

MAC 2022 Second Quarter Report on the Situation in Mainland China

News Reference Material

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The Mainland Affairs Council (MAC) issued a written report on the situation in mainland China for the second quarter of 2022. The key points of the report are summarized as follows:

(1) Internal Situation

In the political arena, as of the end of June, all levels of the local government had held party congresses to elect delegates to the 20th National People's Congress (NPC) and completed appointments of their new leadership; Xi Jinping was elected as the delegate of Guangxi Province by a unanimous vote. At the end of July, Xi announced the policy direction of the 20th NPC at a seminar for provincial- and ministerial-level cadres, urging them to prioritize work on resolving the problem of unbalanced and inappropriate development. Numerous central and local government agencies saw personnel reshuffling, and the officials all voiced support for Xi. The CCP continued to strengthen party discipline and enforce its anti-corruption campaign. Meetings of both the party and government focused on stabilizing the economy, strengthening social security, restricting freedom of speech, and maintaining stability (i.e. *weiwen*). The summer recess in Beidaihe ended in mid-August, after which senior officials including Xi and Li Keqiang visited Liaoning, Guangdong, and other places on an inspection tour to assess progress of employment, local economy, production, and industrial revitalization.

In the economic sphere, mainland China's gross domestic product (GDP) grew by 2.5% in the first half of the year; the growth in the second quarter was

0.4%, marking the second slowest pace on record. Exports and foreign trade continued to expand despite a persistent domestic consumption decline and housing market downturn. Most international agencies lowered their forecast for China's GDP growth this year to between 2% and 4.7%. Other issues, including China's fiscal deficit reaching RMB2.4 trillion in the first half of the year, surging local government debt, protests sparking in Henan over a rural bank scandal, and mortgage boycotts of homeowners against unfinished homes, have all raised widespread concerns over the systemic risks in China's financial system.

In social areas, strict controls were imposed in the run-up to the 20th NPC; however, scandals such as people's health code being arbitrarily turned red to prevent them from joining demonstrations against rural bank financial misconducts and Shanghai Public Security Bureau's data leak exposed the weaknesses of "digital totalitarianism." Meanwhile, other issues such as prolonged lockdowns mandated by the zero-COVID policy, governance failure, economic deterioration, and record-high college graduate and youth unemployment rates all fuel uncertainties in maintaining social stability. The CCP's governance of Xinjiang focused on economic and social construction; people remain under high-tech mass surveillance; and the CCP has been resisting international organizations' probe into its human rights abuses in the region. The international community maintains a close watch over China's human rights violations in Tibet; the Dalai Lama reiterated that Tibet was no longer seeking independence.

(2) Foreign Relations

In late May, Joe Biden unveiled the Indo-Pacific Economic Framework (IPEF) on a visit to Japan and South Korea. On May 26, US Secretary of State Antony Blinken delivered a policy speech on China, pointing to the CCP as the most serious long-term challenge to the international order. He said that the US does not support Taiwan independence and hopes that cross-Strait differences

can be resolved peacefully. The CCP Foreign Minister Wang Yi said that Mr. Blinken's speech was a clear demonstration of different world views held by China and the US and of the latter's Cold War mentality. On July 28, Biden and Xi had their fifth call, where Xi criticized the US for having made misjudgments over their bilateral relations. He called on the US to continue communicating and cooperating with China instead of seeking to decouple from it. Xi also expressed strong opposition against Taiwan independence, separatism, and interference by external forces. The Speaker of the US House of Representatives Nancy Pelosi visited Taiwan between August 2 and 3, a trip that prompted statements from the five major CCP offices in condemnation of the serious US violation of the "one China" principle and the three China-US Joint Communiqués (i.e. the Ministry of Foreign Affairs, NPC, Taiwan Affairs Office, Ministry of National Defense, and Chinese People's Political Consultative Conference); the CCP's Ministry of Foreign Affairs further announced eight countermeasures against the US. In April, Xi Jinping presented a four-point opinion on the Russia-Ukraine war (including: maintaining a firm stance on brokering peace and facilitating dialogue, avoiding the worsening of the current humanitarian crises, building lasting peace in Europe and Eurasia, and preventing the spread of regional conflicts). The CCP continued to forge closer ties with Latin American and Asian countries with its regional development initiatives; it has also been strengthening relations with the BRICS nations such as Russia and India.

(3) Military Developments

The CCP promulgated the Work Regulations of the Military Committee to enforce the Mass Line in the military, namely to adopt a bottom-up management approach where senior officers are under close watch of their subordinates; such design is meant for tightening Xi's control over the military. The CCP also issued the Guidelines for Military Operations Other Than War in support of the People's Liberation Army (PLA) carrying out their strategic functions of building a favorable dynamic and narrative ahead of a war and of managing crises; the Guidelines is

also meant to help justify the CCP's future invasions as non-wars under international law. The PLA has been expanding its nuclear arsenal, but it still lacks the nuclear "triad" power and combat capabilities using tactical nuclear weapons. The CCP launched "the Fujian," its third aircraft carrier equipped with electromagnetic catapult technology; meanwhile, the Liaoning carrier conducted its first joint military exercises against Taiwan with multiple military branches.

(4) Situation in Hong Kong and Macao

Xi Jinping visited Hong Kong to attend the joint ceremony for the 25th anniversary of Hong Kong's handover and the inauguration of Hong Kong's Chief Executive. He emphasized principles including "patriots ruling Hong Kong" and stressed that Hong Kong's high degree of autonomy is subordinate to the central government's comprehensive jurisdiction. He also affirmed the Chief Executive-elect and former Chief Hong Kong Secretary for Administration John Lee for his love of the country and of Hong Kong. The Hong Kong government was restructured into three divisions and 15 bureaus; some of the newly appointed officials have mainland Chinese backgrounds. The new administration pledged to accelerate its introduction of legislation under Article 23 of the Hong Kong Basic Law. Hong Kong's economy shrank by 4% in the first quarter, ending four consecutive quarters of growth. There were external concerns that strict COVID-19 restrictions will weaken Hong Kong's role as a leading global financial hub. Since the Hong Kong National Security Law took effect, a total of 196 people have been arrested, sparking international and local concerns over the clampdown and restrictions for free speech; the mass exodus that followed has hit the Hong Kong economy significantly. In addition, Macao plans to draft and enact a Macao National Security Law. Its economy shrank by 8.9% in the first quarter, marking the second consecutive quarter of negative growth.

(5) Taiwan Work

In response to US House Speaker Nancy Pelosi's visit to Taiwan, the CCP has been intensifying its maximum pressure on Taiwan on multiple fronts. It enforced 6 no-fly/no-navigation zones around Taiwan to conduct military exercises, firing 11 Dongfeng missiles, and breaching the median line of the Taiwan Strait with the PLA aircraft and warships; the CCP even threatened to make its combat readiness patrols regular. Additionally, the CCP announced a list of the so-called "Taiwan independence diehards" and their affiliated institutions and enterprises, upon which it vowed to impose punishments and sanctions. Meanwhile, the CCP suspended Taiwan's exports of produce, fishery products, and food to mainland China. It also published a white paper on Taiwan, highlighting its push for unification in the new era and new journey. Moreover, Xi Jinping demanded that united front work in Hong Kong, Macao, Taiwan, and abroad must achieve the goal of winning people's heart. Wang Yang asserted that peaceful reunification is the first-choice for resolving the Taiwan issue. At numerous cross-Strait exchange activities, high-level CCP officials repeatedly mentioned the "1992 Consensus" and "one country, two systems" and touted relief measures aimed at helping Taiwanese companies stabilize production in a bid to "facilitate integration and accelerate unification."

During Xi's phone call with Biden on July 28, he reiterated that "both sides of the Taiwan Strait belong to one China" when discussing the Taiwan issue. CCP Foreign Minister Wang Yi and other officials took advantage of their interactions with the US to assert that the "one China" principle is the "pacifier of the sea" (i.e. stabilizer) of cross-Strait relations. Wang accused the US of hollowing out "one China" and called for an end of Taiwan-US collusion and further obstruction to cross-Strait unification. He threatened that China's military would not hesitate to go to war if anyone were to separate Taiwan from China. The CCP's Haixun-06 was assigned to the Fujian Maritime Safety Administration. The CCP offices including the Taiwan Affairs Office claimed that the Taiwan Strait is not international waters, denied the existence of the "median line of the

Taiwan Strait," and opposed US military activities in the Taiwan Strait. It can be foreseen that the CCP will further undermine the status quo in the Taiwan Strait going forward.