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MERICS

China Industries Briefing

Anna Holzmann, Caroline Meinhardt

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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.

MERICS TOP 5

1. China cracks down on tech companies' monopolistic behavior

Policy name: Anti-Monopoly Guidelines for the Platform Economy Sector (Draft)
(关于平台经济领域的 反垄断指南 (征求意见稿)) ([Link](#))

Issuing body: SAMR

Date: November 10, 2020 – open for comments until November 30, 2020

At a glance: The State Administration for Market Regulation (SAMR) issued new rules to prevent monopolistic behavior among digital platform providers. The draft guidelines address practices that block fair competition, including:

- Unfair pricing, e.g., selling goods at inflated or below-cost prices
- “Choose one between two” (二选一) requirements, whereby brands are not allowed to be sold on competing platforms
- Product bundling, i.e., forcing customers to buy a bundle of products or accept the collection of data

The SAMR will also head a new [inter-ministerial committee](#) that coordinates the supervision of competition and lead the formulation of anti-monopoly policies.

MERICS comment: The guidelines are part of a series of state efforts to tighten the grip on China's increasingly powerful privately owned internet platforms. Following the January revision of China's [Anti-Monopoly Law](#), the SAMR guidelines define what exactly constitutes monopolistic practices for Internet companies. Many of China's internet giants – including Tencent, Alibaba, JD.com and Meituan – will be directly affected. [Their market shares](#) tumbled following the announcement of the new rules.

The regulations tackle legitimate concerns about unfair competition and consumer protection but are also part of renewed efforts by the Communist Party to assert its control. A week prior to the SAMR announcement, regulators had abruptly [suspended Ant Group's planned initial public offering \(IPO\)](#), sending a strong signal that [the party has the final say](#) – even in China's “private” economy. Regulators previously took a soft-touch approach in the digital sector to give a leg up to domestic tech companies. Now they may be worried that tech giants have outgrown the party state's reach. European firms may well benefit from this regulatory cleaning up, though this hinges on anti-monopoly regulations being applied fairly to foreign companies – [which is not necessarily a given](#).

2. China wants to strengthen its position in foreign trade

Policy name: Implementation Opinions on Promoting the Innovative Development of Foreign Trade (关于推进对外贸易创新发展的实施意见) ([Link](#))

Issuing body: State Council

Date: November 9, 2020

At a glance: The State Council published opinions on innovating China's approach to foreign trade. These highlight the importance of the [dual circulation](#) (双循环) strategy and emphasize the need for China to strengthen its position in global trade by optimizing its trade structure. The measures listed include:

- Promoting exports fields such as electric power, railway, telecommunications, aerospace, ships, robotics, and green tech
- Strengthening the global competitiveness and supply chain integration of small and medium-sized enterprises (SMEs) by forming "small giants" (小巨人)
- Improving the quality of export products through strict supply chain controls and rapid response monitoring systems
- Specializing trade for different regions in China (East, West and Centre, Northeast), based on their economic development levels

The opinions follow an announcement by the Ministry of Commerce (MOFCOM) to establish [ten import innovation demonstration zones](#) in order to stimulate domestic consumption and test new import regulations, and China's decision to sign onto the [Regional Comprehensive Economic Partnership \(RCEP\)](#).

MERICS comment: Boosting international competitiveness is key for China to achieve high-quality economic development and improve domestic innovation capabilities. However, different levels of economic development within the country remain a challenge for China's export strength. While economic centers along the coast (Bohai, Fujian and the Yangtze and Pearl River Deltas) are increasingly cementing their global innovation and high-tech position, other regions continue to struggle. The lack of progress in spurring industrialization across China's underdeveloped regions over the past two decades indicates that plans such as the Western Development Strategy (西部大开发) and Northeastern Area Revitalization Plan (振兴东北老工业基地) have had limited impact. Reducing regional discrepancies remains an uphill battle.

The sectors targeted for export optimization and emphasis on creating (inter)national champions are notably in line with "[Made in China 2025](#)" industries. Foreign companies will thus need to brace themselves for more industrial competition both in China and in third markets. At the same time, they should remember that China's commitment to opening-up – reiterated in the opinions and at the [3rd China International Import Expo](#) held in Shanghai in early November – has always been strategic and selective.

3. Fasten the Yangtze River Economic Belt

At a glance: Party and state leader Xi Jinping hosted a symposium on developing the Yangtze River Economic Belt (YREB, 长江经济带) in Nanjing on November 15. In [his speech](#), Xi highlighted the envisioned role of the YREB in China's regional economic development:

- Become a “new battlefield for ecological priority [green development](#)”
- Act as the “aorta of unimpeded domestic and international” circulations by reducing regional discrepancies in terms of capital, technologies, and labor-intensive industries whilst making use of foreign investments
- Host advanced manufacturing clusters with a high level of competitiveness, indigenous innovation capabilities and supply chains that serve the whole country

Xi emphasized the importance of coordinated regional development throughout his speech, using the metaphor of a “chess board.”

MERICS comment: The Yangtze River, which stretches from the Tibetan Plateau all the way to Shanghai, has always been an important economic hub. It accounts for almost half of the population and economic output of China, and hosts the infamous [Three Gorges Dam](#). Boosting the YREB, which was [initiated in 2016](#), has important strategic implications for China – not only in terms of maintaining controllable industrial chains, but also ensuring food and energy supply. The [Yangtze River Delta](#), in particular, has been envisioned as a major hub for clean production and the green transformation of traditional manufacturing industries.

Under the banner of promoting [dual circulation](#), the Chinese government hopes to make the region [more resilient](#) and spur upgrading efforts in the still rather underdeveloped Western (upstream) regions. A more dynamic investment environment with foreign participation in the YREB can be expected in 2021, however, only insofar that any investments benefit China's domestic development.

4. China's tech drive in the auto industry continues

At a glance: On November 10, Vice Premier Han Zheng delivered a [keynote speech](#) at the first ever “International Forum on Science, Technology, and Innovation” ([ISTIF](#)) of the Boao Forum for Asia (BFA) in Macao. Zheng emphasized the role of innovation and self-reliance in China's quest to become a leading [science and technology \(S&T\) superpower](#) (科技强国).

China's ambition to forge ahead in world-leading technologies has recently manifested itself in the automotive field:

- **November 2:** the State Council releases the long-awaited [new energy vehicle \(NEV\) industry development plan](#) for the next 15 years, which states that 20 percent of newly sold cars should be NEVs by 2025 – a notable [5-percent-reduction](#) compared to an earlier draft

- **November 9:** the Ministry of Science and Technology (MOST) confirms its continuous support for rapid advances in [fuel cell vehicle](#) tech for the following five years
- **November 11:** the updated version of the technology roadmap for [intelligent connected vehicles \(ICVs\)](#) is revealed at a trade show, expanding the time horizon to 2035 and stating the goal of having [70 percent](#) of sold cars incorporate partial or conditional self-driving technology by 2030

MERICS comment: These developments carry forward government ambitions announced in [September](#) and [October](#) to promote China's NEV industry and related innovation. Meanwhile, the Ministry of Transport (MOT) is promoting new research centers focused on transportation-related technologies including [automated driving](#). Alibaba-backed Chinese [start-up AutoX](#) has just announced driving tests for highly automated vehicles in four more cities, and [Didi Chuxing](#) unveiled the world's first electric NEV tailored for the ride-hailing business. However, with Chinese [NEV exports](#) remaining low, major ICV and NEV developments are only taking place in China's domestic market. Foreign companies active in these fields must rigorously calculate the risks of participating in Chinese market dynamics and tech advances, since they could hamper their own competitiveness at a global scale.

5. Covid-19 turbocharges China's artificial intelligence advances

Report name: 2020 Analysis Report on China's AI Patent Technologies (2020 人工智能中国专利技术分析报告) ([Link](#))

Issuing bodies: China Industrial Control Systems Cyber Emergency Response Team, National Electronic Information Intellectual Property Innovation Platform

Date: November 13, 2020

At a glance: Two agencies affiliated with the Ministry of Industry and Information Technology (MIIT) [launched](#) a report on Chinese artificial intelligence (AI) patent applications in 2020. The key trends presented in the report (which is not fully available yet) include:

- AI patent applications in China have reached a total of 694,000, with 101,734 applications filed in the first ten months of 2020 – a 56 percent increase over the same period last year
- Chinese tech giants and universities were the driving force in AI innovation, with Baidu now ranking first for total patents applied for (9,364) and granted (2,682)
- The largest numbers of patents were filed in cloud computing, computer vision and deep learning

AI technology innovations played a particularly important role in the fight against Covid-19, with more than 3,000 relevant patent applications filed. This year's [World Internet Conference](#) which concluded in Wuzhen on November 24, also showcased AI applications such as driverless food deliveries employed during the lockdown.

MERICS comment: Covid-19 acted as an additional catalyst for the rapid development of new AI applications. Beijing [rapidly embraced data and AI-driven solutions](#) – often at the cost of data privacy – to counter the epidemic, such as smart temperature screening systems and contact tracing tools. China’s [“new infrastructure” initiative](#) announced earlier this year also calls for the roll-out of information infrastructure for cloud computing and other industrial AI applications.

Despite China now leading the world in AI-related patent filings, the country still trails behind in regards to [quality](#). The report also mainly points to China’s strengths in AI applications such as computer vision and autonomous vehicles, which significantly outweigh Chinese breakthroughs in [fundamental AI research](#). While China’s patent numbers are impressive, they should not be equated to an overall leadership in AI capabilities.

WORTH NOTING

Policy news

- *November 11:* The State Council decides to pilot an integrated license for 31 sectors in Shanghai’s Pudong district to reduce market access barriers ([State Council article \(EN\)](#); [State Council article \(CN\)](#))
- *November 21:* The MIIT-affiliated think tank CAICT releases a report on China’s 5G+Industrial Internet development in 2020 ([Leiphone article \(CN\)](#))
- *November 22:* Vice Premier Liu He writes in an official explainer of the DCS that self-reliance in key technologies is “imperative” ([State Council article \(CN\)](#); [SCMP article \(EN\)](#))

Corporate news

- *November 6:* Chinese chip company Shenzhen Goodix Technology acquires German Dream Chip Technologies ([Goodix \(EN\)](#); [Investment Plattform China article \(DE\)](#))
- *November 10:* Huawei plans to sell its budget-brand smartphone unit Honor for CNY 100 billion to a state-backed consortium ([Reuters article \(EN\)](#))
- *November 17:* Chinese li-ion battery company SVOLT Energy Technology announces to set up a production site in Germany ([Gasgoo \(CN\)](#); [Svolt press release \(DE\)](#))
- *November 17:* Government-backed Chinese chipmaker Tsinghua Unigroup defaults on CNY 1.3 billion (EUR 166 million) ([Finance Sina \(CN\)](#); [Reuters \(EN\)](#))

AUTHORS

Anna Holzmann, *Analyst*, MERICS

Caroline Meinhardt, *Analyst*, MERICS

EDITORIAL STAFF

Claudia Wessling, *Director Publications*, MERICS

Fiona Bewley, *Executive Team Assistant*, 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