

# **The 33<sup>rd</sup> MAC Advisory Committee Meeting: Highlights of Discussion by Advisory Members\***

News Reference Material

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The Mainland Affairs Council (MAC) recently held the 33<sup>rd</sup> Advisory Committee Meeting on the topic of "Economic Outlook for Mainland China in 2022, the Impact on Taiwan, and the Countermeasures." Key statements and highlights of discussion by the advisory members are as follows:

1. The introductory report presented by the scholars indicated that economic growth in mainland China faces a number of latent concerns, including weak consumption and investment, structural inflation, spillover risk from the Evergrande debt crisis, uncertainty of the COVID-19 pandemic, and advanced technology blockades. International institutions generally forecast mainland China's economic growth rate to be around 5% in 2022. The "common prosperity," "strengthened supervision," "state advances, private sector retreats," and other policies could become barriers to corporate investment in mainland China. The scholars assess that the momentum of economic growth in mainland China could be weakened in the long run. In addition, the US-China tech war, the COVID-19 pandemic, and the drive of supply chain diversions made "In China, for China" the major operational mode. The localization trend of Taiwanese companies in mainland China was significantly growing. In response to external technology blockades, mainland China will step-up its poaching of Taiwanese talent and technology to achieve autonomy and control of key technology. Moreover, the "specialized, sophisticated,

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\* The MAC Advisory Committee Meeting is formed by experts and scholars in related fields. The views and opinions expressed in the meetings or excerpted in this article belong solely to the speakers.

distinctive, and new" policy may entice Taiwan's leading SMEs to develop in mainland China. It was suggested that the government strengthen legal controls and countermeasures, and establish cross-Strait industrial risk monitoring mechanisms to track major industry trends at home and across the Taiwan Strait in a timely manner.

2. Some scholars pointed out that, in the US-China trade war up until now, the US has mainly targeted the export of high value-added products from mainland China. Although mainland China's foreign trade grew by 30% in 2021, the low added-value made it difficult for trade to spur income growth and spending power. The data also show that consumption and investment growth rate in mainland China slowed month-to-month in 2021 and continues to fall to record lows. Mainland China's economic growth rate plummeted from 8.1% in 2021 to 5% in 2022, showing that there may be some problems with mainland China's internal economic structure.

3. Some scholars stated that, while all countries now face the problem of inflation, mainland China's contrarian cuts to the required rate of return (RRR) and interest rates indicate that mainland China may be facing a relatively serious liquidity risk. It also indicates that the prognosis for mainland China's economic prospects is not optimistic.

4. Some scholars indicated that the US trade deficit with mainland China continued to widen as mainland China increased exports to the US by 28% in 2021. Failure to achieve the targets of the Phase One Trade Agreement showed additional tariff measures had limited effect and instead exacerbated inflation in the US. The scholars predicted that the US and mainland China may gradually relax import duty controls on daily consumer goods and other non-critical areas.

5. Some scholars reminded that, after the Regional Comprehensive Economic Partnership (RCEP) takes effect in early 2022, Taiwanese companies in mainland China can further develop business opportunities of their supply chains in the ASEAN region and mainland China. The impact of tariff reductions among mainland China, Japan and South Korea on Taiwan's trade and industry under the RCEP should be heeded. It was suggested that visions and plans for industrial development in Taiwan be formulated in advance in response to industrial policy trends in mainland China. The government should continue to expand international connections, keep track of developments in the US-advocated "Build Back Better World" (B3W) plan, promote the "New Southbound Policy," and help Taiwanese companies in mainland China shift their supply chain layout.

6. Some scholars noted that local governments in mainland China assumed nearly RMB 4 trillion in debt through local financing platforms in the first three quarters of 2021, an increase of nearly 20% over the year. This shows that the hidden local government debt is still growing. However, the housing market crunch in the wake of the Evergrande crisis has adversely impacted land financing, an important revenue source for local governments, increasing the risk of default. As Taiwan has invested heavily in financial products related to mainland China, it was suggested that the government establish a comprehensive monitoring mechanism to help reduce risk for the public.