

MAC 2023 Fourth 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 fourth quarter of 2023. The key points of the report are summarized as follows:

(1) Internal Situation

In the political sphere, the Chinese Communist Party (CCP) continued to strengthen its leadership position, ideology, and ideological work. Xi Jinping emphasized that the CCP's leadership role is a constitutional mandate and should remain unswayed. He urged officials to maintain a high level of political sensitivity to prevent or contain political risks as soon as they arise. A series of earthquakes, heavy snowfalls, mining disasters, and other accidents tested the CCP's emergency response and relief system and China's overall social stability. In 2023, a total of 47 party cadres under the Organization Department of the CCP Central Committee were under investigation, exceeding the number in 2022. Xi reiterated that anti-corruption situations remain serious and complex. He named five main areas for rectification, including finance, state-owned enterprises, energy, pharmaceutical industry, and infrastructure projects. Several People's Liberation Army (PLA) generals and senior leaders of the military-industrial complex were removed from their posts in the National People's Congress and Chinese People's Political Consultative Committee (CPPCC).

In the economic sphere, mainland China achieved 5.2% economic growth, meeting its original target for 2023. However, exports and foreign investment both declined, and the fact that local government debt grew by 25.6% year-over-year (YoY) once again raises financial risks. Last year, the industrial producer price index (PPI) fell by 3% and the consumer price index (CPI) rose by just 0.2% YoY, suggesting that mainland China remained in the grip of deflation. The CCP's Central Financial Work Conference proposed that mainland China develop into a "financial power" and follow a "path of financial development with Chinese characteristics," a path fundamentally different from the Western financial model. The meeting called for strengthening the party's centralized leadership and comprehensive financial supervision. The conference also pledged to focus on averting or resolving financial risks driven by the real estate market and local government debt. The Central Economic Work Conference set the policy tone to "pursue progress while ensuring stability, consolidate stability through progress, and establish the new before abolishing the old." It introduced numerous policies to "stabilize expectations, stabilize growth, and stabilize employment." Most external forecasters estimated that mainland China's economy would grow by between 4% and 5% in 2024.

In the social sphere, the authorities' *weiwen* (stability maintenance) system quelled campus protests across mainland China. Shanghai residents were arrested for wearing Halloween costumes to satirize the current political situation. Officials banned commemorations of the anniversary of the "White Paper Movement" to tighten social control. According to statistics, more workers joined the *weiquan* (protection of one's rights) movement to demand unpaid wages than in the past three years combined. Unemployed youth engaged in silent protest by choosing to be "full-time children" or pursuing "slow employment." The CCP announced the establishment of the Xinjiang Pilot Free Trade Zone and released a white paper on Tibet to highlight its governance achievements and counter external criticism.

(2) Foreign Relations

At the Central Foreign Affairs Work Conference in late December 2023, Xi Jinping outlined 10 historical achievements since the 18th National Congress of the CCP and presented "six musts" in conducting diplomatic work. The CCP continued to engage in foreign affairs by hosting events or participating in them in neighboring countries to showcase its influence through head-of-state diplomacy and high-level meetings. This includes holding the China-EU Summit in early December, during which Xi met with European Commission President Ursula von der Leyen and European Council President Charles Michel in Beijing. Throughout the past year, Xi received about a hundred important foreign dignitaries from around 70 countries. In mid-December, Xi visited Vietnam and advocated for building a China-Vietnam community with a shared future. Li Qiang attended the meeting of the Council of heads of governments of the Shanghai Cooperation Organisation in October and joined by video the Fourth Lancang—Mekong Cooperation Leader's Meeting in late December. In late November, Wang Yi attended the 10th China-Japan-Republic of Korea (ROK) Trilateral Foreign Ministers' Meeting to set the stage for a China-Japan-ROK summit. In terms of United States (US)-China relations, Xi visited the US in mid-November to participate in the APEC Summit and met with US President Biden. Recently both sides have gradually resumed exchanges and cooperation in strategic, diplomatic, economic and trade, military, climate, and anti-narcotics areas. In early 2024, Biden and Xi exchanged congratulatory letters on the 45th anniversary of the establishment of diplomatic relations between the two countries. During a visit to the US in early January, Minister of the International Department of the CCP Central Committee Liu Jianchao urged the two sides to implement the consensus reached at the Biden-Xi meeting in San Francisco, emphasizing the need to respect each other's bottom line. In late January, Wang Yi and US National Security Advisor Jake Sullivan met in Thailand for strategic talks, discussing Taiwan, the Russian-Ukraine war, the Middle East, North Korea, South China Sea, and other issues. Moreover, in January, the two sides held the 17th US-China Defense Policy Coordination Talks and the seventh meeting of

US-China Joint Committee on Cooperation in Agriculture in Washington, D.C. That same month, the two sides convened the Financial Working Group and Counternarcotics Working Group in Beijing, showing that the two sides have rebuilt communication channels and are continuing to patch engagement guardrails to manage differences.

(3) Military Developments and Regional Security

Xi Jinping has sought to consolidate military power through vigorous purges of the armed forces. The Rocket Force and the Equipment Development Department of the Central Military Commission were particularly hard hit, but the military-industrial complex has not been spared. In addition, during his meeting with Joe Biden in San Francisco, Xi denied that he has plans to attack Taiwan in 2027 or 2035, but he emphasized the need to progress towards an overall resolution to the problem. The PLA continued to dispatch fighter planes and warships for coercive drills against Taiwan and released surveillance balloons to bolster cognitive warfare. These actions seek to maintain a posture of deterrence and pressure against Taiwan, limit Taiwan's defense space, and implement battlefield management. The US's China Military Power Report indicates that the CCP is diversifying and expanding its nuclear arsenal. The CCP military has made medium and long-range precision strike capability a development focus and an important combat method. It is also actively promoting joint operations and "anti-access and area denial" capability, tested both within and beyond the first island chain.

(4) Situation in Hong Kong and Macao

Voter turnout for the Hong Kong District Council elections fell to a record low, reflecting a lack of public support for the new electoral system. The Hong Kong government's policy address emphasized national security and patriotic

education and announced that legislation for Article 23 of the Basic Law would be completed in 2024. Hong Kong's economy grew by 4.1% in the third quarter of 2023 and the economic growth expectations were revised downward. The number of foreign companies with regional headquarters in Hong Kong hit an 11-year low. Hong Kong residents flocked to mainland China for shopping after the COVID-19 pandemic, leading to a slow economic recovery in Hong Kong. Macao's policy address emphasized strict implementation of Macao's National Security Law and revisions to the Chief Executive Election Law in line with Beijing's "patriots ruling Macao" principle. The international community continued to closely follow and support the Hong Kong democracy activists involved in national security cases. Hong Kong's ratings for human freedom, religious freedom, and the rule of law continued to deteriorate.

(5) Taiwan Work

In response to the victory of the Democratic Progressive Party (DPP) candidate Lai Ching-te in the presidential election, the CCP's Taiwan Affairs Office (TAO) on January 13 stated that the DPP cannot represent the mainstream public opinion in Taiwan and cannot change the basic pattern or development direction of cross-Strait relations. The TAO reiterated its consistent position of opposing Taiwan independence separatist acts and interference by external forces. The CCP's foreign affairs system actively bolstered its "one China" framework internationally, including by reiterating, after numerous countries congratulated Vice President Lai on his election victory, that the "one China" principle is a basic principle of international relations and a universal consensus of the international community. Wang Yi stated that the results of the elections cannot change the basic fact that there is only one China in the world and Taiwan is part of China. He said that the Cairo Declaration laid the historical and legal foundation that Taiwan is an inalienable territory of China and that those who seek Taiwan independence to split the Chinese territory will surely be severely punished by history and by law. On January 15, the CCP poached

Taiwan's diplomatic ally Nauru, declaring that the "one China" principle is a general trend. The CCP claimed that United Nations General Assembly Resolution 2758 explicitly states that there are no "two Chinas" or "one China, one Taiwan" in the world. Furthermore, mainland China's Ministry of State Security and state-run media publicized an article saying that the Anti-secession Law is a "sharp sword hanging over the heads of Taiwanese secessionists" to intimidate Taiwan independence forces. The CCP also said that it is considering expanding suspension of tariff reductions under the Economic Cooperation Framework Agreement (ECFA) to subject Taiwan to its economic coercion.

In addition, senior CCP officials expressed opinions on Taiwan related issues in their "New Year's greetings," at symposiums commemorating the anniversary of Mao Zedong's birth, consultation meetings of the National Committee of the Chinese People's Political Consultative Conference, and on other occasions. Xi Jinping and Wang Huning emphasized that the unification of the motherland is a historical inevitability. They insisted on adherence to the "one China" principle and the "1992 Consensus" and called for the implementation of an "overall strategy" to deepen the development of cross-Strait integration and grassroots exchanges. In his "New Year's Message," Zhang Zhijun reiterated the choice between "peace and war, prosperity and decline."

In the run up to the presidential election in Taiwan, the CCP sought to set the tone for President Tsai's cross-Strait policy to attack the DPP presidential candidate. It also stepped up interference in Taiwan's elections through manipulating issues such as trade barrier investigations, agricultural and fishery imports, etc. The TAO commented that the "Tsai Ing-wen path" laid out in President Tsai New Year's Day Address is "the path towards Taiwan independence." The Office also harshly criticized Vice President Lai on several occasions. On December 12, 2023, the Customs Tariff Commission of the State Council determined that Taiwan violated ECFA provisions and announced that ECFA tariff rates on 12 Taiwan products, including propylene and p-Xylene, would be suspended from January 1, 2024. On January 9, the Ministry of

Commerce stated that relevant departments were considering further suspending tariff reductions on the ECFA's early harvest list for agricultural and fishery products, machinery, car components, textiles, and other products. The CCP also deployed a strategy of differentiated treatment by making the imports of Taiwanese sugar apples and grouper to mainland China dependent on accepting the "1992 Consensus" and other political preconditions. In addition, central and local governments in mainland China continued to implement the "Opinions on a Demonstration Zone for Cross-Strait Integrated Development." Fujian approved the "Regulations on Promoting Marine Economy in Fujian Province" and opinions on the "Implementation of the 'Demonstration Zone for Cross-Strait Integrated Development' in Fujian Province"; it also announced the first batch of implementation measures and established the Taiwan-related Maritime Dispute Resolution Center of Fujian Province. The Ministry of Commerce and Central Taiwan Work Office of the CCP jointly issued a "Notification on Measures to Support Fujian in Exploring New Paths for Integrated cross-Strait Development in Economy and Trade." These measures are all part of the CCP's efforts to "promote integration" with Taiwan.

In the foreign affairs sphere, the CCP used interactions with the US and other countries to press relevant countries into supporting its stance on Taiwan. During his meeting with Biden at the end of last year, Xi Jinping said that the US should take concrete actions to prove that it does not support "Taiwan independence," stop arming Taiwan, and support "peaceful unification." During a phone call with Antony Blinken, Wang Yi urged the US not to support or condone "Taiwan independence." Furthermore, the Head of the International Department of the CCP Central Committee Liu Jianchao went to the US ahead of the Taiwan elections for meetings with White House Principal Deputy National Security Advisor Jon Finer and Antony Blinken. Liu elaborated mainland China's position on the Taiwan issue to pre-empt risk in the Taiwan Strait. In addition, the Shandong aircraft carrier conducted annual exercises in relevant sea areas on November 16, 2023. On December 11, the carrier sailed south across the west side of the median line of the Taiwan Strait. Military aircraft, ships, and high-

altitude balloons also continued to make incursions into the sea and airspace around Taiwan for intimidation. On January 31, 2024, the CCP's Civil Aeronautics Administration announced the cancellation of the M503 southbound offset route and activation of the W122 and W123 connecting routes. The TAO claimed that the move aimed to alleviate the pressure of the growing number of flights in the region and facilitate people-to-people exchanges across the Taiwan Strait.