

# **The 53<sup>rd</sup> MAC Advisory Committee Meeting**

## **Highlights of Discussion by Advisory Members\***

News Reference Material

Date: December 28, 2023

The Mainland Affairs Council (MAC) recently held the 53<sup>rd</sup> Advisory Committee Meeting on the topic of "Economic Trends in Mainland China: Impact on its Internal, International, and Cross-Strait Political and Economic Situation and Responses." Key statements and discussion points of the participating committee members are as follows:

1. The introductory report presented by the scholars indicated that the mainland Chinese economy is losing momentum, judging from its recent poor performance in the three major growth drivers (consumption, investment, and exports). IHS Markit forecast that mainland China's economy would grow by 5.02% this year (2023) and lowered its prediction for 2024 to 4.60%; the International Monetary Fund (IMF) predicted further slowdown to less than 4% from 2024 to 2027. Mainland China currently has deployed fiscal and monetary macro controls to restore corporate and public consumption and investment confidence in the face of a real estate bubble and local debt problems. It also needs to find a new economic development model to escape the middle-income country trap. However, mainland China is bound to face the challenge of moderate to low economic growth in the coming decade given that only 10% of its GDP is generated by technology-intensive industries, attempts to upgrade and transform the economy have been stifled by a tech war with the United States (US), and

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

efforts to expand domestic demand confront a housing bubble and shrinking wealth effect.

2. Some committee members believed that the deterioration of economic and employment conditions in mainland China is worse than suggested by the data released by the Chinese Communist Party (CCP). The CCP's Central Financial Work Conference declared a need to strengthen party leadership over the financial system. It directed four major state-owned banks to shoulder the responsibility for extending financial arrangements to financially troubled local governments, which will exacerbate systematic financial risks. At the end of the year, the CCP Central Committee issued an additional 1 trillion RMB in government bonds to alleviate the debt burden on local governments, sparking a market liquidity crunch and surge in the overnight interbank lending rate. Foreign capital flight has become a long-term trend as mainland China faces a future of intensifying offshoring and loss of foreign exchange reserves.

3. Some committee members observed that online retailing has been the primary driver of consumption growth in mainland China in recent years. However, this sector has shown signs of slowing indicating potential market saturation. In the area of investment, the growth in high-tech investment in mainland China has been especially notable, though the electric vehicle (EV) sector now faces overcapacity. The CCP is anxious to support the domestic semiconductor industry with increased investment. The market for mature-node semiconductors is anticipated to become the next area of overcapacity in the next five years. Taiwan should monitor the impact of this trend on its own mature-node semiconductor supply chain. Mainland China continues to expand investment in Southeast Asia to counter economic and trade containment by western countries, making mainland Chinese enterprises competitors that Taiwanese companies cannot ignore in Southeast Asia.

4. Some committee members assessed that the CCP misjudged the internal and external political and economic situation, underestimating the unity of western democracies and overestimating its own economic growth and political and economic influence. This has resulted in worsening relations with the US and "de-risking" from mainland China by western countries. The European Commission, having been grappling with a widening trade deficit with mainland China and the dumping of cheap Chinese EVs in the European market, is set to launch an anti-subsidy investigation into mainland Chinese EVs.

5. Some committee members stressed that Taiwanese banks should assess their exposure to risk from mainland China's property market and analyze the potential impact of mainland China's economic slowdown on Taiwan's economy. According to data from Taiwan's Financial Supervisory Commission, the exposure of Taiwan's financial industry to risk in mainland China in the third quarter of this year fell to a historic low, showing that the Republic of China government has continued to take measures to reduce risks related to mainland China. The committee members suggested that assistance be provided to Taiwanese businesses to prepare properly for global deployment, accelerate responses to global economic and trade restructuring, and seek alternative and diversified markets to reduce operational risk.