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MERICS China Industries Briefing

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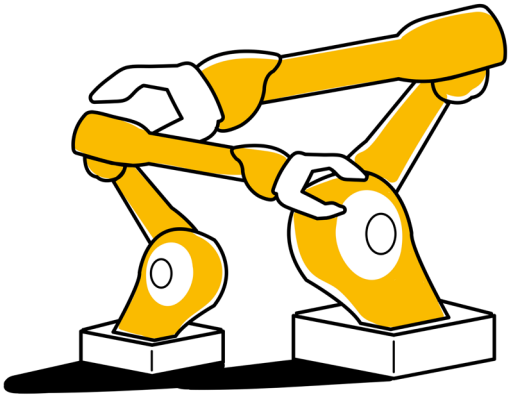

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The MERICS China Industries Briefing is a monthly roundup of key developments in China's industrial policy landscape and innovation system. It features brief analyses of the government's industrial strategies, technology plans and policy guidelines that shape China's industrial upgrading and economic trajectory. The briefing also captures corporate activities that are driving cooperation and competition between Chinese entities and their European counterparts.

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MERICS TOP 5

1. MIIT accelerates Industrial Internet applications and standard setting in traditional manufacturing

Policy name: Interpretation of the "Industrial Internet Innovation Development Action Plan (2021-2023)"
(《工业互联网创新发展行动计划（2021–2023 年）》解读) (Link)
Issuing body: MIIT
Date: February 18, 2021

At a glance: The Ministry of Industry and Information Technology (MIIT) has published a detailed explanation of a three-year Industrial Internet action plan it issued in January. The plan aims to fast track the application of information technology in traditional manufacturing sectors such as automotive, machinery, and consumer goods. It outlines several goals for 2023, including:

- Advance the application of 5G-connected factories in manufacturing
- Create a standard system for the Industrial Internet
- Increase the productivity of key enterprises (as identified by provincial authorities) by at least 20 percent
- Establish an Industrial Internet exchange and cooperation mechanism with the EU and countries covered by the Belt and Road Initiative

MERICS comment: The action plan is part of Beijing's push to utilize technology and new infrastructure as drivers of growth. The plan's predecessor (covering 2018-2020) led to Industrial Internet pilots and CNY 70 billion in investments in digital infrastructure. The plan is also part of the government's agenda to use foreign companies as levers to advance China's position as a manufacturing superpower and set Chinese standards internationally.

The MIIT encourages Chinese companies to cooperate with foreign enterprises in standard setting, exploring new business models and allocating resources. This ties in with other efforts by the Chinese government to standardize industrial production: In January, the MIIT circulated a draft that calls for the creation of more than 30 "Internet of Things"-standards by 2025. Companies may also receive local government support for implementing the plan, as has previously happened in Guangdong, for instance.

2. New blueprint gives China's medical equipment industry a high-tech boost

Policy name: Medical Equipment Industry Development Plan (2021-2025) (Draft for Comments) (医疗装备产业发展规划（2021–2025 年）（征求意见稿) (Link)
Issuing body: MIIT
Date: February 9, 2021

At a glance: The MIIT issued a new draft plan for public comments to accelerate the high-quality development of the medical equipment industry over the next five years. The blueprint outlines several goals for 2025, including:

- Achieve major breakthroughs in high-end medical equipment (e.g., diagnostic testing equipment), as well as key components and materials
- Ensure the safety and reliability of high-end medical equipment
- Improve China's innovation leadership in medical equipment, e.g., by elevating 6-8 Chinese companies to the global top 50 medical device companies
- Develop new forms of healthcare, e.g., telemedicine, smart medical care and precision medicine

By 2030, China is to become a global hub for high-end medical equipment R&D, manufacturing and application. The plan also highlights the goal of promoting the integration of traditional medical equipment with new technologies such as 5G, AI, and the Industrial Internet, including improving hospital information infrastructure.

MERICS comment: Chinese efforts to upgrade, and specifically digitalize, the healthcare industry are by no means new. High-performance medical equipment was one of ten strategic industries identified for industrial upgrading in the "Made in China 2025" initiative, and the government has long pushed for the integration of Internet technologies with traditional medical devices and services as part of its "Internet + Healthcare" initiative. However, the COVID-19 crisis has accelerated the adoption of digital healthcare solutions such as online doctor's consultations and smart medical assistants and added a sense of urgency.

Though still in draft format and light on specifics, the plan indicates continued government support for innovative companies in the field. Much of this support will likely go to Chinese companies. But given the expertise of leading European companies in the MedTech space, especially in the premium segment, foreign companies may also benefit from the renewed focus on upgrading China's domestic medical equipment industry.

3. The government attaches strategic value to the tech-upgrade of transportation

Policy name: Notice on Organizing and Launching the Declaration of the 2021 Transportation Industry Key Technology Project List
(关于组织开展 2021 年度交通运输行业重点科技项目清单申报的通知) (Link)
Issuing body: MOT
Date: February 5, 2021

At a glance: The Ministry of Transport (MOT) has made its fourth annual call for the submission of key technology projects for the transportation industry. Eligible projects should be highly innovative, help to promote real-life tech applications, or entail international science and technology (S&T) cooperation. The submission guidelines list several R&D priorities, including:

- Transportation infrastructure construction and maintenance, e.g., smart perception tech
- Digital transformation and upgrading tech, e.g., autonomous driving in port areas
- Applied research on China's Beidou navigation system, e.g., for public transport

Two other aspects that feature prominently in the document are to make China's transportation industry more environmentally friendly and to achieve technological breakthroughs in transportation equipment and services.

MERICS comment: Beijing attaches great strategic value to the modernization of China's transportation industry. By making progress in the listed technologies, China wants to enter the next phase of its transformation into a "transportation superpower" (交通强国) by 2050. The suggested focus on applying IT, such as artificial intelligence and 5G, to transportation is in line with the expansion of "new infrastructure" construction as a key pillar of China's post-pandemic economic recovery. The MOT also expects the transportation sector, including related services, to help upgrade domestic consumption and invigorate China's new "dual circulation" development pattern.

China's efforts to expand and upgrade the domestic transportation infrastructure have focused on (sub)urban areas and their interconnectedness. Remarkable progress has been made in high-speed railway and maglev-train technologies that are even applied abroad. China's high-tech modernization drive certainly fuels international competition. However, it may also open more avenues for foreign participation in transportation – a sector traditionally dominated by large state-owned enterprises (SOEs).

4. Beijing's "Two Zones" construction plan seeks to attract foreign investors

Policy name: Work Plan for the Construction of "Two Zones" in the Field of Digital Economy (数字经济领域"两区"建设工作方案) (Link)
Issuing body: Beijing Municipal Economic and Information Bureau
Date: February 18, 2021

At a glance: The Beijing municipal government has published a plan to build Beijing into a digital economy pilot area. Backed by an annual budget of CNY 10 billion, the plan calls for the yearly introduction of at least 20 new industrial projects and platforms with a high degree of innovation, foreign investment and capital-intensity. The proposed key measures include:

- Accelerate the construction of digital infrastructure, e.g., 5G and satellite networks
- Promote the construction of an autonomous driving demonstration zone, e.g., with less stringent testing restrictions
- Open up the domestic internet virtual private network (VPN) business to foreign investors (up to 50 percent) and abolish restrictions on foreign shareholders for app stores
- Promote cross-border data flow projects in Zhongguancun Software Park, Jinzhan International Cooperation Service Zone and Daxing Airport Area

MERICS comment: The "Two Zones" (两区) refer to the National Service Industry Expansion and Opening Comprehensive Demonstration Zone (国家服务业扩大开放综合示范区) and Beijing's Pilot Free Trade Zone (北京自由贸易试验区). The State Council first announced these zones in September 2020, and the Beijing municipal government has now fleshed out the details. Beijing also released plans for the "Two Zones" that focus on measures to boost consumption and the use of the digital Yuan. Taken together, they seek to put Beijing at the forefront of China's digital innovation drive.

To achieve this, Beijing not only intends to improve the city's digital infrastructure, but also proposes to cut investment restrictions and red tape in order to attract international companies. Lowered costs and regulatory hurdles will allow foreign and Chinese companies to accelerate their autonomous vehicle development. Such policy support is in line with national efforts to expand autonomous vehicle testing spaces. Beijing also intends to address concerns that are particularly pressing for foreign firms. Opening up the domestic VPN business to foreign telecom firms could bolster investment activity as well as increase foreign companies' confidence that their local data is handled responsibly.

5. Chinese tech giants invest in home-made semiconductors as the industry continues to suffer from US sanctions

At a glance: February saw another series of high-profile investments by China's tech giants in the domestic semiconductor industry, including:

- *February 7:* Huawei's wholly-owned venture capital (VC) arm **Hubble** invests in electronic design automation (EDA) software company Rainbow Simulation Technologies (无锡飞谱电子信息有限公司). This is Hubble's 28th semiconductor investment since April 2019
- *February 10:* Media reporting finds that **Baidu** is in talks with VC firms to raise money for a new subsidiary that would be a stand-alone AI chip company majority owned by Baidu

The investments coincided with the release of two draft policy documents that detail the conditions and procedures for Chinese IC companies (engaged in design, equipment, materials, packaging and testing) and software companies to qualify for government support policies announced last year, including tax benefits.

MERICS comment: Pressured by US export controls, China's tech industry is doing all it can to protect itself from further disruptions. For companies like Huawei in particular, VC investments in the domestic semiconductor industry are part of a survival strategy. In 2020, Huawei's semiconductor spending decreased 23.5 percent due to its inability to purchase American chips. Instead, investing in domestic chip firms helps the company try to ensure supply chain security in the long term. Other tech giants are also hoping to secure future growth by boosting existing or acquiring new chip capabilities. Beyond Baidu, companies like Tencent and Xiaomi are also jumping on the bandwagon, capitalizing on policy support for locally-made chips.

Meanwhile, the Chinese semiconductor companies themselves are about to start reaping the benefits of the IC and software support policies announced by the State Council in August 2020. Yet, even with huge amounts of capital investment and policy support available, Chinese IC companies alone will not be able to meet China's demand for chips. In 2020, China only produced around 6percent of the chips it used.

WORTH NOTING

Policy news

- *February 2:* The Ministry of Science and Technology (MOST) publishes an action plan for the establishment of national high-tech zones for green development, focusing on environment-friendly manufacturing (MOST plan (CN))
- *February 3:* The MIIT issues a notice with measures for telecommunication companies to improve the quality of 5G services (MIIT notice (CN))
- *February 5:* The National Energy Administration (NEA) circulates an internal draft policy that proposes a 40 percent target for China's share of renewable power by 2030 (NEA letter (CN); Reuters article (EN))
- *February 7:* The State Administration for Market Regulation (SAMR) publishes the final version of its anti-monopoly guidelines for the platform economy, first released as a draft on November 10, 2020 (SAMR guidelines (CN); Caixin article (EN))
- *February 21:* The State Council and the Central Committee of the CCP issue the first central policy document for 2021 which calls for the modernization of China's agriculture sector (State Council document (CN); CGTN article (EN))
- *February 22:* The State Council issues guiding opinions on speeding up the establishment of a green low-carbon circular economy (State Council opinions (CN); State Council article (EN))
- *February 24:* The State Council and the Central Committee of the CCP release a plan to build out China's transportation network over the next 15 years (State Council notice (CN); Xinhua article (EN))

Corporate news

- *February 2:* The German Chamber of Commerce in China publishes a survey that shows, amongst others, 96 percent of German businesses in China have no plans to retreat from the country (China AHK report (EN))
- *February 3:* Ford Motor terminates its plans to launch an EV joint venture with Chinese auto company Zotye (Yicai article (CN); Reuters article (EN))
- *February 9:* Autonomous vehicle startup WeRide becomes first company in China to obtain a license to provide self-driving ride-hailing services (Leiphone article (CN); Caixin article (EN))
- *February 18:* Chinese auto maker Geely receives approval for a plant in Taizhou to produce satellites (Sina article (CN); China News Service article (EN))
- *February 19*: Chinese battery maker SVOLT signs an agreement with the government of Huzhou to build a new battery base with an annual capacity of 20 GWh (Gasgoo article (CN); Gasgoo article (EN))

- *February 22:* SAIC Motor announces it will use processors and software from domestic chipmaking startup Horizon Robotics for its self-driving cars (Horizon Robotics announcement (CN); Technode article (EN)
- *February 23:* A global industry trade body estimates that Chinese mobile network operators will invest almost USD 190 billion in 5G connections over the next five years (Yicai article (CN); Yicai article (EN))
- *February 24:* Chinese ride-hailing giant Didi reportedly plans to roll out its ride-hailing services in Western European countries such as Germany, France and the UK by the first half of 2021 (Bloomberg article (EN))

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