



CHINA'S THIRD PLENUM: REAFFIRMING XI JINPING'S 'SECURITY-FIRST' APPROACH TO THE ECONOMY

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The Third Plenary Session of the 20th Central Committee of the Communist Party of China (CPC) took place from 15th to 18th July 2024 in Beijing. The third plenum generally deals with macroeconomic and financial issues. Historically, it has been known for some of the major economic and ideological reforms that changed the direction of the Chinese economic system. Therefore, observers, business groups, and China watchers look at it to get a sense of China's economic policies and their implications.¹

Each five-year term, the Central Committee holds seven plenums: the first elects Politburo and Standing Committee members, the second proposes leadership candidates for state government and the CPPCC (Chinese People's Political Consultative Conference), and the third addresses economic and political reform.

This plenum is also significant in the context of the ongoing tension in the US-China economic relations. China, under Xi Jinping, has taken several initiatives such as Made in China 2025, AI Strategy and Military-Civil Fusion strategy, which focuses on innovation and advancement of critical technologies. In this context, the US-China economic relationship is marked by issues of decoupling, overcapacity in the EV (electric vehicle) sector, and trade restrictions. The US is adopting the export control strategy in the critical technology domain of what Biden's National security advisor, Jake Sullivan, characterises as a "small yard high fence" approach.² The Chinese Premier, Li Qiang, in his keynote address at the World Economic Forum's (WEF) 15th Annual Meet of New Champions (June 25-27th, Dalian, Summer Davos), remarked that decoupling and building 'small yard and high fences' is like reversing the progress of history. He criticised the Western world for engaging in "block confrontation" with China.³

In this context, the Third Plenum aimed to address the problems of economic slowdown, underconsumption, and growing external pressure on the issues of overcapacity, national defence, and modernisation.

The third plenum generally convenes after one year of the National Congress. From this timeline, as the 20th National Congress was held in October 2022, the third plenum should have taken place in the second half of 2023. However, this third plenum took place in July 2024. For some observers, this late convening of the third plenum indicated confusion among officials and a lack of direction for upcoming reforms within the CCP.⁴ The historical importance of the Third Plenum can be understood by following key decisions taken during previous Third Plenums, which significantly changed the economic conditions in China.

Previous Third Plenums and their Historic Decisions

The Third Plenum of the 11th Central Committee 1978 was held under the leadership of Deng Xiaoping. This was one of the most important plenums from the perspective of ideological and economic reform. This plenum proposed a shift of the party work towards 'socialist modernisation', which played a crucial role in the transformation of the Chinese economy by opening it to foreign investment. It aimed to correct mistakes of the Cultural Revolution by promoting the idea of practice as the sole criteria for testing truth.⁵

The next important Third Plenum was the 14th Central Committee in 1993 under the leadership of Jiang Zemin, which proposed the idea of the 'construction of socialist market economy'. The plenum took many financial, taxation and land-reform measures to improve the efficiency of the export sector. The government shut down several loss-making state-owned enterprises, and private players emerged as the main actors in the economy. China used the advantages of the export economy to promote the domestic real-estate sector, primarily in the commercial housing sector. This resulted in the export sector and real-estate sector becoming two major wheels of the Chinese economy for the next 30 years and propelling its rapid economic growth.

In the 16th Third Plenary session of the Central Committee in 2003, the decision was made to consolidate reforms of the taxation system and management of the SOEs. It proposed further improvement in the 'socialist market economy'. The plenum's decisions reinforced the importance of both export and real estate as key economic drivers.⁶

The 18th CPC Central Committee Third Plenum happened just after Xi Jinping's appointment as General Secretary in 2013. This reflected Jinping's ambitious plan of 'comprehensively deepening reform' through further marketisation of the economic

system and modernisation of the governance system in China. This session expanded the scope of reform taken during earlier sessions. The reform-related taxation, household registration system, and financial system were proposed, which were also part of the earlier Third Plenums. In addition to these measures, the 18th Central Committee also included new themes, such as ecological civilisation, social undertaking, national defence, and the military. This plenum clearly proposed the leading role of the market and the reduction in the role of government.⁷

At the end of the four-day plenum, the Party came up with a short communique on the decision taken during the session. It emphasised the party objective to continue with "further comprehensively deepening reform" with a focus on achieving "high-standard socialist market economy" reform by 2035.

The report of the Third Plenary session of the 18th Central Committee should be understood in the context of a 'new normal' or economic slowdown. The dual wheel model of 'export and real estate' became unsustainable. Therefore, change in the economic model promoted through comprehensive deepening reform aims to promote technological innovation mainly supported by central bank financial instruments. In the real-estate sector, measures were taken to curb excessive supply. These initiatives have transformational costs associated with them, as real estate comprises a significant portion of the economy.

The Current Third Plenum of the 20th CPC Central Committee

On June 27th, Xinhua reported that the CPC Political Bureau scheduled the Third Plenary Session of the 20th CPC for July 15th-18th and circulated a draft titled "Decision of the CPC Central Committee on Further Comprehensively Deepening Reform and Promoting Chinese-Style Modernization".⁸

Before the plenum, a key indication of the agenda for the meeting was provided by Minister Han Wenxiu, Deputy Director of the Central Financial and Economic Affairs, in an article in the latest June edition of Qiushi Journal. With an emphasis on national security, disaster response, employment, price stability, and international balance of payments, Han outlined six major reform areas: advancing innovation, science, technology, and education; addressing the rural-urban divide and reforming agriculture; promoting green development; enhancing domestic and international economic circulation by removing administrative barriers and further opening up; improving social security, particularly by supporting fertility and lowering the cost of raising and educating children; and balancing security and development. These suggestions were later incorporated into the final resolution.⁹

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on the decision taken during the session. It emphasised the party objective to continue with "further comprehensively deepening reform" with a focus on achieving "high-standard socialist market economy" reform by 2035.¹⁰

From an ideological perspective, it reaffirms commitment towards the thought of Marxism-Leninism, Mao Zedong, Deng Xiaoping, Theory of Three Represents and Xi Jinping's Socialism with Chinese Characteristics. Here, it can be observed that there is mention of 'Three Represents', but the name of former President Jiang Zemin, who articulated this policy in 2001, is omitted. This omission can be attributed to Xi Jinping's discomfort with Jiang's legacy of being remembered for a comparatively more open China.¹¹

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The communique also focuses on supply-side structural reform in the economy and incentives for high-quality development. It calls for the integration of the real and digital economy, service sector development, and the enhancement of the resilience and security of industrial supply chains. This focus on innovation and resilience is aimed at addressing economic uncertainties arising out of geopolitical tension and the unsustainability of the export-led model.

For military and national defence, it calls for continued focus on modernisation, absolute party control and reform in joint operation systems. These reforms are intended to achieve the centenary goal of the People's Liberation Army in 2027 and basic modernisation by mid-century.¹²

Also, as reported in the Communique of the Third Plenum, former foreign minister Qin Gang and former defence minister Li Shangfu were removed from the Central Committee membership. Additionally, Li Shangfu and former PLA Rocket Force commander Li Yuhao were expelled from CPC for corruption charges, described as a "serious violation of discipline and law".¹³ Li Shangfu and Li Yuhao faced harsher punishment, as they were expelled from the Party, compared to Qin's resignation from the Central Committee while retaining party membership. The harsher action against the PLARF Commander was for allegations of corruption in PLA's Rocket Force. According to the US intelligence assessment, several examples of missiles filled with water instead of fuel were found in the silos in western China. Meanwhile, the close relationship with Xi was likely the main reason for Qin's milder punishment.¹⁴

After the communique, the full text of the resolution was released on July 21, 2024. It highlighted that China will allow the private sector to play a decisive role in resource

allocations and development. Private enterprises will also have greater access to scientific and research infrastructure and stronger support in the field of generic, cutting-edge and disruptive technologies, such as artificial intelligence, aerospace, new energy, next-generation information technology and quantum technology. It also calls for reforms in military-civilian alignment and strengthening mutual support mechanisms for both sectors.¹⁵

Xi Jinping highlighted the importance of reform and opening-up in China's rise and current economic position. He called for continuing on this path to realise the Party's Second Centenary Goal of building China into a 'great modern socialist country'.

An explanation of the resolution, which Xi Jinping made at the Third Plenary Session, has also been released. In this explainer, Xi Jinping highlighted the importance of reform and opening-up in China's rise and current economic position. Therefore, he called for continuing on this path to realise the Party's Second Centenary Goal of building China into a 'great modern socialist country'. He also underlined some of the factors hindering China's high-quality development, including lack of innovation capabilities, a lack of sophistication in the industrial sector and over-reliance on core technologies controlled by other nations. Another challenge, he mentioned, was the wide gap between urban and rural populations in terms of development and income. To redress these, he emphasised institutional reforms as suggested through the resolution of this Third Plenum.¹⁶

On security challenges and risks, Xi said China had entered into a situation of greater uncertainties in which strategic risk and opportunities coexist. He anticipated several 'black swan' and 'grey rhino' events, which the reform process should prepare China for by creating institutions that can diffuse risk and respond to challenges. He also called for better leveraging of science and technology to safeguard national security. The document mentions the requirements for improving the management system of people's armed forces, the joint operation system, and military-civilian reforms.¹⁷

Assessment and Implications

Professor Meg Rithmire of Business Administration from Fairbank Centre for Chinese Studies at Harvard University argues that the main emphasis of the Third Plenum is on security. She highlighted that the major focus of the investment is industries critical for 'national security', which were also part of the Made in China 2025 strategy in 2015. She argues that the Third Plenum is in continuity with China's policy of "securitization of the economy".¹⁸

Professor, Anthony Saich from Fairbank Centre for Chinese Studies at Harvard University, argues that this Plenum confirmed the approach of 'authoritarian populism' in economic and social development. Describing it as more of a political statement, he,

nevertheless, finds a contradiction in the objective of promoting innovation under the conditions of the Party's absolute control. On the populist side, the Plenum aims for more inclusive public services, addressing concerns of high inequality, local government debt and urban-rural gap.¹⁹

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Overall, the third plenum has taken measures to address the slowdown in the economy. There is a focus on improving economic and supply chain resilience to overcome the growing pressure of the US-led de-risking and decoupling initiatives. The focus on critical technologies is expected to improve military modernisation. The plan for enhancing interoperability and development of military-civilian mutual support can be seen as part of China's military-civil fusion strategy, which intends to transfer commercial technology for military purposes.

China's advancement in critical technology domains with the objective of military modernisation is a major security concern for India. India's dependence on China in sectors like electronics, telecom, pharmaceuticals, and machinery is high. According to the think tank Global Trade Research Initiative (GTRI), India's dependence on China for industrial goods increased from 20 per cent to 30 per cent in the past 15 years.²⁰ China can exploit these dependencies to disrupt India's industrial supply in case of conflict or even otherwise. Therefore, India should reduce its dependence on China in key sectors.

Recently, India's External Affairs Minister (EAM), Dr S Jaishankar, while delivering remarks at the Jasjit Singh Memorial Lecture at CAPS, called for building core strengths and deep capabilities, especially in the sectors of chips, drones, space and underwater. He also called for building multiple options to mitigate external exposure and finding partners.²¹ India should also enhance jointness and integration across civilian and military departments to utilise all resources optimally. These measures, if implemented effectively, could significantly reduce India's vulnerability and enhance its strategic autonomy.

Notes:

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- ⁶ Ibid.
- ⁷ “Communique of the Third Plenary Session of the 18th Central Committee of the Communist Party of China,” *Xinhua*, January 15, 2024, http://www.china.org.cn/china/third_plenary_session/2014-01/15/content_31203056.htm. Accessed on August 11, 2024.
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- ¹² Liu Xuanzun, “Xi Stresses PLA Centenary Goals, Military Modernization at 20th CPC National Congress”, *Global Times*, October 16, 2022, <https://www.globaltimes.cn/page/202210/1277249.shtml>. Accessed on August 12, 2024.
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- ¹⁶ Ibid.
- ¹⁷ Ibid.
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