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Economic Implications of the 6th Plenary Session of 19th CPC Central Committee for China[§]

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Abstract: The sixth plenary session of the 19th Central Committee of the Communist Party of China (CPC), also known as “the Sixth Plenum”, was successfully held in Beijing from 8 to 11 November 2021. It passed a historic resolution on the major achievements and historical experience of the CPC over the past 100 years and set forth the direction of China’s development in the next few decades. It is the third resolution of its kind ever to be adopted by the CPC. Unlike the two previous resolutions, the third historic resolution is less self-flagellating and more affirmative of the achievements that the Chinese government has delivered over the past decade since President Xi took the helm. This paper aims to analyze the conclusions reached in the sixth plenary session of the 19th Central Committee of the Communist Party of China and discuss its economic implications on China.

Keywords: The Sixth Plenary Session; Historic Resolution.

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1. Introduction

The plenary session of the Central Committee of the Communist Party of China is convened by the Political Bureau of the Central Committee and is held at least once a year. Each session of the Central Committee convokes several midterm plenary sessions during a five-year term. Upon the reform and opening up, each session of the Central Committee meetings usually comprises seven plenary sessions. The seven plenary sessions of the successive CPC Central Committees have established some common practices; the procedures have become more standardized, and the functions of each plenary session are relatively fixed.

The structure of the seven plenary sessions are as follows: The first plenary session usually performs one of the most important tasks—electing a new term of central leadership; the second plenary session recommends leaders for the National People’s Congress, the National Committee of the Chinese People’s Political Consultative Conference, and state institutions; the third plenary session makes major decisions about economic reform and development; the fourth plenary session introduces major CPC arrangements; the fifth plenary session discusses relevant economic and social issues; the sixth plenary session usually makes major arrangements for party building, for example, the sixth plenary session of the 18th Central Committee of the Communist Party of China passed the “Several Guidelines on Political Life in the Party under the New Situation”; and the seventh plenary session prepares for the next national party congress.

Although the content of each plenary session has its own focus, they are closely related as a whole. The plenary sessions serve as a precursor to the introduction of consequential laws, regulations, and economic plans; discussions that continue beyond the plenum will almost certainly lead to the introduction of new key policies. Examples include the National Security Law of Hong Kong, which was discussed in the fourth plenum in 2019; the constitutional amendments that lifted presidential term limits, which was endorsed in the third plenum in 2018; and the abolition of the system of re-education through labor, which was announced in the third plenum of the 18th Central Committee in 2013 (Hu et al., 2017). These announcements took legal effect after being endorsed by the National People’s Congress.

The Constitution of the Communist Party of China stipulates that the National Congress of the Party and its Central Committee is the party's highest leading organ. Each CPC National

Congress has a theme. For example, the theme of the 16th National Congress, held in 2002, was “Build a Well-off Society in an All-Round Way and Create a New Situation in Building Socialism with Chinese Characteristics”, while that of the 17th National Congress, held in 2007, was to hold high the great banner of socialism with Chinese characteristics, following the guidance of Deng Xiaoping Theory and the important thought of Three Represents (representing the development trend of the advanced productive forces of China, representing the orientation of the advanced Chinese culture, and representing the fundamental interests of the overwhelming majority of the Chinese people), thoroughly apply the Scientific Outlook on Development, continue to emancipate the mind, persist in reform and opening-up, scientifically pursue development, and promote social harmony (Tisdell, 2009). The theme of the 18th National Congress held in 2012 was to “implement the policy of reform and opening-up, pool our strength, overcome all difficulties, firmly march on the path of socialism with Chinese characteristics, and strive to complete the building of a moderately prosperous society in all respects”.

As for the 19th National Congress held in 2017, the theme is to “strive for the great success of socialism with Chinese characteristics for a new era, and work tirelessly to realize the Chinese Dream of national rejuvenation”. The first plenary session of this national congress was to elect the governing bodies—the Political Bureau and its Standing Committee—while the Central Committee was not in session. It was also responsible for the approval of the membership of the Secretariat, the 19th Central Commission for Discipline Inspection and its Standing Committee. The second plenary session in 2018 revised the Constitution of the People's Republic of China and added the “Xi Jinping Thought” to the constitution. This strengthened the party leadership and restructured the national supervisory system in the constitutional text. The third plenary session in 2018 nominated candidates for state positions. The fourth plenary session determined the rule of modernizing governance. The fifth plenary session, which was held in 2020, adopted the proposals for the formulation of the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives through the Year 2035 set forth by the CPC Central Committee.

The sixth plenary session was held from 8 to 11 November 2021. This session discussed the work report of the Political Bureau of the Central Committee; it reviewed and approved the “Resolution of the Central Committee of the Communist Party of China on the Major Achievements and Historical Experience over the Past Century” (hereafter the Historic

Resolution) as well as the “Resolution on the Convocation of the 20th National Congress of the Communist Party of China”; and also passed a historical review of the important achievements and historical events of the CPC Central Committee.

This new Historic Resolution sheds light on the new trajectory of economic and social development that the CPC envisions for China, and the Sixth Plenum itself will mark the start of the transition of the CPC to the new term of government. As far as the political system is concerned, the CPC is set to consolidate its role in governance under the Historic Resolution. This means the continuation of an effort that has started in recent years to align party members with CPC’s values, vision, and mission and to reinstall the supervisory powers of party secretaries across the board.

The sixth plenary session also wholly affirmed the work of the Political Bureau of the Central Committee since the fifth plenary session of the 19th Central Committee. It also emphasized that the entire party must uphold Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory, the important thought of the Three Represents, as well as the scientific outlook on development and fully implement Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era.

Upon the reform and opening-up, the development of the CPC and China overall has been smooth. China has achieved the first centennial goal of building a moderately prosperous society on all aspects. It is observed that China has been making concrete efforts towards the second centennial goal by 2049, in the hope of building itself into a great modern socialist country in all respects.

2. Implications for the Chinese Economy

It took only four decades for China to accomplish tasks that its counterparts in developed countries took centuries to complete. Since the reform and opening-up in 1978, China's GDP per capita has increased from US\$156 to over US\$10,000 in 2020. The GDP per capita in 2020 is now more than 50 times than it was 40 years ago. China has achieved incredible growth during the past 40 years and has completely outstripped other countries in terms of the speed of growth (Liu, 2020).

2.1 Important Milestones of the CPC in the Past Century

President Xi summarized several important milestones of the CPC in the past century during the sixth plenary session. The first landmark was the Mao Zedong period, which marked the start of the CPC by establishing the People's Republic of China. It was a very tough time, and the CPC had to make valiant effort to help Chinese people prevail over external adversity and build up their dignity. The second remarkable period was the Deng Xiaoping period, which was also the period of Reform and Opening-Up. The third was the Jiang Zemin and Hu Jintao period, when the two leaders led the Chinese economy to a stage of rapid growth. The fourth was the period of President Xi, when China's economy remained steady with noticeable growth even with Sino-U.S. trade war and COVID-19.

2.2 A More Balanced, Coordinated, and Sustainable Economy

The sixth plenary session summarized how China's economic development since the 18th CPC National Congress in 2012 distinguished itself from that in the past. It concluded that the Chinese economy has become more balanced, coordinated, and sustainable over the past decade. The three features could be illustrated as follows.

Firstly, balanced development could be reflected by the narrowing of the gap between urban and rural areas as well as the economic convergence between coastal and western cities (Lin, 1992; Oi, 1999; Liu et al. 2018). For example, the growth rates of per capita disposable income in rural areas tend to be higher than those in urban areas. According to National Bureau of Statistics of China, in the first quarter of 2021, the per capita disposable income of urban residents was 13,120 yuan, with an actual increase of 12.3 percent after deducting the price

factor; the per capita disposable income of rural residents was 5,398 yuan, with an actual increase of 16.3 percent after deducting the price factor. In the past, the development of coastal areas was always faster than that of inland regions, yet this trend has reversed in the past decade, indicating that the economic development was more balanced. Moreover, the construction of high-speed railway, rapid technology adoption, and the holistic internet coverage have elevated the economic growth in the hinterland. This also accelerated the economic convergence between rural and urban areas, as well as between coastal and inland areas.

Secondly, economic development in China has never been more coordinated in the past decade. For example, in terms of the construction of airports and other infrastructure, different cities in China have shown effective coordination with each other.

Thirdly, economic development in China is becoming more sustainable as well. China has been actively participating in different international green agreements in recent years. Achievements include accelerating the use of green energy as well as the development of green finance (Wang and Lee, 2022). China has been making enormous efforts to drive sustainability and enhance environmental protection, which aim at transforming the economy from high-speed growth to high-quality growth.

2.3 The Next Phase of Economic Development

China endeavors to become a fully developed nation by 2049. The third Historic Resolution adopted in the sixth plenary session serves a purpose to solidify China's governance system. China must make sure that the invisible forces of market liberalization will not bring about a multitude of social and political woes. This means China has to find a way to avoid slow productivity growth, diminishing social mobility, and growing income inequality.

From the Communiqué of the sixth plenary session of the 19th Central Committee of the Communist Party of China, China's high-speed economic growth has been transformed into sustainable economic growth. According to the press release of the sixth plenary session, five principles were propounded to guide the future economic development of China, that is, growth has to be of higher quality, be more efficient, more equitable, more sustainable, and more secure.

First of all, to achieve high quality growth, China will continue to convert low value-added industries into high value-added ones. It was proposed in the 14th Five-Year Plan that research and development spending would increase by 7% annually.

Second, to enhance the efficiency of society as a whole, China should simplify government policies and reduce administrative costs. The high quality growth realized by scientific and technological investment will enable society to operate more efficiently. In terms of the allocation efficiency of investment, capital input will be determined more by market interest rate to improve the efficiency of resource allocation.

Third, social equity will become one of the major topics in the future. Deng's philosophy of "letting some people get rich first" in the 1980s underpinned China's market liberalization (Wang, 2021). As China becomes more affluent, with the majority of its population gradually moving into the middle class, it is increasingly challenging to retain its competitive edge in global supply chains, especially when a growing middle class open the door to profiteering at the expense of community interests, the environment, and social equity.

In the foreseeable future, China will continue to fight against social inequity. The market status quo needs to be reformed in multiple dimensions. As shown by the recent introduction of new regulations, the reforms can be stringent, and we expect this wave of market correction to continue. Certain industries, especially those that exhibit unsustainable growth due to undesirable business practices, such as excessive leverage or cultivating unhealthy consumer behavior, must take heed. Other targets include monopolies and oligopolies, as well as those creating vulnerabilities to national security.

"Common prosperity" will become the new principle of policymaking and market regulation. As mentioned in the 14th Five-Year Plan, the urban unemployment rate needs to be kept below 5.5% in the next five years. Tax reform may also emerge on the national policy agenda. For example, China has yet to introduce inheritance and mansion taxes, but these may well be considered as a part of the "common prosperity" policy.

The fourth feature is sustainability, where China has focused on in the past ten years and will continue to pay attention to in the future (Umar et al. 2020). China promises the world

that carbon neutrality will be achieved in China in 2060. It will invest more in renewable energy, new energy vehicles, and other clean energy sources.

In addition, China also needs to keep the inputs of production factors sustainable. Effective measures should be taken to mitigate issues associated with aging population and labor shortage. In fact, China has a sizable labor force from the agriculture sector, as compared to the United States; agricultural modernization has not been fully realized. Potential agricultural labor force can be released through land reform to achieve labor sustainability. As for the capital sustainability, both domestic capital and international capital should be absorbed by encouraging both domestic and foreign investment.

The fifth principle of economic development put forward in the sixth plenary concerns security, including economic security, food security, and data security. China cannot rely too much on the import of US food for national security reasons to avoid concentration risk. Likewise, Chinese companies that are listed in foreign markets should uphold the principles of data security. It was mentioned in the 14th Five-Year Plan that we are ushering in a new stage in building a peaceful China. We expect in the next five years, multifaceted security regulations will be imposed and general national security will be improved. In the future, China will continue to have a reasonable economic growth in a more peaceful, sustainable, environmentally friendly, and equitable way.

3. Implications for Hong Kong

Due to the social unrest in 2019, the sixth plenary session of the 19th Central Committee of the Communist Party of China unprecedentedly includes Hong Kong as one of the major discussion topics, and the Hong Kong part can be summarized in three main points. First, it prescribes that Hong Kong is to be administered by patriots; second, it states that Hong Kong has restored stability from the bout of unrest in 2019; third, the plenary session also states that Hong Kong will have a bright future and will be able to realize its potential and capability to the full.

China emphasizes that Hong Kong should be governed by patriots. A national security law has been imposed in July 2020 in response to the protests in 2019. The law has a positive impact on the role of Hong Kong as a global financial center. The Global Financial Centres Index (GFCI) is the world's most authoritative measure of the competitiveness of leading financial centers and is published twice a year in both March and September. According to the GFCI, Hong Kong has always ranked third among the world, following New York and London, which alternately top the list from time to time. However, during the second half of 2019, when the violent protests against the extradition law occurred in Hong Kong, the rank of Hong Kong dropped to 6—a record low in history. In September 2020 and March 2021, Hong Kong was ranked fifth and fourth, respectively, by the GFCI, meaning that continuous improvements have been made upon the imposition of the national security law. More significantly, when the dust has settled, Hong Kong redeemed its reputation and restored its third place in September 2021. It indicated that the position of Hong Kong as a global financial center was untouched. The reason may be that one of the ranking criteria of the GFCI is political stability, which evaluates according to the stability of an economy but not the type of system implemented. Since Hong Kong has become more stable in the past year, its ranking goes up along the way.

Preserving Hong Kong as an international financial center is strategically essential for China since Hong Kong provides access to the world's capital for Chinese firms. Hong Kong issues its own currency, the Hong Kong dollar, which is not subject to capital controls and is freely convertible against the US dollar. For Chinese firms, this would mean access to some of the deepest pools of capital around the world.

China, ever since President Xi took office in 2012, has been implementing different policies and devising multiple schemes to reinforce Hong Kong as an international financial center. For a very long time in history, the financial sector had been contributing around 15%-16% to the total GDP of Hong Kong. However, in 2012, the number rose to 21.2%, until 2019. The close to 6% increase in the share of the financial sector in GDP is not a mere coincidence, and it is not simply due to riding the wave of overall improvement in the economy. Instead, it is a result of the well-planned government policy to enhance Hong Kong and its role in global finance. The GDP growth of the financial sector in Hong Kong has outperformed other sectors in the past decade, for China has taken an active role in facilitating the capital flows between the financial markets of China and Hong Kong. Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect were launched, respectively, in 2014 and 2016; in 2017, North-bound Trading under Bond Connect program was launched; and the South-bound Trading under Bond Connect as well as the Wealth Management Connect were launched in 2021. These connections are part of the reasons that the trading volume in the financial sector has seen a noticeable surge. It is expected that Insurance Connect will be launched as well and will further enhance the capital flows between mainland China and Hong Kong in the foreseeable future.

Besides the development of the financial sector, China has launched the Belt and Road Initiative and supported the development of the Guangdong-Hong Kong-Macau Greater Bay Area over the past 10 years. The Hong Kong section of the high speed railway and the Hong Kong-Zhuhai-Macau Bridge were built to facilitate trade and other activities between Hong Kong and mainland China, which has a significant impact on the economy of Hong Kong.

Although the sixth plenary session mentioned that Hong Kong could unleash its full potential and capability, Hong Kong should also embrace the development philosophy of China. As stated in the sixth plenary session, the economy should be of higher quality, more efficient, more equitable, more sustainable, and more secure. The economic development of Hong Kong has already qualified the first two principles—having high quality and being very efficient. The problem is to shape Hong Kong into a more equitable, more sustainable, and more secure society in the future. For equity, it is believed that Hong Kong should focus on the following two areas: enterprise-to-enterprise equity and employer-employee equity.

For enterprise-to-enterprise equitability, Hong Kong needs to assure fair competition and rein in monopoly power as much as possible. To accomplish this, strenuous efforts have to be made. Hong Kong government has long been adopting the philosophy of “big market, small government”, but it should take an active role in intervening in the market when a monopoly arises. For example, when property developers are bidding for government projects, the government may consider opting for small companies as well to offer a level playing field.

As for employer-employee equitability, it is believed that more can be done to enhance the welfare and benefit of Hong Kong employees, thereby ensuring more equitable distribution of income. Hong Kong is a mature financial center but also one of the world’s most unequal societies, as indicated by its Gini coefficient, an index that measures the distribution of wealth. Salaries tax is not the largest constituent of the revenue of the Hong Kong government; it is believed that it would be desirable if the taxation system remains unchanged. However, for the welfare and benefits of employees, the government should advance the proposal of a fair standard of minimum wage and standard working hours. Hong Kong does have a statutory minimum wage, and it was set at HK\$37.5 in 2019, which is still low compared to those in western economies. Hong Kong should benchmark against other developed economies such as Singapore and the United States and improve the welfare of workers.

Sustainability should be addressed from two aspects, namely industry sustainability and environmental sustainability. Regarding industry sustainability, the financial industry has played a pivotal role in making the name of Hong Kong and shaping its economy, but many may question how sustainable the financial industry in Hong Kong is. In the past years, huge volatility in the financial market is clearly discernible; despite the repercussions of the fluctuations, the functions of finance performed by the industry cannot be disregarded. In the foreseeable future, the status of Hong Kong as a major international financial center will not be easily replaced by any competitors in the same time zone. But Hong Kong should proactively introduce innovations and increase the variety of financial products, with the aim of growing its financial sector to be as competitive as possible. It is crucial that Hong Kong outcompetes other cities and become the best in Asia, in the hope of maintaining the sustainability of the industry.

As for environmental sustainability, the Hong Kong government should impose stricter regulations to enforce the environmental protection rules. For example, the Hong Kong

government may contemplate allowing only ships that use environmentally friendly fuel to dock in the harbors of Hong Kong or implementing policies to encourage or oblige restaurants to use environmentally friendly fuel and cutlery.

The last principle on the list of the plenary session concerning economic development is being more secure. In the past, Hong Kong does not appear to have much security awareness, in terms of capital flows, talent mobility, stock market fluctuations, supply of food or daily necessities, as well as risk of data breach. For example, Hong Kong does not control capital flows, and money can freely flow in and out of Hong Kong; domestic demand for foodstuffs cannot be satisfied solely by the local produce of the city, which may pose a risk in cases of international supply chain disruptions; Hong Kong lacks comprehensive security measures to safeguard data flows. However, the imposition of the National Security Law in 2020 enables Hong Kong to become more secure.

4. Conclusions

All in all, the new direction set by the Sixth Plenum will have multifaceted impact on the Chinese economy, which will move toward a stage of being higher quality and be more efficient, more equitable, more sustainable, and more secure. The relations of China with the US and the EU could remain tense in the foreseeable future. Foreign investors in China are recommended to be circumspect in assessing the political relations between China and different western economies. They are advised to deepen their understanding of CPC institutions and how they influence policymaking. In particular, it is advisable for corporations to follow closely the latest development in policies and regulations concerning antitrust, cybersecurity, foreign investment and consumer marketing in China.

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