, the CCP has been beset by the problem of local barriers; between provinces, between counties and sometimes between lower administrative levels such as townships and villages. Like Europe and the European Union, China is a continent trying to unify, to

<sup>&</sup>lt;sup>12</sup> 刘维涛 [Liu Weitao] and 孟祥夫 [Meng Xiangfu], '党建落到实处 发展更显优势 – 全国国有企业党的建设工作情况综述' ['Implementing Party Building: Development Shows Greater Advantages – Summary of Party Building in State-Owned Enterprises Nationwide'], 人民网一人民日报 [People's Daily Online – People's Daily], 11/10/2021, http://dangjian.people.com.cn/ (checked: 18/06/2024).

<sup>13 &#</sup>x27;稳中求进' ['Seek Progress Amidst Stability'], 百度百科 [Baidu Baike], 04/10/2022, https://baike.baidu.com/(checked: 18/06/2024).



break down local protectionism and thereby to promote economic growth and efficiency. Individual areas have made it difficult for outsiders to work in their bailiwick, even if they can provide cheaper or better products and services. Each province wants its own industrial champions, providing tax revenues, opportunities for personal gain, and attainment of local officials' evaluation targets. This regional protectionism is a significant part of the reason for overcapacity issues in the PRC.

At a macro level, Xi has been working hard to promote regional cooperation. In 2014, he launched 'Jing-Jin-Ji', the joint development plan for the contiguous regions of Beijing, Tianjin and Hebei province. This experiment has been extended. As article 29 of the 'Opinions of the Central Committee of the Communist Party of China and the State Council on Accelerating the Construction of a National Unified Market' promulgated in April 2022 ordains:

Give priority to promoting regional cooperation. In conjunction with the implementation of major regional strategies and regional coordinated development strategies, we encourage the Beijing-Tianjin-Hebei region, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area, the Chengdu-Chongqing twin-city economic circle, and the city agglomeration in the middle reaches of the Yangtze River to prioritise and carry out the construction of regional market integration, establish and improve regional cooperation mechanisms, and actively summarise and replicate typical experiences and practices.<sup>15</sup>

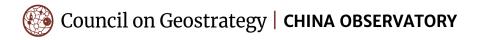
It is an issue which has been relentlessly hammered by Xi and Politburo members. <sup>16</sup> It appears in the 'Outline of Strategic Plan for Expanding Domestic Demand 2022–2035'. <sup>17</sup> In July 2023, the Joint Working Office for Coordinated Development of Beijing–Tianjin–Hebei was officially established, tasked with working across the regions to promote 'the implementation of work tasks determined by the three provinces and cities' coordination mechanisms' and 'the implementation of the three–year action plan and annual key tasks for the

<sup>&</sup>lt;sup>14</sup> 'Seven years on, China's Jing-Jin-Ji region deepens coordination with notable outcomes', *Xinhua Net*, 26/02/2021, http://www.xinhuanet.com/ (checked: 18/06/2024).

<sup>15 &#</sup>x27;中共中央 国务院关于加快建设全国统 – 大市场的意见' ['Opinions of the Central Committee of the Communist Party of China and the State Council on Accelerating the Construction of a National Unified Market'], 新华社 [Xinhua News], 10/04/2022, https://www.gov.cn/ (checked: 18/06/2024).

<sup>&</sup>lt;sup>16</sup> One of many examples is Xi's visit to Heilongjiang in September 2023. See: 'Xi stresses striving for full revitalisation of northeast China', *Xinhua News*, 10/09/2023, https://english.news.cn/ (checked: 18/06/2024).

<sup>&</sup>lt;sup>17</sup> '中共中央国务院印发 "扩大内需战略规划纲要 (2022-2035年)"', ['The Central Committee of the Communist Party of China and the State Council Issued the Outline of the Strategic Plan for Expanding Domestic Demand (2022-2035)'], 人民日报 [*People's Daily*], 15/12/2022, http://paper.people.com.cn/ (checked: 18/06/2024).



coordinated development of the Beijing-Tianjin-Hebei region'. 18 In March at a symposium for central provinces, Xinhua revealed that there is a Central Leading Group for Coordinated Regional Development. This underlines the seriousness of the question.<sup>19</sup>

At the regional level much work and exhortation has been going on to establish a unified national market. The April 2022 'Opinions on Accelerating the Construction of a National Unified Market' lay out the problems to be tackled. For example, Article 24:

Break down local protection and regional barriers. Obstacles must not be set up for enterprises to operate or relocate across regions. Access barriers shall not be set up or set up in disguised form in the form of filing, registration, annual inspection, accreditation, certification, designation, requiring the establishment of branches...<sup>20</sup>

Localities were skewing bidding and procurement to favour their own champions, preventing enterprises from operating or migrating across regions, and generally restricting the free flow of goods, services and the means of production.21

A unified national market will not be easy to achieve. It would, for example, require much freer labour mobility than the current restrictions of the hukou system allow. It would also require a revamp of the taxation system, as well as changes to the control exercised by regional governments over their local level SOEs (the vast majority of SOEs are not centrally controlled). As is discussed below, these reforms, crucial to a unified national market, have made little progress in ten years. Expectations for the future remain muted.

#### New quality productive forces

Here is Xi's explanation of the new jargon, which he launched in September 2023 during a visit to north east China:

<sup>18 &#</sup>x27;人员集中办公 推动任务落实 京津冀协同发展联合工作办公室成立' ['Centralised Office Promotes Task Implementation: Joint Working Office for Coordinated Development of Beijing-Tianjin-Hebei Established'], 人民日报 [People's Daily], 25/07/2023, http://paper.people.com.cn/ (checked: 18/06/2024).

<sup>&</sup>lt;sup>19</sup> 'Xi calls for solid efforts to further development of central region', Xinhua, 22/03/2024, https://english.www.gov.cn/news/ (checked: 18/06/2024).

<sup>20 &#</sup>x27;关于加快建设全国统 – 大市场的意见' ['Opinions on Accelerating the Construction of a Unified National Market'], 中共中央 国务院 [Central Committee of the Communist Party of China and the State Council], 10/04/2022, https://www.gov.cn/ (checked: 18/06/2024).
<sup>21</sup>"加快建设全国统 - 大市场", 有何深意**?**', ['What is the Significance of Accelerating the Construction of a

<sup>&</sup>quot;Unified National Market"?'], 新华社 [Xinhua], 20/05/2022, http://www.gov.cn/ (checked: 18/06/2024).

Granting a leading role to innovation, they [new quality productive forces] mark a break with traditional economic growth models and development pathways for productive forces and feature a high level of technology, efficiency, and quality. They are born out of revolutionary breakthroughs in technology, the innovative allocation of production factors, and the in-depth transformation and upgrading of industry. They are primarily based on the transformation of labourers, the instruments of labour, and the subjects of labour, as well as their optimal combination. A central hallmark of these forces is a significant increase in total factor productivity, and their defining characteristic is innovation, with a key focus on quality. In essence, they represent advanced productivity.<sup>22</sup>

The essence of this 'new' concoction is an emphasis on scientific and technological innovation, a point made in an official readout of the CEWC last December:

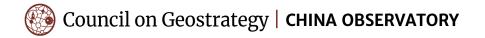
First, technological innovation leads the construction of a modern industrial system. It is necessary to promote industrial innovation through scientific and technological innovation, especially disruptive and cutting-edge technologies to spawn new industries, new models, and new kinetic energy, and develop new quality productivity.<sup>23</sup>

It is tempting to observe that this is merely old wine in new bottles. There is nothing new in the CCP's ambitions to dominate the new sciences and technologies, nor to use innovation as a means of reviving a flagging economy and of underwriting its geopolitical power. And if a 'central hallmark of these forces' is indeed a significant increase in total factor productivity, then so far these forces have had little effect: the PRC's total factor productivity has dropped faster than the global figure since the financial crisis of 2008.<sup>24</sup> That in turn suggests that, while scientific and technological innovation is essential, there needs also to be deeper reforms of the 'unbalanced, uncoordinated and unsustainable' economic model – in sum, of those areas identified by the NDRC think tank in 2017 (above).

<sup>&</sup>lt;sup>22</sup> 'Understanding New Quality Productive Forces and Accelerating Their Development', *Qiushi Journal*, 2024, http://en.qstheory.cn/ (checked: 18/06/2024).

<sup>&</sup>lt;sup>23</sup> '新华社, 中央经济工作会议在北京举行 习近平发表重要讲话' ['Central Economic Work Conference Held in Beijing, Xi Jinping Delivered an Important Speech'], 新华社 [Xinhua], 12/12/2023, https://www.gov.cn/(checked: 18/06/2024).

<sup>&</sup>lt;sup>24</sup> See: Alicia Garcia-Herrero, 'Can Chinese Growth Defy Gravity?', Brugel, 20/06/2023, https://www.bruegel.org/ (checked: 18/06/2024).



#### **Common prosperity**

Common prosperity is a term with a long pedigree. However, since a meeting of the Financial and Economic Affairs Commission in August 2021, Xi has revived its importance. Common prosperity for all is an essential part of Chinese modernisation and achieving it is a defining feature of socialism with Chinese characteristics and an abiding goal of the Chinese Communists. It is a long-range objective.

The essence of the concept is to combine increasing prosperity for the PRC's 1.4 billion strong population with the removal of inequalities, between people (income), between rural and urban lives, and between regions. Amongst other things, that requires:

efforts to properly deal with the relationship between efficiency and fairness, make basic institutional arrangements on income distribution, expand the size of the middle-income group, increase the earnings for the low-income groups, adjust excessive incomes and prohibit illicit income to promote social fairness and justice.<sup>29</sup>

In expounding his concept, Xi also mentioned the need to make education, care of the elderly, health and housing more accessible to the disadvantaged. In July 2019 Zhejiang province was designated the experimental zone [试点] for common prosperity.<sup>30</sup>

It is likely that the concept will be a major theme of the Third Plenum. But while achieving it is 'not an empty political slogan', <sup>31</sup> it is very broad in scope and its implementation requires more concrete definition than it has hitherto received. Indeed, if it is to have any meaningful substance, then the CCP will have to address the main five elements of reform identified by the Institute of

<sup>&</sup>lt;sup>25</sup> 'Xi stresses promoting common prosperity amid high-quality development, forestalling major financial risks', *Xinhua Net*, 18/08/2021, http://www.xinhuanet.com/ (checked: 18/06/2024).

<sup>&</sup>lt;sup>26</sup> '中国式现代化: 发展之路' ['Chinese Modernisation: The Way Forward'], Institute of Party History and Literature of the Central Committee of the Communist Party of China, 04/05/2024, https://english.news.cn/(checked: 18/06/2024).

<sup>&</sup>lt;sup>27</sup> Ibid.

<sup>28</sup> Ibid.

<sup>&</sup>lt;sup>29</sup> 'Xi stresses promoting common prosperity amid high-quality development, forestalling major financial risks', *Xinhua Net*, 18/08/2021, http://www.xinhuanet.com/ (checked: 18/06/2024).

<sup>&</sup>lt;sup>30</sup> 'Zhejiang details pilot zone for common prosperity', State Council of The People's Republic of China, *Xinhua*, 21/07/2021, http://english.www.gov.cn/ (checked: 18/06/2024).

<sup>31 &#</sup>x27;中国式现代化: 发展之路' ['Chinese Modernisation: The Way Forward'], Institute of Party History and Literature of the Central Committee of the Communist Party of China, 04/05/2024, https://english.news.cn/(checked: 18/06/2024).

Economic System and Management, not least of the tax system, hukou registration, land use and agriculture.

Rural reform and its cousin food security deserve a separate mention. Both are frequently raised by Xi, and it is no coincidence that 'Document Number 1', the first and therefore most important policy statement, always focuses on rural matters. Worried about possible instability, Xi has also been strengthening party control in the countryside, not least through the establishment of 'new era civilisation practice centres'. But levelling up between rural and urban areas is not going to happen without substantial reform to land use, something called for by a vice-ministerial level official who sat on the Monetary Policy Committee of the People's Bank of China<sup>32</sup> (and echoed by other Chinese think tank experts):

Inequality in land rights is an important reason for farmers' low property income. A very important reason for the low income level of farmers is that property rights are restricted, especially because land cannot be transferred or traded. The Third Plenary Session of the 18th CPC Central Committee raised the issue of rural land system reform, but in reality, the overall progress of rural collective land system reform has not met expectations.<sup>33</sup>

#### Whole process people's democracy

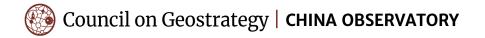
This pleonastic phrase – democracy is by definition rule by the people – has become an important theme under Xi.<sup>34</sup> It will no doubt be trotted out again at the plenum. There may even be talk of political reform. But as ever, it is important to remember that this is merely tinkering with the political system. As the recent document explaining the concept of 'Chinese modernisation' put it:

The most salient principle guiding China's reform is the leadership of the CPC. This leadership is the defining feature of socialism with Chinese characteristics, and it is the greatest strength of the system of socialism

<sup>32</sup> 刘世锦 [Liu Shijin], '刘世锦: 挖掘潜能要把宏观政策和结构性改革的关系摆正' ['Liu Shijin: To Tap Potential, the Relationship Between Macroeconomic Policy and Structural Reform Must Be Correctly Positioned'],中国宏观经济论坛 [China Macroeconomic Forum], 18/03/2024, https://mp.weixin.qq.com/ (checked: 18/06/2024).

33 For example, see: Wang Huiyao, 'How reforming rural land rights can aid China's common prosperity push', South China Morning Post, 25/03/2024, https://www.scmp.com/ (checked: 18/06/2024), and Wendy Wu and Zichen Wang, 'Meng Xiaosu calls for reforming rural land system, speeding up govt-subsidised housing', Pekingnology, 20/03/2024, https://www.pekingnology.com/ (checked: 18/06/2024).

34 For a full exposition, see: 'China: Democracy That Works', State Council Information Office (PRC), Xinhua, 04/12/2021, http://download.china.cn/ (checked: 18/06/2024).



with Chinese characteristics. This direction, stance, and principle must be adhered to and should never be changed.<sup>35</sup>

The likelihood is that there will be plenty of calls at the plenum to improve CCP implementation, discipline, and work styles. But announcements of changes to the political system itself, to political control over economic and social policy will lack substance.

# What will all this mean for foreign companies and countries?

Foreign optimists can point to comforting rhetoric. Xi himself has not been silent: 'Insist on promoting high-level opening up to the outside world.'<sup>36</sup> Openness brings progress, while isolation inevitably leads to backwardness. Promoting reform and development through opening up is a successful practice in the PRC's reform and development. Xi has emphasised that 'reform and opening up complement each other and promote each other. Reform must require opening up, and opening up must require reform.'<sup>37</sup> Indeed: 'China's reform and opening up policy will remain unchanged for a long time and will never close the door to opening up on its own.<sup>38</sup>

There are also references in the March 2022 'Opinions on Accelerating the Construction of a National Unified Market', which prohibit separate barriers for foreign enterprises:

It is not allowed to set qualification requirements, technical requirements, inspection standards or evaluation standards for foreign enterprises that are significantly higher than local operators in terms of qualification certification, business licensing, etc.<sup>39</sup>

<sup>35 &#</sup>x27;中国式现代化: 发展之路' ['Chinese Modernisation: The Way Forward'], Institute of Party History and Literature of the Central Committee of the Communist Party of China, 04/05/2024, https://english.news.cn/(checked: 18/06/2024).

<sup>&</sup>lt;sup>36</sup> '继续把改革推向前进' ['Continue to Push Forward with Reform'], 求是 [*Qiushi*], 15/05/2024, http://www.qstheory.cn/ (checked: 18/06/2024).

<sup>&</sup>lt;sup>37</sup> Ibid.

<sup>38</sup> Thid

<sup>39 &#</sup>x27;关于加快建设全国统 – 大市场的意见' ['Opinions on Accelerating the Construction of a Unified National Market'], 中共中央 国务院 [Central Committee of the Communist Party of China and the State Council], 10/04/2022, https://www.gov.cn/ (checked: 18/06/2024).

Pessimists will respond that words are one thing, but the reality is often different. Foreign business has heard all this before: it may react with scepticism, if not cynicism. Even assuming that the CCP centre is serious about opening up, in the past, getting localities to implement its will has proven difficult in so many areas.

Opening up also comes with 'Chinese characteristics': it contradicts Xi's emphasis on his 'dual circulation' policy (essentially, domestic wherever possible, foreign only by necessity) and on 'self-reliance'. Chapter three of 'Chinese Modernisation: the Way Forward' is headed 'Independence and Self-Reliance Are the Only Way', and its third section is clear: 'Only by maintaining independence and self-reliance can China be free from others' control.' Too often commentators forget that decoupling is a CCP initiative and an American reaction.

# Conclusion: How will history look back on the Third Plenum?

The Third Plenum in 2013 was billed as the solution to changing the direction of an economic and social model which had entered a cul-de-sac. Although it set out a new route in over 300 reforms, those reforms were largely not followed through. Even 'relatively simple' reforms, such as to the pension age and system, first talked of in 2012, remain undone. Here is Zhou Xiaochuan, former Governor of the People's Bank of China, speaking in 2023 (with edits):

First, do not dodge the problem with the pension system. Second, stop procrastinating, as that will only make things even harder. Third, stopgap solutions are not enough. Address the root cause of the problems. Fourth, the pension system needs to prepare for a huge and severely ageing population. Fifth, pre-pension funds in most countries account for 50-100% of GDP; for China they are in single figures.<sup>41</sup>

<sup>&</sup>lt;sup>40</sup> '中国式现代化: 发展之路' ['Chinese Modernisation: The Way Forward'], Institute of Party History and Literature of the Central Committee of the Communist Party of China, 04/05/2024, <a href="https://english.news.cn/">https://english.news.cn/</a> (checked: 18/06/2024).

<sup>&</sup>lt;sup>41</sup>周小川 [Zhou Xiaochuan], '未来更好的养老保障需要个人养老金加以支持配合' ['A Better Future Pension Protection Requires Support from Personal Pensions'], 中国金融四十人论坛 [China Finance 40 Forum], 25/02/2023, <a href="https://finance.sina.cn/">https://finance.sina.cn/</a> (checked: 18/06/2024).



At next month's plenum, the CCP will announce its reform solutions. The 'Decision' document is likely to reveal a wide agenda, if a preview in the CCP's theoretical journal *Qiushi* is anything to go by (it is). It talks not just of reforming the market system, macroeconomic governance reform, high-level open economic systems reform, but also of reforming party and state institutions, the national supervision system, of developing 'whole process of people's democracy' and the political system, as well as reforms in the fields of culture, social security, the environment and more.<sup>42</sup>

The emphasis will be on simplifying administration and cutting through red tape (a unified national market); on innovation and on science and technology (new productive forces); on implementation; and on CCP discipline in carrying out the reforms. None of this is new. Raising efficiency in the current system will not be sufficient. There needs to be a detailed and determined effort to tackle the big five areas of reform: relations between the party-state and the market/private enterprise, SOE reform, fiscal reform (especially centre/local government financial arrangements), labour mobility (hukou and rural land), and health.

Failure to tackle problems, procrastination, stopgap solutions have been a feature of the decade. If the model was 'unbalanced, uncoordinated and unsustainable' in 2013, it largely remains so. Given less favourable current domestic and external conditions, deep reform may be even harder in the coming years. Balancing towards consumption, coordinating a national market, and sustaining an economy to support a superpower will prove a tough test for the CCP's much vaunted form of governance.

<sup>&</sup>lt;sup>42</sup> '继续把改革推向前进' ['Continue to Push Forward with Reform'], 求是 [*Qiushi*], 15/05/2024, http://www.qstheory.cn/ (checked: 18/06/2024).

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