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MERICS
China Industries Briefing
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The MERICS China Industries Briefing is a monthly round-up 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.
1. Beijing increases pressure on officials and companies to go “green”

**Policy name:** Guiding Opinions on Unifying and Strengthening Work Related to Responding to Climate Change and Protecting the Ecological Environment (关于统筹和加强应对气候变化与生态环境保护相关工作的指导意见)  
**Issuing body:** MEE  
**Date:** January 13, 2021

**At a glance:** The Ministry of Ecology and Environment (MEE) has released guiding opinions on how to improve China’s response to climate change. The document answers Xi Jinping’s call a month earlier to step up China’s climate game by announcing more ambitious nationally determined contributions (NDCs).

The document lays out key areas and tasks for coordinated action to help achieve the country’s carbon emission goals. The main action points include:

- Prepare strategic long-term plans, such as a "National Climate Change Strategy 2035"
- Strengthen innovation leadership, e.g., in low-carbon technologies and by providing dedicated funding
- Work with local pilot projects and areas, and set clear emission peaking-goals at all localities
- Enhance the climate change responsibility of local government and Party leaders, e.g., by making climate action part of their performance evaluation

In support of these efforts, the MEE's release of trial measures marked the operational launch of China's carbon market in February.

**MERICS comment:** Many provinces and cities have already announced local CO2 emission peak targets. The release of the corresponding national action plan to peak emissions by 2030 is expected soon. The government is likely to push technical solutions to reaching China's climate goals. The MEE’s guiding opinions illustrate that Beijing wants to spearhead international cooperation on climate change. China’s emissions trading scheme may even surpass that of the EU.

The policy machinery for "greening" China reached full speed in December 2020. Regulators released a vast number of environmental protection standards (e.g., on solid waste pollution and on monitoring electromagnetic radiation of 5G base stations), as well as a plethora of related documents, such as a white paper on the sustainable development of transportation, opinions on stricter supervision of environmental protection and the 2020 Catalogue for the Promotion of Green Technologies.

The tech race is on – with positive effects for the entire globe, if appropriately managed by all actors involved. As top-down pressure to show results increases, it has also become clear that in China not only party and state officials, but also (foreign)
companies need to brace themselves for closer scrutiny of their (not so) eco-friendly performance.

**Related MERICS China Monitor:** “Greening” China: An analysis of Beijing’s sustainable development strategies

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### 2. New measures complicate foreign companies’ business in China

**Policy name:** Foreign Investment Security Review Mechanism (外商投资安全审查办法) ([Link](#))

**Issuing body:** NDRC

**Date:** December 19, 2020

**At a glance:** China has enacted updated regulations for the review of foreign investment that, compared to the previous 2011 mechanism, introduce additional hurdles for foreign investors. Major changes include:

- Expansion of sectors that require a review if foreign investors take “actual control” of the target, e.g., critical information technology (IT) and internet products and services, major equipment manufacturing, and financial services
- Mandatory pre-investment reviews
- Expansion of regulatory scope from only direct to indirect investments (including greenfield)

Furthermore, on January 9, the Ministry of Commerce (MOFCOM) released an order to ward off “unjustified extra-territorial application of foreign legislation.” It aims to punish any company that complies with international sanctions which harm Chinese companies.

**MERICS comment:** The new foreign investment review mechanism allows Chinese regulators to stall virtually any deal that entails a take-over attempt of a Chinese company by a foreign firm on grounds of national security. For investors, this severely increases the risks and costs of doing business in China.

The MOFCOM order adds another layer of risk. It is most likely targeted at companies in third countries that are blocked from supplying Chinese firms due to US secondary sanctions. European companies might have to choose between violating Chinese or American regulations if they want to continue doing business in or with China.
Both new measures come in the context of recent geopolitical tensions and greater scrutiny of Chinese foreign direct investment abroad, including in Europe. They equip Beijing with tools of economic retaliation and create a more tricky environment to navigate for foreign companies operating in China – at a time when the Chinese leadership has just promised the EU unprecedented market access as part of the Comprehensive Agreement on Investment (CAI). Ultimately, any Chinese investment review mechanism is likely to supersede commitments made in the EU-China deal.

3. Regulators boost domestic consumption to bolster China’s auto industry

**Policy name:** Notice on Boosting Bulk Consumption of Key Products and Advancing Measures to Release the Potential of Rural Consumption (关于提振大宗消费重点消费促进释放农村消费潜力若干措施的通知) ([Link](#))

**Issuing bodies:** MOFCOM and 11 other ministries and governmental bodies

**Date:** January 5, 2021

**At a glance:** A group of Chinese government bodies, including MOFCOM and the National Development and Reform Commission (NDRC), released a notice aimed at boosting consumption in four areas: the automotive sector, home appliances, catering and rural consumption. Measures to expand automotive consumption include:

- Improve both license plate lotteries and auctions, and increase the number of license plates given out
- Introduce automotive trade-in schemes (scrappage schemes) for rural residents
- Accelerate the construction of car parking facilities and electric vehicle charging stations
- Step up the construction and upgrading of autonomous vehicle infrastructure

**MERICS comment:** The notice advances China’s dual circulation (双循环) strategy in its ambitions to strengthen China’s national economy by expanding domestic demand. The Central Economic Work Conference’s readout, too, featured boosting domestic demand prominently. It has clearly made it to the top of the agenda of policymakers in Beijing.

The measures targeting the auto industry help reinvigorate China’s car market, which – by and large – has been stagnating in recent years. However, the auto sector has achieved a remarkable recovery since the Coronavirus outbreak, strongly aided by local governments handing out additional subsidies as part of stimulus measures, and robust new energy vehicle (NEV) sales. Increasing the number of cars allowed on Chinese streets and adding electric charging stations will boost automotive sales and strengthen China’s lead in e-mobility.

Beijing’s efforts are good news for foreign original equipment manufacturers (OEMs), especially those investing heavily in e-mobility in China. Yet, long-term success for China’s car market hinges on the question of NEV subsidies, which are set to run out in 2022. Moreover, handing out more license plates for gasoline-powered vehicles in China counteracts the country’s “green” ambitions and emission-reduction pledges.
4. Chip shortage threatens China’s status as global automotive hub

At a glance: China, the world’s largest car market, leads the recovery of the global auto industry from the corona pandemic. But rising demand, geopolitical tensions and a lack of domestic know-how could result in a decade-long shortage of automotive chips in China. In fact, OEMs and auto part suppliers around the globe are struggling amid the current chip shortage, which is due to:

- The unexpectedly speedy recovery of the automobile industry
- Soaring chip demand for consumer electronics diverting capacity away from the auto industry
- Huawei’s September shopping spree for chips to pre-empt US sanctions

The severity of the shortage in late January even prompted Germany’s Economy Minister Peter Altmaier to ask his Taiwanese counterpart to intervene in order to increase Taiwanese chipmakers’ production capacities and deliveries to Germany.

MERICS comment: The chip shortage brings the risks of supply chain dependencies to the fore. It also threatens the recovery and development of economies around the globe. China’s regulators reacted by announcing corporate tax exemptions for chipmakers, and Huawei is busy investing in Chinese chip companies to become more self-sufficient. Meanwhile, Semiconductor Manufacturing International Corp. – China’s largest chipmaker – was added to the US entity list, restricting the firm’s access to American technology. This further aggravates the situation. The China Association of Automobile Manufacturers (CAAM) recently even warned of continued disruptions to China’s car industry due to the ongoing chip shortage.

With the importance and digital connectivity of NEVs increasing amidst decoupling pressures, the issue is only going to become more severe. If China fails to strengthen its domestic semiconductor supply and whip its automotive chip industry into shape, the country risks losing its status as a global car manufacturing hub. At the same time, pressure on European decisionmakers to secure chip supply whilst reducing over-dependence on a single manufacturer is rising. Japanese chip suppliers are already capitalizing on the situation: They are using “China exit” subsidies from the Japanese government to strengthen the local chip supply chain.

5. China tackles technology chokepoints in agriculture

At a glance: The Chinese government has called for biotechnology breakthroughs in the agriculture industry to tackle strategic technology chokepoints and strengthen food security during a series of events:

- December 18: The Central Economic Work Conference (CEWC) lists improving the domestic seed industry, e.g., by pushing the commercialization of genetically modified (GM) crops, as a priority for 2021
- December 29: Xi Jinping emphasizes the importance of self-reliance in agricultural technology and research at the Central Rural Work Conference
January 4: Tang Renjian, head of the Ministry of Agriculture and Rural Affairs, stresses the need to address choke-point technologies in agricultural genetics.

January 12: Vice Premier Hu Chunhua calls for research into bottleneck technologies in the seed industry during an expert forum.

MERICS comment: Advanced seed technology is one of the tech fields that is receiving renewed attention in the wake of China’s self-reliance ambitions. Strategic tech innovation became, for the first time, the top economic priority at the annual CEWC held in December. Agricultural tech (aka agritech), which has previously featured in innovation-heavy policies such as “Made in China 2025,” will receive particular support, especially in fields such as agricultural genetics research and the commercialization of GM crops.

As a senior Chinese official recently put it, “seeds are the chips of agriculture.” Despite significant advances in recent years, China’s seed industry still lags internationally. Advancing tech solutions to China’s food security issues has become more important than ever – amid grain shortages, reliance on US soybean imports, and Corona-related supply chain disruptions.

At first, European companies with expertise in agritech will probably benefit from this push – e.g., in terms of preferential market access – as their tech solutions are more advanced than those of their Chinese counterparts. However, foreign companies are likely to meet a similar fate as semiconductor companies: Their tech and know-how are welcome, yet as Chinese companies strive to replace them with the help of state support, their longer-term prospects in the Chinese market will become increasingly bleak.

WORTH NOTING

Policy news

December 9: The China Academy of Information and Communications Technology (CAICT) publishes a report on the monetary valuation of data, calling for a standard framework (CAICT release (CN)).

December 17: MOFCOM and the China Banking and Insurance Regulatory Commission (CBIRC) grant financial support to foreign companies in sectors such as car manufacturing and medical equipment that help offset the impact of the Covid-19 pandemic (MOFCOM notice (CN); Bloomberg article (EN)).

December 22: The State Council Information Office publishes a white paper on “China’s Energy Development in the New Era,” indicating a sectoral opening-up to foreign investment (SCIO release (CN), SCMP article (EN)).

December 29: MOST releases a development plan for Yangtze River Delta Science and Technology Innovation Community by 2025, setting e.g., an R&D investment quota of >3% (MOST release (CN)).
December 31: In addition to the national 2020 negative list for foreign investment released on December 17, the NDRC and MOFCOM issue a negative list for Hainan Free Trade Port, making Hainan the most open region for foreign investment in China (NDRC announcement (CN); MOFCOM announcement (CN); EU SME Centre article (EN))

January 8: The CAC issues a draft regulation for internet information services that widens the regulator’s oversight to include online payment, shopping and livestreaming platforms (CAC notice (CN); Reuters article (EN))

January 13: The MIIT publishes a new action plan for China’s Industrial Internet, outlining tasks and goals for the next three years (MIIT release (CN); China Daily article (EN))

January 15: The MIIT releases draft regulations that oblige companies to follow export control laws and regulations regarding the export and import of rare earths (MIIT notice (CN); Nikkei article (EN))

January 25: The head of the CCP’s top ideology think tank calls for the mobilization of all national resources, including private sector R&D, in a five-point plan for achieving tech self-reliance (Study Times editorial (CN); Caixin article (EN))

Corporate news

December 9: China has the world's highest number of artificial intelligence unicorns – 206 companies (China Daily article (EN))

December 30: Chinese chipmaker Tianjin Phytium Information Technology reports that domestic demand prompted shipments of its home-grown processors to surge 650% in 2020 (Caixin article (EN))

December 31: Chinese battery manufacturer CATL ramps up its capacity with a USD 6 billion investment (Caixin article (EN))

January 8: Tencent announces it will set up its first digital industry base in Suzhou, focusing on cloud computing, Big Data and AI (Yicai article (EN))

January 11: Baidu partners with automaker Geely to create a subsidiary that manufactures intelligent electric vehicles for the Chinese market (Baidu press release (CN); Baidu press release (EN); Technode article (EN))

January 13: XPeng Motors secures a credit line of almost USD 2 billion from Chinese banks (Caixin article (EN))