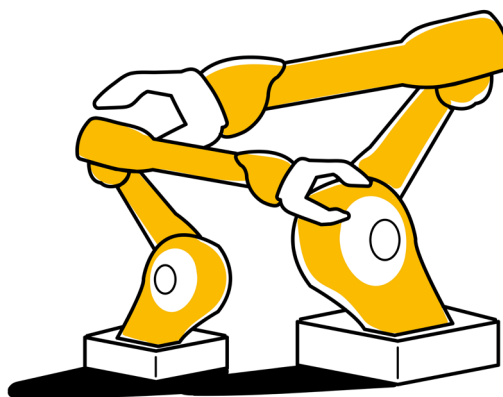


JUNE 1, 2021 (REPORTING PERIOD: APRIL 29 - MAY 31)

MERICS China Industries Briefing

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MERICS TOP 5

1. China's legislature edges closer to finalizing data privacy regime

Policy name: Personal Information Protection Law (Second Review Draft)

(个人信息保护法 (草案二次审议稿) 征求意见) ([Link](#))

Issuing body: NPC Standing Committee

Date: April 29, 2021

At a glance: The National People's Congress (NPC) Standing Committee issued the second draft of its Personal Information Protection Law (PIPL) for public comments. Notable changes since the first draft was released in [October 2020](#) include:

- Expansion of the law's scope to cover private data use by big tech companies, which are required to establish independent bodies to supervise the handling of personal information
- Penalties of up to CNY 1 million for the transfer of domestically stored personal information to foreign authorities without government permission
- Requirement for companies to give users the choice of whether to receive automated, personalized advertisements based on their personal information

The NPC simultaneously issued the second draft of its [Data Security Law](#) (DSL) for review, which, among other things, increases the fines for data security violations for companies and responsible personnel.

MERICS comment: The release of these second drafts represents a big step toward finalizing China's comprehensive legislative framework for data protection – a key regulatory focus since the implementation of the [Cybersecurity Law](#) in 2017.

China's data privacy regime largely mirrors the European GDPR with its focus on giving users more control and knowledge about how their data is being handled. The PIPL includes some provisions limiting the government's use of personal information, yet the focus of both drafts is primarily on commercial use. Another round of crackdowns on corporate data violations was carried out in recent weeks by the [Cyberspace Administration of China](#) (CAC) and the [Ministry of Industry and Information Technology](#) (MIIT).

European businesses, which are already grappling with increasing [data compliance costs](#) in China, must be prepared for regulatory burdens that go beyond GDPR requirements. The tight restrictions on providing data to foreign authorities, alongside existing requirements for foreign firms to [store data locally](#), may force more European companies to separate their Chinese and European data pools. The lack of an [independent data protection authority](#) and [ambiguity regarding the definitions](#) of 'personal information' and 'important data' in some sectors will also continue to create uncertainty for foreign firms regarding the laws' implementation.

2. Car data put under cybersecurity microscope

Policy name: Several Regulations for Automobile Data Security Management (Draft for Comments) (汽车数据安全管理办法若干规定 (征求意见稿)) ([Link](#))

Issuing body: CAC

Date: May 12, 2021 – open for public comments until June 11, 2021

At a glance: The CAC issued draft rules that limit the collection and processing of auto data. They outline stringent requirements for operators of car data (e.g., companies engaged in manufacturing, maintenance, sales or ride-hailing) including:

- Limit data collection to vehicle management and driving safety; obtain customer consent before every drive; delete customer data upon request
- Anonymize or delete data if consent is difficult to achieve, e.g., pedestrians outside the vehicle
- Store personal information (identifiable information on drivers, passengers or pedestrians) and important data (e.g., external audio and video or data related to sensitive areas like military zones) within China and seek government approval prior to the transfer of data across borders

On April 28, China's Standardization Committee had already issued a [draft standard](#) for comments that gives details on data collection, processing, storage and transmission for autonomous vehicles.

MERICS comment: The draft is part of China's efforts to regulate data, as discussed above, and follows rapid advances in autonomous driving that have created new security concerns. It is an important step toward protecting user data and providing regulatory clarity in the booming but previously lightly regulated smart car industry.

For foreign enterprises, data security is increasingly a matter of survival in China's autonomous driving market. A major impetus for China's regulations is to prevent important data gathered by foreign carmakers from leaving the country. This led the Chinese military to [ban](#) Tesla cars from entering its complexes. Tesla, which just [opened its Chinese data center](#), [welcomed the draft](#) and founder Elon Musk highlighted that compliance is imperative to avoid [risking being shut down](#).

The draft rules also threaten to deepen the [ongoing digital decoupling](#) in the auto sector. Companies operating across different jurisdictions are caught between competing Chinese and foreign laws. This will primarily affect foreign companies in China, who might want to pool anonymized data at their global headquarters.

3. China outlines science R&D priorities for 2021

Policy name: Notice on the Announcement of the 2021 Project Guidelines for the “Mathematics and Applied Research” and Other National Key R&D Programs of the 14th Five-Year Plan Period (关于发布国家重点研发计划 “数学和应用研究” 等 “十四五” 重点专项 2021 年度项目申报指南的通知) ([Link](#))

Issuing body: MOST

Date: May 10, 2021

At a glance: The Ministry of Science and Technology (MOST) released several application guidelines for key special projects under the 2021 National Key R&D Program. Research institutes, companies, universities and individual researchers can now submit proposals for projects in over 50 areas such as high-tech manufacturing and equipment, energy storage or smart sensors. Details include:

- Application requirements for projects: Foreign enterprises can apply for most projects (excluding “young scientist” programs) online from June 1 to July 7
- Available funding, which differs by research area: CNY 283 million for 18 high-tech manufacturing and equipment projects; for some topics, supporting funds by participating enterprises are required
- Concrete research topics and content proposed in each sector, project lengths and topic-specific assessment indicators

MERICS comment: The National Key R&D Program is one of the five major plans that define China’s current science and technology (S&T) landscape. It aims to support China’s national and economic development by fostering tech breakthroughs, especially where private investment is lacking. Alongside China’s flagship National Natural Science Foundation program, it is one of MOST’s main tools to fund basic and applied research.

Since 2020, the program reflects an R&D strategy that combines top-down with bottom-up approaches. It differentiates between (1) application-focused common key technologies and (2) young scientist initiatives, without a narrowly defined topic. While MOST guides research into areas it deems important, like high-tech machinery or new materials, it also gives researchers more freedom to pursue groundbreaking discoveries.

China has publicly [recognized the need](#) for greater spending on basic research but is yet to move decisively. Its most recent ambitions fall below those of [other advanced economies](#), and the 2021 National Key R&D Program will receive less funding ([CNY 6.6 billion](#)) than in 2019 ([CNY 7 billion](#)). This signals that China is content to continue relying on companies to conduct the main share of research. Indeed, while China has been successful in increasing R&D intensity, it has also relied heavily on companies, including foreign ones, which it entices to open local R&D centers.

4. MIIT devises plan to advance the adoption of 5G across traditional industries

Policy name: 5G Application “Set Sail” Action Plan (2021-2023)

(Draft for Comments) (5G 应用 “扬帆” 行动计划 (2021-2023 年) (征求意见稿))

([Link](#))

Issuing body: MIIT

Date: April 30, 2021

At a glance: MIIT released a draft action plan for the application of 5G over the next three years. The plan outlines a series of targets for the national deployment of 5G by 2023, including:

- 40 percent 5G mobile penetration rate
- 50 percent of mobile internet traffic on 5G
- 35 percent 5G usage rate among large-scale industrial enterprises
- 200 percent year-on-year growth rate for 5G IoT device users
- 18 5G base stations built per 10,000 people

MERICs comment: The plan signals that the government is now increasingly turning its focus to advancing 5G uptake across industries. It follows an intensive one and half years during which China focused primarily on rapidly building 5G infrastructure. This was driven by Beijing’s ‘[new infrastructure](#)’ initiative, a key pillar of its Covid-19 stimulus package. Indeed, the recent top-down 5G push has delivered results: [As of the end of March](#), China had 285 million 5G smartphone users and had built 819,000 5G base stations – [70 percent of the global total](#) of 5G stations.

Nonetheless, ensuring the adoption of 5G, especially across traditional industries such as manufacturing [remains a priority](#) as the government tries to boost industrial digitalization. Widespread 5G application is key to China’s industrial upgrading goals, as outlined in a recent [Industrial Internet policy](#). The action plan also details 14 other focus areas for 5G adoption, ranging from the Internet of vehicles to smart logistics, agriculture and healthcare.

This adoption push will boost adjacent industries, such as the development of advanced tech and key components like base station chips and processing units, which the plan highlights as bottlenecks. Cities like Shenzhen, which in April [released measures](#) to make breakthroughs in key components along the entire 5G industry chain, are likely to drive progress in these areas.

5. Energy authority sends strong signal supporting solar and wind

Policy name: Notice on the Development and Construction of Wind and Photovoltaic Power Generation in 2021 (关于 2021 年风电、光伏发电 - 开发建设有关事项的通知) ([Link](#))

Issuing body: NEA

Date: May 20, 2021

At a glance: The National Energy Administration (NEA) issued a notice on the development of solar and wind energy capacity in 2021. The document outlines that investment in the sector will now be guided by consumption ratio targets rather than construction targets assigned to each province. Key goals and measures for the year include:

- Install at least 90 GW of new renewable projects (excluding hydro) with guaranteed connection to the grid
- Encourage local governments to introduce favorable land, fiscal and taxation policies to boost investment in new solar and wind energy projects
- Foster the trade of renewable power between regions and provinces, which can facilitate the meeting of consumption ratio targets

On May 21, the National Development and Reform Commission (NDRC) also announced [mandatory renewable power consumption targets](#) for provinces in 2021 and planned targets for 2022.

MERICS comment: The new guidelines are in line with China's goal to build a [low-carbon energy system](#), which it reconfirmed in the [14th Five-Year Plan](#). To peak carbon emissions by 2030, China will likely need to [double](#) its installed capacity in renewables in the next five years. The NEA's commitment to feed in an additional 90 GW of solar and wind provides certainty for energy developers.

The notice marks an important shift in measuring the expansion of renewable energy, focusing on [consumption rather than capacity](#). This will help address the issue of curtailment, whereby electricity capacity is wasted since not all output is delivered to customers. Under the new regulations, grid operators will be pushed to utilize what solar and wind capacity is available.

The absence of subsidies for large-scale projects is also noteworthy. The [NDRC](#) revealed in April that the government intends to no longer provide subsidies for new photovoltaic or onshore wind power projects. The government already [slashed subsidies](#) for new solar power plants last year, as renewable energy costs approach parity with fossil fuels.

WORTH NOTING

Policy news

- *May 12:* Premier Li Keqiang pledges to increase support for basic and long-term research, calling for China to foster an environment that respects science and nurtures talent ([State Council article \(CN\)](#); [SCMP article \(EN\)](#))
- *May 14:* A meeting presided over by Vice Premier Liu He reviews the draft 14th Five-Year Plan for Science and Technology and discusses potential disruptive integrated circuit technologies in the post-Moore Law's era ([State Council article \(CN\)](#); [SCMP article \(EN\)](#))
- *May 17:* The Civil Aviation Administration of China (CAAC) publishes an explanation of its 'New Generation of Aviation Broadband Communication Technology Roadmap,' issued on April 30 ([CAAC notice \(CN\)](#); [Yicai article \(EN\)](#))
- *May 17:* An analysis by Nikkei Asia finds that the Chinese government spent CNY 213.6 billion on industry subsidies in 2020, a 14 percent increase from 2019 ([Nikkei Asia article \(EN\)](#))
- *May 20:* The NDRC issues a draft plan to speed up the construction and installation of EV charging and swapping facilities ([NDRC announcement \(CN\)](#); [Yicai article \(EN\)](#))
- *May 21:* Premier Li Keqiang calls for more work to strengthen IPR protection throughout industrial chains during a meeting on IPR infringement and counterfeits ([State Council article \(CN\)](#); [State Council article \(EN\)](#))
- *May 26:* The NDRC, CAC, MIIT and NEA issue an implementation plan for the construction of an integrated national big data center, which an NDRC official confirmed had officially been kicked off ([State Council announcement \(CN\)](#); [Xinhua article \(EN\)](#))
- *May 26:* The Deputy Director of the China Satellite Navigation Office says during a conference that China's BeiDou Navigation Satellite System will support CNY 1 trillion worth of Chinese products and related services by 2025 ([Xinhua article \(CN\)](#); [Reuters article \(EN\)](#))

Corporate news

- *May 6:* Chinese EV startup Nio announces plans for its first overseas market entry, which will see it delivering electric cars in Norway from September ([Nio press conference \(CN\)](#); [CNBC article \(EN\)](#))
- *May 8:* State-owned Sinochem Group and China National Chemical are consolidated to form the world's largest chemical company, Sinochem Holding ([Xinhua article \(CN\)](#); [Yicai article \(EN\)](#))

- *May 12:* State-owned Sinopec signs a cooperation agreement with automaker Great Wall to develop hydrogen car technology and refueling stations ([Great Wall Motors press release \(CN\)](#); [Caixin article \(EN\)](#))
- *May 17:* JD.com's logistics arm, JD Logistics, launches Hong Kong IPO to raise up to USD 3.4 billion, making it one of Hong Kong's largest share sales in 2021 ([Reuters article \(EN\)](#))
- *May 17:* The shares of Chinese medical device company Mindray Bio-Medical Electronics leap after it agrees to buy Finnish biotech company HyTest Invest and its subsidiaries for EUR 545 million ([Yicai article \(EN\)](#))
- *May 18:* Chinese home appliance giant Midea Group starts producing auto parts ([Caixin article \(EN\)](#))
- *May 20:* Fosun International-controlled Shanghai Yuyuan Tourist Mart Group announces the establishment of a new CNY 40 billion investment fund for aviation in the Hainan Free Trade Port ([Sina article \(CN\)](#); [Reuters article \(EN\)](#))
- *May 20:* BASF and Chinese lithium-ion battery materials supplier Shanshan agree to form a joint venture to produce battery materials ([Shanshan press release \(CN\)](#); [Automotive World article \(EN\)](#))
- *May 25:* JD.com, Meituan and Neolix Technologies (a startup backed by Li Auto) receive the first licenses to test autonomous delivery vehicles in Beijing's Economic-Technological Development Area ([Tencent News article \(CN\)](#); [SCMP article \(EN\)](#))

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