

MAC 2023 Third 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 third quarter of 2023. The key points of the report are summarized as follows:

(1) Internal Situation

In the political arena, the Chinese Communist Party (CCP) officially introduced "Xi Jinping Thought on Culture" and launched the second phase of its ideological indoctrination. Xi Jinping called for more work and progress on external propaganda to prevent and defuse ideological risks. He stated that "Chinese-style modernization" is the way to create "common prosperity" for the people and highlighted the importance of achieving self-reliance. After a nearly two-month disappearance from public view, Li Shangfu was removed from the positions of Minister of Defense, Member of the Central Military Commission (CMC), and State Councilor. Former Foreign Minister Qin Gang was further stripped of his title as State Councilor. High-level meetings called for strengthening political loyalty of the officials and transitioning to strategic autonomy in science and technology. The National People's Congress also pledges to stepping up its oversight of government debt. Chinese state-run media reported that former Premier Li Keqiang died on October 27 due to a heart attack and would be cremated on November 2. Scatterings of people across mainland China offered flowers in mourning. Xi Jinping and other high-ranking officials conducted inspection trips to various places with a focus on national security, high-tech industries, and *weiwén* (stability maintenance) in border areas.

Torrential rains hit several parts of northern China between late July and mid-September. Xi Jinping claimed that the floods were successfully controlled. Numerous mid-level officials were removed from their posts for corruption investigation. There is an ongoing drive of anti-corruption campaign in the military and sports sectors; harsh crackdown also targeted the medical sector. Administrative and legal systems called for preventing and mediating social conflicts to ensure political security.

In the economic sphere, mainland China's economic growth rate in the first three quarters was 5.2%. Consumer spending became the main driver of economic momentum and expanding domestic demand remained vital to future economic recovery. The industrial producer price index (PPI) fell at an annual rate of 3.1% in the first three quarters. The consumer price index (CPI) rose by just 0.4% year-over-year (YoY) as deflationary pressures persisted. Foreign trade in goods fell by 6.4% YoY in the first three quarters, with exports and imports dropping by 5.7% and 7.5%, respectively. The unemployment problem remained severe. Statistics showed that at the end of September, the urban unemployment rate reached 5% nationwide and 5.2% in larger cities. Several institutions continued to lower their economic growth forecast for mainland China this year.

In social areas, the "unfinished building" crisis continued to ferment, sparking several protests by owners seeking to protect their rights. A new version of the Counter-Espionage Law implemented on July 1 led to the central and local governments mobilizing an all-out national campaign against spy activity. A new wave of personnel purge was seen in Xinjiang. The Xinjiang and Tibet issues remained in the international spotlight.

(2) Foreign Relations

The CCP strengthened the strategic layout of its diplomacy at home and surrounding areas. In late August, Xi Jinping attended the BRICS Summit in

South Africa. At the Third Belt and Road Summit in mid-October, the CCP announced that it would start promoting eight action plans to expand mainland China's circle of friends and overcome containment by the United States (US) and other western countries. In September, Li Qiang attended the East Asia Summit in Indonesia and the G20 Summit in India. In mid-September, Wang Yi visited Russia. In October, Beijing hosted the 12th China-EU Strategic Dialogue, during which both sides agreed to prepare for the year-end China-EU summit. Regarding US-China relations, Xi Jinping stated during a meeting with US Senate Majority Leader Chuck Schumer in mid-October that planet Earth is vast enough to accommodate the respective development and common prosperity of China and the US; the US emphasized that it does not seek confrontation with China, nor does it wish to "decouple" from China. In mid-September, Wang Yi met with US National Security Advisor Jake Sullivan in Malta. Han Zheng met with US Secretary of State Antony Blinken during a session of the United Nations General Assembly. Recently, Wang Yi and He Lifeng visited the US for the first meetings of the China-US Economic Working Group and Financial Working Group. The two sides also held consultations on foreign policy and maritime affairs and discussed climate and nuclear arms controls issues. The intensive contacts between mainland China and the US indicate that both sides are interested in managing their differences and paving the way for a Biden-Xi meeting at the Asia-Pacific Economic Cooperation (APEC) Summit in November.

(3) Military Developments and Regional Security

Xi Jinping embarked on a new round of military purges, leading to the arrest of several high-ranking generals under the Equipment Development Department of the CMC and the People's Liberation Army (PLA) Rocket Force. Incursions of PLA military aircraft and ships persisted in the sea and airspace around Taiwan for military intimidation, threatening regional stability. From mid to late September, more than 50 sorties of mainland Chinese aircraft were recorded daily around the Taiwan Strait (including 103 sorties between the 17th and the

morning of the 18th), the highest level since April this year. In mid-September, the Shandong aircraft carrier conducted exercises off the east coast of Taiwan. From October 28 to November 5, Shandong carried out a long-range sea and air training exercise in the western Pacific. On November 8, the carrier sailed north along the west side of the median line of the Taiwan Strait and on November 9 continued its northbound transit through the northern seas. The overall features of recent military exercises by the PLA indicated a strategic focus on "sealing off" the Taiwan Strait to "area-deny" the US and Japan. The realistic, confrontational training exercises included anti-carrier combat elements simulating offensive and defensive battles between US aircraft carrier strike groups and the naval and air forces of the Eastern Theater Command to advance the development of systematic combat capabilities. However, rumors of an accident involving a Type 093 nuclear submarine underscored the challenges facing the PLA as to whether the navy's modernization efforts would guarantee victory in the actual combat situations. Furthermore, whether the three US-China military exchange mechanisms are restored remains a key indicator for the level of stability for US-China relations.

(4) Situation in Hong Kong and Macao

Hong Kong's Legislative Council approved the District Council's new electoral system. The "first-time voter" registration rate plunged by 50%, reflecting dissatisfaction with the new electoral system among Hong Kong residents. All types of freedom continued to be restricted, with even artistic activities being required to comply with national security provisions. Hong Kong's economy grew by 1.5% in the second quarter. The Hong Kong government estimated that the tourism industry and private consumption would be the primary drivers of economic recovery in the second half of the year. In Macao, amendments to the Chief Executive Election Law were deliberated and submitted to the Legislative Council for review. The amended law is expected to be passed in an article-by-article vote by the end of this year. Macao's economy grew by

more than 100% in the second quarter. The government actively promoted economic transformation to increase the GDP share of the non-gambling sector. The leadership of the Central Liaison Office for Hong Kong and Macao was confirmed. Mainland China continued to advance integration with Hong Kong and Macao, but the response from Hong Kong's youth was lackluster.

(5) Taiwan Work

The CCP recently used Fujian as the vanguard in its united front work to promote integration and unification with Taiwan. On September 12, the State Council unveiled the "Opinions on Supporting Fujian in Exploring New Paths for Integrated Cross-Strait Development and Building a Demonstration Zone for Integrated Cross-Strait Development" (hereinafter referred to as the "Opinions"). The Opinions emphasized that "the two sides of the Taiwan Strait belong to one family" and highlighted the importance of "facilitating integration through exchanging resources, giving benefits, and fostering emotional connection." During a special meeting held on September 27 by mainland China's Taiwan Affairs Office and National Development and Reform Commission, Song Tao stated that the "Opinions" were personally designed, deployed, and promoted by Xi Jinping and should be fully carried out. Additionally, the CCP used meetings with Taiwanese individuals and forums to create an impression of the two sides engaging in discussions on integrated development. In October, the CCP held a Cross-Strait Agricultural Exchange Conference. In November, it introduced 10 immigration policy measures aimed at drawing Taiwanese technical talent to support its rural revitalization and luring Taiwanese people to settle down in Fujian. The "Opinions" consist mainly of the already existing measures for Taiwan and have very limited appeal to the Taiwanese public.

At the CCP's National Day reception, Xi Jinping and Wang Huning reiterated a commitment to the "one China" principle and "1992 Consensus." The Taiwan-related positions raised on the occasion included promoting peaceful

development of cross-Strait relations, deepening integrated cross-Strait development, and resolutely opposing Taiwan independence separatist activity and interference by external forces. In response to President Tsai Ing-wen's statement in her National Day Address about "developing with the Beijing authorities a mutually acceptable foundation for interaction and a path to peaceful coexistence," the CCP criticized the government of Taiwan for making "Independence"-seeking provocation and accused Taiwan of disrupting the status quo in the Taiwan Strait. The CCP also claimed that the "1992 Consensus" embodying the "one China" principle is the basis for the peaceful development of cross-Strait relations.

With election day approaching in Taiwan, the CCP has intensified its election interference through politicizing and manipulating issues such as trade barriers investigations, tax audits of Taiwanese companies based in mainland China, import of Taiwanese agricultural products to mainland China, and mainland Chinese tourist visits to Taiwan. The CCP extended the deadline for trade barrier investigations against Taiwan by three months to January 12, 2024: the eve of Taiwan's presidential election. Mainland China's state media reported that the CCP is conducting a comprehensive tax and land use investigation against the Foxconn Group. Moreover, the CCP wielded the trick of differential treatment by imposing one ban on the import of Taiwanese mangoes to mainland China while lifting another ban on imports of Miaoli pomelos. It harshly criticized Taiwan's plans on resuming cross-Strait tourism and insisted not to drop the ban on mainland Chinese tourist visiting Taiwan. The CCP's actions are clearly politically charged, aimed at interfering in Taiwan's elections through economic coercion. In addition, the CCP continued to emphasize during meetings with Taiwanese individuals that cross-Strait relations are at the crossroads between "peace and war" and "prosperity and decline," all in an attempt to influence voter intention in Taiwan.

Internationally, the CCP used US-China interactions to urge the US to abide by the "one China" principle and the Three Communiqués, and end official

exchanges with Taiwan. It responded to Vice President Lai's transit through the US with harsh rhetoric and military intimidation and conducted sea and air joint combat readiness patrols and joint training military exercises around Taiwan. Furthermore, the CCP continued to diplomatically pressure Taiwan, forcing the removal of Taiwan from the Central American Parliament (PARLACEN) in August.