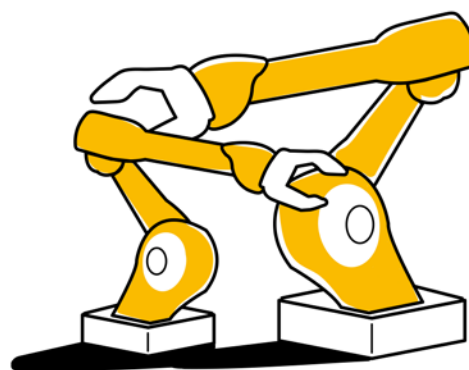


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MERICS

China Industries

ALEXANDER BROWN, GREGOR SEBASTIAN



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MERICS TOP 5

1. China ups the ante on biotechnology R&D with new 14th Five-Year Plan

At a glance: The National Development and Reform Commission (NDRC) released a 14th Five-Year Plan for the development of the bioeconomy. The term refers to the application of life sciences and biotechnologies in diverse fields covering health, agriculture, manufacturing, energy, environmental protection and biosecurity. Key goals for 2025 include:

- Increase the value added of the bioeconomy as a share of GDP and grow the number of enterprises with annual revenue of over CNY 10 billion
- Boost investment for basic research into life sciences, significantly increase the R&D intensity of bio-industries and the number of high-value invention patents
- Support research into areas such as protein science, crop phenomics, medical imaging, biological drugs and biological materials
- Improve the national governance system around biosafety risk prevention and control, including for the management of major epidemics

MERICS comment: Beijing sees biotechnology as a key part of the solution for major challenges in public health, food security, energy security and sustainable development. The new plan focuses on upgrading China's innovation capacity and applications in the medical and agricultural fields. The emphasis on domestic R&D capabilities is now crucial as acquiring biotechnology from abroad has become more difficult. Just last year Italy blocked a bid from Chinese-owned Syngenta to acquire vegetable seed producer Verisem.

Growing investments into China's bio-industries means more competition for established leaders in the US and Europe. China is building a massive bioeconomy workforce and by some accounts has attracted more [investment](#) than the US in recent years. Data on the [financing](#) of biotech companies between 2019 until mid-2021 suggests that investment in biopharmaceuticals in China was over three times that of Europe. What's more, Chinese firms are virtually guaranteed a strong footing at home due to the government's self-reliance strategy. For instance, Beijing appears intent on refusing to authorize any [mRNA Covid vaccine](#) until a home grown version is available.

Article: 14th Five-Year Plan for the Bioeconomy (国家发展改革委关于印发《“十四五”生物经济发展规划》的通知) ([Link](#))

Issuing body: NDRC

Date: May 10, 2022

2. Helping the little guy: China encourages large firms to collaborate with SMEs

At a glance: Eleven departments issued a notice to promote closer collaboration of large firms with small and medium-sized enterprises (SMEs) to enhance China’s innovation system. The notice signals that large corporates play an important role in the development of innovative SMEs in China. Measures for 2025 include:

- Guide industrial investment funds to invest in the entire value chain and encourage large corporates to carry out supply chain financing for SMEs
- Promote joint innovation through sharing of resources such as brands, R&D sites and equipment
- Encourage large enterprises to work together with innovative SMEs by publishing procurement needs and holding industrial fairs

MERICs comment: The approach of large companies bringing along smaller firms is not new, and indeed occurs quite regularly in most market economies. However, the Chinese government does not want to leave this up to chance and aims to better direct this “coupling” to improve conditions for tech-focused SMEs, which are meant to [form the backbone of China’s self-reliance push](#) and innovation drive.

By bringing SMEs and large firms together, policymakers want to enhance the resilience of industrial chains and breakthrough foreign technology dependencies. Large corporates are expected to make their procurement needs more explicit so that SMEs can focus on the gaps. Through closer integration, the policy also aims to address SME financing deficits. As banks hesitate to lend to small firms, large corporates are expected to become financial backers and intermediaries — as they have a more granular understanding of their suppliers’ operations. In April, State Grid’s Jiaying subsidiary started [supplying CITIC Bank](#) with information on the electricity usage of SMEs to improve their financing.

For foreign corporates this means pressure will increase to localize and integrate Chinese SMEs in their supply chains, while foreign SMEs will come under pressure from Chinese competitors. European corporates might not need much encouragement, a recent study by [MERICs and the EUCCC](#) shows European firms already seek R&D collaborations with promising Chinese SMEs. Chinese firms are also affected. SOEs for instance will receive rewards in their annual assessment if they collaborate with SMEs.

Article: Notice on “Hand in Hand Action” to Promote the Innovative Integration of Large Firms and SMEs (2022-2025) (十一部门关于开展“携手行动”促进大中小企业融通创新(2022-2025年)的通知) ([Link](#))

Issuing bodies: MIIT, NDRC, MOST, MOF, MOHRSS, PBOC, SASC, SAMR, CBIRC, CNIPA, ACFIC

Date: May 12, 2022

3. State Council approves measures to support renewable energy rollout

At a glance: The State Council released guidelines on the development of China's new energy industry. The document includes instructions to expand renewable energy capacity and consumption, reform the electricity grid and enhance government administration, such as:

- Build a new energy system based on large-scale wind and solar, supported by clean and efficient coal-fired power along with ultra-high voltage transmission lines
- Strive to increase rooftop solar coverage on new public buildings to 50 percent by 2025
- Establish and improve the new energy green consumption certification, labeling system and publicity system
- Support direct transactions between clean energy projects and users, encourage long-term electricity purchase agreements

MERICS comment: Although the government has ramped up domestic fossil fuel production in the aftermath of power shortages in Q3 2021, it is not slowing down its expansion of renewable energy. China already has over 600 GW of installed wind and solar capacity and is on track to reach [1,500 GW by 2030](#), well above the national target of 1,200 GW. Although large-scale, centralized photovoltaic (PV) projects have faced challenges with integration into the existing energy grid, distributed PV — including rooftop solar — has flourished with [government support](#). Distributed PV accounted for more than half of the 51 GW in solar capacity added in 2021. New installations of renewables in the short-term will also provide much needed stimulus for the economy which has stalled due to Covid-lockdowns.

The new measures indicate significant potential for Europe and China to help each other reach their climate targets. Support for green energy direct purchases agreements, of the type which [BASF](#) has signed for its production site in Zhanjiang, will help EU firms achieve their climate neutrality goals. The focus on green energy certification is another area where European regulators could actively cooperate with their Chinese counterparts to create a more effective oversight over the Chinese electricity market. Finally, China's ongoing investment in the coming years will continue to put downward pressure on prices for renewable technologies. This will be particularly important for [Germany](#) in light of its accelerated plan for expanding renewables, as announced in April.

Article: Implementation Plan to Promote the High-Quality Development of New Energy in the New Era (关于促进新时代新能源高质量发展的实施方案) ([Link](#))

Issuing body: State Council, NDRC, NEA

Date: May 30, 2022

4. MIIT pushes for makeover of “Made in China” brand

At a glance: The Ministry of Industry and Information Technology (MIIT) issued a notice to promote the quality of Chinese manufacturing and the development of Chinese brands. In particular, MIIT aims to improve the quality management and control systems of local firms, while cultivating the brand image of industrial enterprises and “Made in China” products. Noteworthy measures include:

- Promote user-centered approaches to quality management, i.e., “user satisfaction”
- Hire additional quality management staff, especially chief brand officers
- Adopt quality-enhancing technologies, such as 5G, AI, and big data
- Support brand-building and “Made in China” reputation in cooperation with state media

MERICCS comment: The “Made in China” brand has improved over the past decade as Chinese firms have broken into some high-tech sectors. Yet persistent image issues associating Chinese manufacturing with low quality, particularly in industrial products, remains an area of concern for policymakers. In line with China’s dual circulation strategy, this policy seeks to address this issue.

Domestically, the promotion of quality improvement and control systems of firms is intended to boost the consumption of Chinese-made goods, in a bid to reduce reliance on exports and investment for growth. Externally, while the policy does not explicitly focus on brand image development overseas, it could assist the internationalization of Chinese companies. Indeed, one of Chinese president Xi Jinping’s main political objectives has been to elevate the “Made in China” brand to a globally recognized status.

Government efforts are likely to have the greatest impact within China. Public institutions in China have significant power to direct consumer behavior by highlighting local brands in state-owned media. They can also work to erode the premium reputation of foreign brands. For instance, foreign firms can expect to have quality defects in their products reported more widely compared to their local competitors. Yet Beijing has little influence on global consumers, so in the international arena, Chinese brands must stand on their own two feet. For local brands to close the gap with their foreign competitors, China will need to replicate the technological successes it has achieved in the [ICT and electric vehicle industries](#) more widely.

Article: Notice on Industrial Quality Improvement and Brand Building in 2022
(工业和信息化部办公厅印发《关于做好 2022 年工业质量提升和品牌建设工作的通知》)
([Link](#))

Issuing body: MIIT

Date: April 27, 2022

5. Henan wants to move up to China's NEV premier league

At a glance: Henan's provincial government has issued guiding opinions to promote the development of the new energy vehicle (NEV) sector. The province wants to become a major production hub for NEVs of all sizes, including passenger vehicles, trucks and buses. Targets for 2025 include:

- Reach an annual NEV output of at least 1.5 million units and a turnover of at least CNY 300 billion (up from CNY 200 billion)
- Achieve breakthroughs in key technologies including batteries (solid state batteries and graphene and nano-silicone anodes) and automotive electronics (smart sensors and electronic control systems)
- Upgrade the automotive industry's production layout by reducing overcapacities and improving smart manufacturing capabilities
- Set up a provincial market-oriented NEV industry development fund

MERICs comment: Henan published a [five-year plan](#) for its NEV sector only last November. The release of a follow up policy just half a year later includes two crucial changes: setting up a provincial NEV guidance fund to support companies through market forces and hiking the 2025 NEV production target from 300,000 to 500,000 to 1.5 million units.

The plan exemplifies local competition: through these measures, Henan wants to attract original equipment manufacturers (OEMs) and parts manufacturers — including foreign ones — to set up their second or third factory locally. In that regard, Henan is competing in a race with other provinces. The focus on innovative battery tech signals that Henan is particularly eager to appeal to battery makers like CATL and BYD, which recently bought land in Zhengzhou for CNY 700 million.

To stand out, Henan — not known for its passenger vehicle production — is strengthening its support for its biggest automotive strength: local champion Yutong. The firm is the world's biggest bus producer, not only did it supply Beijing's Winter Olympics with fuel cell buses, but Yutong also exports to countries including France and Norway and is the electric bus [market leader in Denmark](#). A new [draft subsidy](#) for light trucks includes models from seven companies, five are Henan based and two belong to Yutong. These subsidies might benefit local champions, but they also threaten to create waste and distort China's domestic market and could ultimately spill over into global markets.

Article: Guiding Opinions on Further Accelerating the Development of the New Energy Vehicle Industry (河南省人民政府办公厅关于进一步加快新能源汽车产业发展的指导意见) ([Link](#))

Issuing body: Henan Provincial Government

Date: May 11, 2022

NOTEWORTHY

Policy news

- *May 5:* MIIT publishes a list of 14 newly-formed cross-industry, cross-field Industrial Internet of Things (IIoT) platforms, to promote the connectivity of industrial equipment and business systems via IIoT platforms ([MIIT notice \(CN\)](#); [State Council article \(CN\)](#))
- *May 5:* MIIT issues several drafts for comment on industry standards, industry standards in foreign languages and national standards plan projects in areas such as 5G message configuration servers and semiconductor test methods ([MIIT notice \(CN\)](#))
- *May 10:* The NDRC reveals the draft for the updated catalogue of areas in which foreign businesses are encouraged to invest, including additional opportunities to invest in manufacturing components, parts and equipment ([NDRC notice \(CN\)](#); [Xinhua article \(EN\)](#))
- *May 17:* The China National Intellectual Property Administration launches a pilot program for provinces to develop open patent licensing systems and encourage their use among researchers and enterprises ([CNIPA notice \(CN\)](#))
- *May 19:* The Ministry of Human Resources and Social Security issues guidance to technical colleges and universities to enroll more than 1.4 million students this year in response to labor shortages in manufacturing ([MOHRSS notice \(CN\)](#); [South China Morning Post article \(EN\)](#))
- *May 19:* The State Council releases plan for the high-quality development of meteorology (2022-2035), seeking to achieve self-reliance in core meteorological technologies by 2025 ([State Council notice \(CN\)](#); [State Council article \(EN\)](#))
- *May 20:* The Ministry of Transport issues a work program for major transport projects for the 14th Five-Year Plan period, including specific projects to be accelerated such as the “Sichuan-Tibet Railway and supporting road projects” ([State Council notice \(CN\)](#))

Corporate news

- *April 29:* British chip designer Arm announces that it has solved its China joint venture corporate governance issue by replacing Arm China CEO Allen Wu who had refused to step down since 2020 ([Reuters article \(EN\)](#); [Arm press release \(EN\)](#))
- *May 6:* France’s Danone reveals it will end its partnership with Chinese dairy company Mengniu, by agreeing to sell its stake in two joint ventures to Mengniu and acquiring full ownership of an infant milk formula joint venture in return ([Danone press release \(EN\)](#); [Reuters article \(EN\)](#))

- *May 10:* Geely acquires a 34.02 percent stake in Renault's Korea unit for USD 200 million, as the two carmakers signed a cooperation agreement to jointly launch new vehicles in South Korea in January 2023 ([Renault Group press release \(EN\)](#))
- *May 11:* Chinese silicon wafer manufacturer National Silicon Industry Group announces plans to invest EUR 388 million in a 200-millimeter silicon wafer production plant in Finland ([Shenzhen Securities Times article \(CN\)](#); [Yicai article \(EN\)](#))
- *May 20:* Reports of extensive lay-offs among Chinese tech companies continue, as Tencent undergoes another round of redundancies following its worsening financial performance in Q1 2022 ([Caijing article \(CN\)](#); [Technode article \(EN\)](#))
- *May 26:* Geely-backed automotive tech company ECARX plans to list for USD 3.8 billion through a SPAC deal in the US, which would be the biggest Chinese listing in the US since Didi ([Bloomberg article \(EN\)](#))
- *May 26:* General Motors' joint venture with SAIC Motor and Guangxi Auto has begun exporting completely knocked down (CKDs) kits of electric vehicles to Indonesia ([Autonews Gasgoo article \(EN\)](#))

AUTHORS

Alexander Brown
Analyst, MERICS

Gregor Sebastian
Analyst, MERICS

EDITORS

Claudia Wessling
Director Communications
and Publications, MERICS

Alexander Davey
Editor, MERICS

For more information, please contact:
publications@merics.de

PUBLISHER

MERICS | Mercator Institute for China Studies

Klosterstraße 64

10179 Berlin

Tel.: +49 30 3440 999 0

Mail: info@merics.de

www.merics.org