

The 56th MAC Advisory Committee Meeting: Highlights and Key Points of Discussion by Committee Members*

News Reference Material

Date: April 22, 2024

The Mainland Affairs Council recently held its 56th Advisory Committee Meeting on the topic of “Observations on potential changes to mainland China’s economic system and development model under Xi’s core leadership.” Key points from the introductory remarks and discussions by the attending committee members are as follows:

I. The scholar’s introductory report pointed out that mainland China’s economy is exhibiting a gradual slowdown. The Chinese Communist Party’s (CCP) economic policy emphasis during the “Two Sessions” in 2024 was centered on technological innovation and on shifting its industrial strategy approach from development-oriented to security-oriented. The CCP is committed to bolstering technological self-reliance, but short-term economic risks still need to be addressed. The debt from government bonds and Local Government Financing Vehicles (LGFVs) in mainland China continues to rise. LGFVs are highly reliant on banks and other financial institutions, which could have potential implications on the stability of the financial system and cause negative effects on the economy that should not be underestimated. Although the CCP seeks to pivot from an investment-driven to a consumption-driven development model, its policies’ overemphasis on developing the technology and manufacturing sectors rather than the

* 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.

consumer sector. This has resulted in an excessive flow of capital into the manufacturing sector and in the over-expansion of some industries' capacity. Excess capacity due to an imbalance between supply and demand has become more apparent, prompting mainland Chinese companies to engage in price-cutting competition and global dumping that could intensify trade frictions with European countries and the United States (US) and adversely affect Taiwan's related industries. Taiwan must be prepared to respond accordingly. Moreover, mainland China has faced long-term structural problems in its economy, such as declining birth rates, an aging population, and economic restructuring. In light of these issues, its long-term economic growth could potentially decline to 4% over the next decade.

II. Some members are concerned that the rise in the ratio of non-performing assets at mainland China's major state-owned banks could affect their ability to make loans to enterprises. As private enterprises grapple with oversupply and insufficient demand that result in shrinking profits, an inability to secure financial injections could significantly increase the risk of future bankruptcies. This might trigger a wave of unemployment across related industries and further affect social stability. Taiwan should continue to monitor the risks and the development of the situation closely and should carefully assess possible impacts on Taiwan's economy and trade.

III. Some members pointed out that if mainland China's economic growth remains sluggish, the unemployment rate continues to increase, rural migrant workers and young people are out of work, and the wealth gap widens, the problems are bound to disrupt its social system and the stability of its government. Taiwan should closely monitor this situation

with caution.

IV. Some members believe that the ongoing cycle of interest rate hikes in the US will intensify the challenges faced by the People's Bank of China in stabilizing the RMB exchange rate. This may result in a continued depreciation of the RMB, potentially affecting the stability of China's capital and foreign exchange markets. Additionally, if the Russia-Ukraine conflict draws to a close, there could be subsequent changes in Russia-China economic and trade relations. Taiwanese business supply chains in mainland China might find opportunities in Ukraine's reconstruction and through industrial collaborations. It is crucial that these developments be closely monitored.

V. Some members cautioned that amidst US-China technological competition, Taiwan could become a prime target for headhunting high-tech talent, which would result in a higher risk of technology outflow. A list of "national core key technologies" was released by the National Science and Technology Council (NSTC) last year (2023), and it is imperative for the government to duly collaborate with relevant ministries to review and update the list and to incorporate artificial intelligence-related items. Furthermore, there is a need to clarify the applicable scope of mainland China-produced intermediate goods and components within Taiwan to prevent businesses from inadvertent national security and cybersecurity violations.

VI. Some members have observed that in response to the US-China tech war and the trend of supply chain diversification, foreign companies and Taiwanese businesses in mainland China are increasingly signaling a shift in investment trends by adopting the "China+1" strategy. Some

Taiwanese businesses have chosen to remain in China to cater to its domestic market, adopting an “In China, For China” model. Consequently, these Taiwanese businesses transform into entities with mixed identities, often referred to as “new mainland Chinese businesses” or “hybrid Taiwanese businesses,” formed through joint ventures or through mergers and acquisitions with mainland Chinese companies. Future development models of Taiwanese businesses and changes to their capital structure will impact the long-standing cooperation model between industries across the Taiwan Strait. These transformations also present new challenges related to recognizing Taiwanese businesses with new identities and formulating corresponding industry support policies.