

MAC 2023 Second Quarter Report on the Situation in Mainland China

News Reference Material

Date: August 16, 2023

The Mainland Affairs Council (MAC) issued a written report on the situation in mainland China for the second quarter of 2023. The key points of the report are summarized as follows:

(1) Internal Situation

In the political arena, Xi Jinping convened a meeting with the National Security Commission of the Chinese Communist Party (CCP), where he warned about the complexity of national security issues and urged the CCP to uphold the bottom-line and worst-case-scenario thinking. The Standing Committee of the National People's Congress amended the Counter-Espionage Law to broaden the legal definition of criminality constituting espionage; it also formulated the Foreign Relations Law to ground the Party's diplomatic work and provide a legal basis for sanctions. Several foreign-related companies were raided. State Councilor and Foreign Minister Qin Gang was removed as foreign minister and replaced by his predecessor Wang Yi following a nearly month-long disappearance. New leadership positions emerged in the institutional reforms were gradually filled. Xi has demanded loyalty to the Party and cautioned against repeating the mistake that led to the Soviet Union's disintegration. He claimed that "Chinese-style modernization" has built the Chinese nation into a modern civilization, with national unification at the core of the Party's core interests. A high-level CCP meeting stated that its economic operations face new challenges, calling for measures to stimulate consumption and stabilize employment. Xi and other high-ranking officials made inspection tours to various places and highlighted the significance of technological innovation and the normalization of counter-terrorism and *weiwen*

(maintaining stability) efforts in Xinjiang. Since July, Chongqing, Beijing, Tianjin, Hebei, and the northeastern region of mainland China have been hit by torrential rains. Xi called for an all-out rescue effort to reduce losses, while his absence from the disaster areas fueled widespread online discontent. Several mid-level CCP officials were removed from their posts for corruption investigation that also targeted the military forces. In addition, the CCP is also promoting *weiwen* through a governance approach that focuses on the early, preventive, and minimal handling of potential crises.

In the economic sphere, mainland China's economy grew by 5.5% in the first half of the year and by 6.3% in the second quarter, with both figures falling short of expectations. The fact that the Consumer Price Index (CPI) rose by 0.7% in the first half of the year and the Producer Price Index (PPI) fell by 3.1% suggests growing deflationary pressures. Foreign trade decreased by 4.7% annually, with exports falling by 3.2% and imports down by 6.7%. The urban unemployment rate reached 5.3% in June, while youth unemployment reached a record high of 21.3%. International institutions lowered their forecasts for the rate of mainland China's annual gross domestic product (GDP) growth.

In social areas, the CCP has been tightening control over self-media, strengthening *weiwen* on the internet, maintaining ideological security, further advancing the consolidation of a collective consciousness of the Chinese nation, and pushing for the Sinicization of Islam. The Xinjiang and Tibet issues remain in the international spotlight.

(2) Foreign Relations

The CCP has continued to promote its head-of-state diplomacy. In mid-May, Xi Jinping presided at the first China-Central Asia Summit, where participating countries adopted the summit List of Outcomes and signed the Xi'an Declaration. In late May, Xi met with the Russian prime minister and Congolese president. In June and July, he met with the heads of state and politicians of Honduras, Palestine, New Zealand, and Vietnam. In July, he participated in the video summit of the Shanghai Cooperation Organization (SCO), voicing opposition to decoupling

and cutting economic ties. In the area of United States (US)-China relations, Xi Jinping met with US Secretary of State Antony Blinken in mid-June. He maintained that great power competition would run counter to the trend of the times, and proposed that China and the US pursue independent development and shared prosperity. Meanwhile, the US highlighted the need to manage differences and avoid conflict between the two countries. In early July, Li Qiang and Wang Yi met separately with US Treasury Secretary Janet Yellen and expressed concern over US sanctions against China; in turn, the US responded that it did not seek to decouple from China. During visits to Germany and France in late June, Li Qiang stressed that the greatest risk would be a lack of cooperation. In early May, Qin Gang visited Germany, France, and Norway and met with the Hungarian foreign minister, Dutch foreign minister, and US Secretary of State. Wang Yi attended the International Forum for (China-Japan-South Korea) Trilateral Cooperation and a series of foreign ministerial meetings on East Asia cooperation in Indonesia. In addition to strengthening its peace-making image, the CCP has been making and hosting high-level visits to win over partners, indicating that the great-power rivalry remains intense despite the slight easing of its relations with both the US and Europe.

(3) Military Developments and Regional Security

Xi Jinping promoted the new commander and political commissar of the Rocket Force to the rank of general amid the disappearance of several high-ranking officials of the same branch following a rumored purge. The Central Military Commission (CMC) issued the "Code of Conduct for Social Interactions by Military Leaders" to tighten disciplinary control. The mutiny of the Wagner group might have prompted Xi to be increasingly vigilant about the potential risks from the military, leading to a stronger push for ideological indoctrination aimed at fully implementing a system where the CMC chairperson assumes overall responsibility and "the Party commands the gun." The People's Liberation Army (PLA) conducted its seventh land-based, mid-course anti-ballistic missile technical test and flew unmanned aerial vehicles around Taiwan for the first time in a continued

effort to build integrated air combat capabilities against Taiwan. The *Shandong* aircraft carrier formation sailed through the Taiwan Strait on May 27 and June 21. The PLA aircraft approached the 24-nautical-mile line of the Taiwan's contiguous zone, restricting the training space of Taiwan's air force. The Shangri-La Dialogue in June showed that the US and China sought to stabilize and prevent further deterioration of their bilateral relations.

(4) Situation in Hong Kong and Macao

The Hong Kong government slashed the number of directly-elected seats in the District Council to less than 100 and instituted a vetting mechanism to ensure that "patriots rule Hong Kong." The Civic Party announced its dissolution amid the shrinking space for freedom of speech. In the first quarter of the year, Hong Kong's GDP rose by 2.7%, ending four quarters of decline; however, import and export trade performance remained weak. The Macao government completed amendments to the Macao National Security Law, and announced plans to amend the Law on the Election of the Chief Executive and Electoral Law for the Legislative Assembly by mid-next year to achieve the goal of "patriots ruling Macao." In addition, Macao's GDP rose by 38% in the first quarter. When Director of the Central Office for Hong Kong and Macao Affairs Xia Baolong made inspection visits to Hong Kong and Macao, his focus on national security indicated that the two cities were under the comprehensive jurisdiction of the central government.

(5) Taiwan Work

At its recently convened Taiwan Work Conference, the CCP not only reiterated Xi Jinping's Thought and the "Overall Strategy" but laid out the "Five Musts¹" as the focus of its Taiwan work this year as it seeks to take the initiative

¹ The "Five Musts" include the imperatives to: adhere to the "one China" principle and the "1992 Consensus" in the Party's promotion of the peaceful development of cross-Strait relations; uphold the ideal of "the two sides across the Taiwan Strait belonging to one family" to respect, care for, and benefit Taiwan compatriots with improvements and advancements of the systems and policies that will enhance the well-being of Taiwan compatriots in order to deepen the integrated cross-Strait development; gradually restore and expand cross-Strait exchanges, foster friendships between individuals at all levels in Taiwan, and cultivate a spiritual bond between compatriots on both sides of the Taiwan Strait; resolutely oppose "Taiwan independence" separatist activities and external forces and firmly safeguard China's national sovereignty and territorial integrity; and

and the lead over cross-Strait relations. In the near future, aside from the CCP's continued campaign to pressure Taiwan into accepting its political framework, our assessment is that the CCP will broadly invite Taiwanese people to visit mainland China to foster the image a shared bond between the two sides of the Taiwan Strait, and even launch an "extensive research" on Taiwan to seek opportunities for election interference.

In the area of cross-Strait exchanges, the CCP has continued to manipulate the tourism issue. It first unilaterally resumed Taiwanese group travel to mainland China, and then reopened outbound group travel to 78 countries without Taiwan. These tactics aim to pressure our government into lifting the ban on Taiwanese tour groups visiting mainland China and shift the blame for the current impasse in cross-Strait exchanges to Taiwan. During this time, the CCP has been accelerating its "civilian exchange expansion" and "united front work advancement" in several ways: it has been inviting Taiwanese individuals from various sectors to visit mainland China to propagate its political positions towards Taiwan; meanwhile, it organized events such as the Straits Forum and the Two Lakes Forum. The Straits Forum was said to have seen a turnout of 5,000 attendees, a claim clearly intended to create an impression of a vibrant atmosphere for cross-Strait exchanges; nonetheless, the actual turnout fell short of the levels before the COVID-19 pandemic, indicating the flagging effectiveness of the CCP's united front efforts against Taiwan. The Two Lakes Forum, on the other hand, offered benefits for those recognizing the "1992 Consensus" and wielded a discriminatory treatment through procuring agricultural and locally produced products from specific Taiwanese producers. Additionally, the CCP has held a number of youth exchange activities during the summer to lure Taiwanese youth to study or work in mainland China.

Diplomatically, the CCP took advantage of the resumption of high-level US-China communication to implement its strategy of "containing Taiwan by strengthening ties with the US" and drawing red lines on the Taiwan issue to

strengthen the Party's overall leadership on its Taiwan work, embark on a full-scale research campaign, and drive the high-quality development of the Party's Taiwan work.

solidify its "one China" principle and weaken US support for Taiwan. Moreover, to stop the advancement of US-Taiwan interactions and cooperation, the CCP has been opposing official Taiwan-US interaction and urging the US to suspend arms sales and military contact with Taiwan; moreover, in the name of "taking necessary measures to defend sovereignty and interests," the CCP has been carrying out military intimidation against Taiwan to demonstrate its "opposition to independence and external interference."