Edition 05 / 2019

Newsletter

Außenwirtschaft

Dear readers,

The economy in China is further slowing down and the expectation for the last quarter is also moderate. Nevertheless, there are still regions with high growth. Especially outside the metropolises in areas like Jiangxi, Shaanxi, Guizhou and Yunnan a catching-up development is taking place. Striking is the rising CPI, with food prices increasing the most.

General Data & Figures

- GDP slowed down in Q3/2019 reaching 6.0% (Q1/2019: 6.4%; Q2/2019 6.6%).
- CPI / Inflation: 3% in September and 3.8% in October
- PPI: Fell by 0.8% y-o-y in August and by 1.2% 5 y-o-y in September

Foreign Trade in 2019 Q1-Q3:

- Total foreign trade reached 22.91 trillion RMB expanded 2.8% y-o-y
- Exports reached 12.47 trillion RMB, expanded 5.2% y-o-y (up 6.5% 2018 Q1-Q3)
- Imports reached 10.43 trillion RMB, dropped 0.1% y-o-y (up 14% 2018 Q1-Q3)
- Trade surplus 2.05 trillion RMB, widened 44% (narrowed 28.3% 2018 Q1-Q3)
- Exports of machinery account for 60% of total exports, growing by 4.7 %
- Trading markets continue to diversify as:
  - Exports and imports with EU increased by 8.6%
  - Exports and imports with ASEAN countries increased by 11.5 %
  - Trade with BRI countries was up 9.5%, accounting for 29% of total trade value

Outlook 2020

2019 is coming to an end and with a deteriorating business situation as seen during the past months, many ask themselves what 2020 is going to bring. Not everything can be predicted, especially with regards to the Sino-US trade dispute, but some things are already foreseeable:

- ✓ The new Foreign Investment Law (FIL) is taking effect per 1 January 2020.
- ✓ Corporate Social Credit System (CSCS) is aimed to be implemented by 2020, but full operation might take years.
- ✓ Expected GDP growth rate between 5%-6% (Slow down but not a crisis!), IMF: 5.8%
- ✓ The growth driver pattern has changed over the last years, consumption with 60% being the largest driver now, investment standing for nearly 20%. China's leaders managed to transform the economy away from an export-oriented economy to a more domestic economy, and the country's export rate fell from 26% in 2010 to less than 18% in the first three quarters.
- ✓ Fixed asset investment in equipment and machinery continuously slowing.
- ✓ 2020 is mid-term for the Made in China 2025 Strategy and it will be interesting to see, if the ambitious targets have been met.
- ✓ 2020 marks the end of the 13th Five-Year Plan (2016-2020).

The VDMA China team wishes you an enjoyable Christmas Season.

Sincerely,

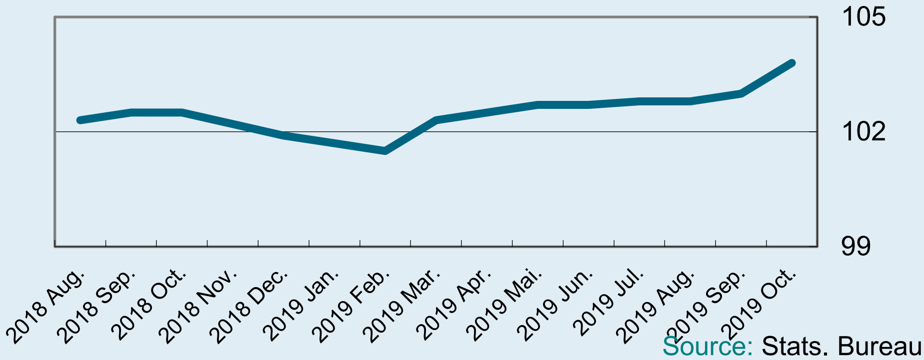
Claudia Barkowsky

Content

1) China Macro Economic Scenario

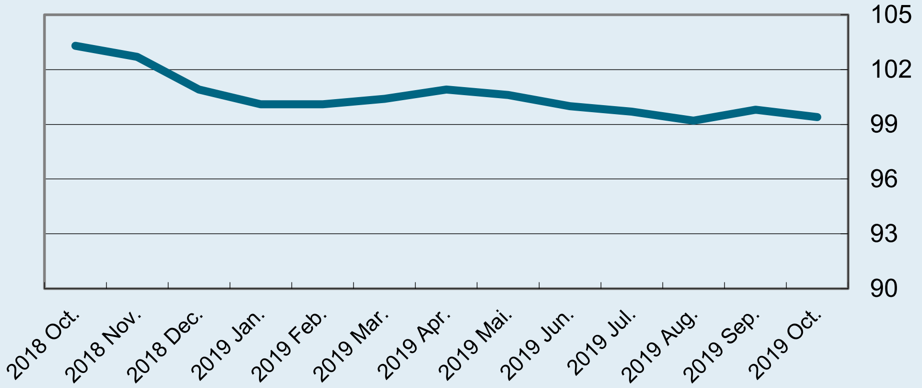
1.1 General Data and Figures

CPI (Consumer Price Index)



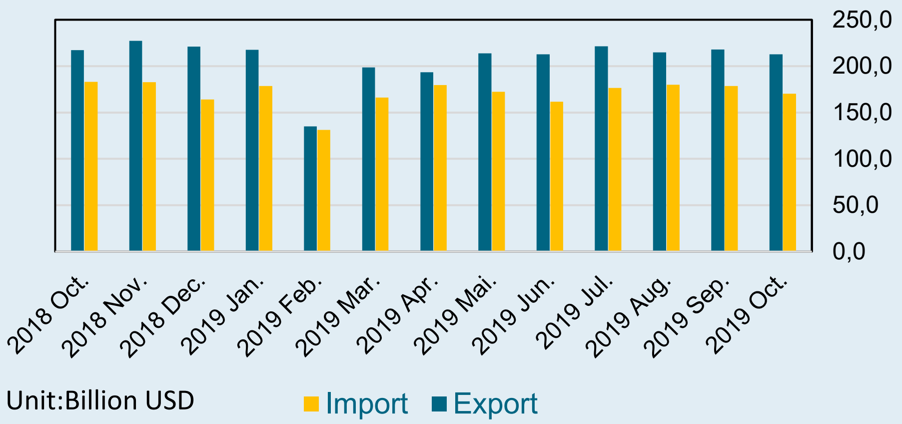
Source: Stats. Bureau

PPI (Producer Price Index)



Source: Stats. Bureau

China Imports and Export



Unit:Billion USD

1.2 Macro Economic

The economy continues to slow in line with market expectations. Weak consumption caused much of the GDP growth rate decline, according to most of the economic experts. While consumption dropped 0.8% points y-o-y, investment growth only slowed by 0.5%, this is basically due to value added to industry benefited from seasonal effects and optimism about a trade deal with the US, according to a couple of macro economic researchers

Prices of industrial output currently lack momentum amid global slowdown. PPI keeps shrinking with a slight pick-up in August (from 49.9 in July to 50.4). And an enlarging gap between CPI and PPI will affect the profitability of upstream industrial enterprises, and ultimately corporate investment behavior, arguing mainstream economists.

PoBC Press Conference on monetary Policy

Sun Guofeng People's Bank of China (PBoC) Monetary Policy director discussed monetary policy directions in a press conference on October 15th.

- On Inflation
  - PBoC will look towards other inflation indicators such as core CPI, PPI and GDP deflator to avoid problems brought on
  - No basis for inflation of deflation stipulated
- Large banks use it more than small- and medium-sized banks
  - Market interest rate has already dropped
  - Key issue is reducing the risk premium
- Related investment projects
  - Improving credit institutions
  - Support for weak links in key areas of the national economy
  - Development of policy-oriented financial institutions
  - Industry upgrading

Li Keqiang: Further reform, not stimulus, to ensure growth stability

Li Keqiang discussed economic work on an inspection tour in the cities of Xi'an and Xianyang, Shaanxi province. Li urged local governments to do everything possible to ensure stability. In a provincial-level symposium, Li used the phrase ‘bottom-line thinking’ to alert local officials that this year’s growth targets must not be missed. Though Li did not announce any new economic stimulus measures, he highlighted a series of possible measures, including

- giving full play to the role of local government special bonds
- promoting private investment
- accelerating major projects construction
- supporting industrial transfer from eastern to central and western regions
- expanding domestic demand
- cultivating new growth engines through consumption

New Batch of Free Trade Zones (FTZs)

On 26th August, the fresh batch of six FTZs were released by MOFCOM. They are located in Shandong, Jiangsu, Hebei, Yunnan and Heilongjiang provinces, and the Guangxi Zhuang autonomous region. So far, 18 FTZs have sprung up across the country.

- Shandong pilot FTZ will
  - accelerate the shift of growth drivers and develop the ‘blue economy’
  - focus on cultivating new modes of trade
  - foster distinctive maritime industries
  - explore subnational economic cooperation among China, Japan and South Korea

- Jiangsu pilot FTZ will
  - improve overseas investment cooperation
  - strengthen the financial sector’s role in supporting the real economy
  - support innovative manufacturing industry development

- Guangxi FTZ will
  - make efforts to connect the 21st Century Maritime Silk Road with the Silk Road Economic Belt through China's southwest gateway
  - construct smooth international transport routes
  - build a pioneering pilot zone for China-ASEAN cooperation

- Hebei FTZ will
  - build Hebei into a major international trade and logistics gateway, a new-type industrial base, an international innovation platform, a pioneering zone for opening-up and development
  - facilitate international trade in commodities
  - push for innovation and development in life sciences and biotech

- Yunnan FTZ will
  - build an important link connecting major corridors in South and Southeast Asia
  - strengthen connectivity between BRI and Yangtze River

- Heilongjiang FTZ will
  - emphasize transformation and upgrading of the real economy
  - deepen industrial restructuring and build a hub for regional cooperation with Russia and Northeast Asia

1.3 Trade and Technology War

US added 8 companies on the 'entity list'

Beginning of October, Department of Commerce, Bureau of Industry and Security of USA announced 8 Chinese companies and organizations were put on the entity list. A Ministry of Commerce (MofCOM) spokesperson made similar remarks, noting that the ministry will monitor the situation. The eight implicated companies are

- national AI open innovation platforms
  - Hikvision (CP note: the world's leading video surveillance product provider)
  - SenseTime (CP note: the world's largest AI startup)
  - Megvii
  - iFlyTek
- others
  - Zhejiang Dahua
  - Xiamen Meiya Pico Technology
  - Yitu Technology
  - Yixin Technology

China, US discuss cancelling additional tariffs

China and the United States are in the midst of conducting in-depth discussions on the significance of the phase-one trade pact, and rolling back tariffs is a key condition to reach the deal, the Ministry of Commerce said on November 13th. If both sides could reach a preliminary agreement, the degree of tariff removals should fully reflect the importance of the agreement, MoFCOM spokesman said.

1.4 Environmental Protection

MEE reports on vehicle pollution

Ministry of Ecology and Environment (MEE) issued its 'China mobile source pollution control annual report 2019', publishing data from 2018 on. While MEE has been tightening standards, diesel vehicle emissions remain high. Substandard pollution control equipment and diesel fuel are some of the key challenges. Controlling diesel vehicle emission is likely to be incorporated in the 14th 5-year plan on the environment.

Jingjinji 2019-20 Heating Season Pollution Control plan

MEE, along with nine other agencies and six local governments, issued ‘Air Pollution Control Plan for Jingjinji and Surrounding Areas Autumn and Winter 2019-20’ mid September. This year's plan adds targets for coking de-capacity and steel ultra-low emission upgrading, and emphasizes the urgency of controlling coal consumption. It specifies:

- air quality targets for 1 Oct 2019 through 31 March 2020
- PM2.5 concentrations to drop by 4% y-o-y
- heavy pollution days to drop by 6% y-o-y

Key tasks:

- upgrading steel, construction materials, coking and chemical industries’ structure.
- controlling pollution from ‘scattered, chaotic and polluting’ firms
- enhancing pollutant discharge permit regulations
- enhancing ultra-low steel emissions upgrades
- promoting industrial boiler pollution treatment and clean heating
- prohibiting switching back to low-quality coal and capping total coal consumption
- accelerating construction of railway lines run specifically for large-scale industrial and mining firms and newly built logistics parks
- punishing excess vehicle emissions
- strengthening non-road mobile pollution sources, etc.

Jing-Jin-Ji Industrial Water Conservation Action Plan

Mid-September, MIIT and three other agencies jointly issued 'Jingjinji Industrial Water Conservation Action Plan' stipulating:

By 2022

- water use efficiency of the steel, petrochemical, chemical, food and pharmaceutical industries to reach an 'internationally advanced' level
- water consumption per 10,000 RMB of industrial value to drop to below 10.3 cubic meter
- water recycling rate of the above-scale industries to reach above 93%

Key tasks:

- optimizing the spatial layout of industries with high water consumption
- promoting the applications of water conservation technologies
- monitoring and assessing above-scale industries' water use
- improving industrial water conservation standards
- encouraging use of unconventional water sources such as seawater and rainwater

2) General Industry News

2.1 General Industry Figures and News

Since September 2018 no updated data of individual machinery sectors has been published. Older data lease refer to the edition 4 2018.

40% of manufacturing supply chains not under China’s control

China's manufacturing sector remains at the lower range of the value chain, says Zhou Ji, director of CAE beginning of October, citing a 2019 CAE industry chain study. It leads in 220 out of 500 manufacturing products, particularly steel, cars and cell phones. 60% of the value chain is self-controllable, and 10 out of the 26 manufacturing sectors included in the study rely heavily on foreign technologies. Several industries lag significantly behind the global cutting edge, including

- 5 industries with huge gaps
  - integrated circuits and special equipment
  - operating systems and industrial software
  - core information equipment of intelligent manufacturing
  - aviation engines
  - agricultural equipment
- 10 industries with large gaps
  - aircrafts
  - aviation airborne equipment and systems
  - high-end CNC machine tools and basic manufacturing equipment
  - robots
  - high-tech ships and marine engineering equipment
  - energy-saving vehicles
  - high-performance medical equipment
  - new materials
  - biomedicine
  - food

MIIT drafts *Enterprise Cloud Action Plan*

MIIT is drafting an action plan to promote enterprise cloud computing applications in response to State Council Development Research Centre (DRC)’s newly released *White paper on cloud computing industry development*. The white paper estimates the domestic cloud computing market will grow 39% per year to reach 300 billion RMB by 2023. In 2018, the market was 96 billion RMB, about 8% the size of its US counterpart. 60% of users are in the internet industry, distantly followed by transportation and logistics (8%), finance (6%), telecommunications (6%), energy (6%), manufacturing (4%), government services (4%) and healthcare (3%). Digitising governments and firms is hard. The penetration rate of cloud computing services among domestic companies is about 40%, compared to 85% among US firms and 70% in the EU.

Outline for enhancing global competitiveness in transport

CCP General Office and State Council jointly issued ‘Outline for enhancing global competitiveness in transport’, specifying

- China will set up a comprehensive modern transport system by 2035
- the transport system will consist of three networks
  - high-speed network: high-speed railways, expressways and civil aviation
  - arterial network: low-speed railways, national highways and waterways, and oil and gas pipelines
  - basic network: provincial highways, rural highways, regional railways and general aviation

- major efforts include
  - building a domestic travel circle to limit:
    - commutes within cities to one hour
    - travel times to neighbouring cities and major cities nationwide to two hours and three hours respectively
  - completing logistics circuits to facilitate limiting
    - domestic goods delivery to within one day
    - shipping to neighbouring countries to two days and major cities worldwide to three days
  - promoting intelligent transport with support of big data, AI, blockchain and supercomputers
  - adopting an environmentally friendly development model by saving energy and controlling pollution
- Potential investment and profit areas include
  - transport equipment
  - transport and tourism integration
  - unmanned delivery services and urban underground delivery

MIIT released *Interim evaluation for national manufacturing innovation centres*

Outlining annual performance reviews of national innovation centres by a committee of academic experts and state supervisors. Performance indicators include :

- how were goals and targets met
- financial and human capital
- R&D output in core technological innovation and main research projects
- collaboration with universities, R&D institutes and enterprise laboratories
- business management, governance, profitability and capacity building
- technology transfer and commercialisation

According to the report, with the acceleration of the new round of industrial migration, the risk of manufacturing relocation to abroad increases, which has become one of the challenges for China to develop advanced manufacturing. In recent years, and a number of foreign manufacturing giants have started to consider setting up factories in other countries or in their base countries.

2.2 Innovation and R&D

Integrated Circuit ‘Big Fund’ raises 204 billion RMB:

The second phase of the National Integrated Circuit (IC) Industry Investment Fund ('big fund') has raised 204.2 billion RMB, adding that the fund is likely to begin investment in November 2019. The fund inaugurated its second instalment on 22 Oct with 27 enterprise shareholders, the report noted, including the three state-owned telcos. Administrators of the 'big fund' said at a September 2019 industry forum that the second phase will focus on chip-manufacturing equipment, reports to Hua Chuang Securities, specifically

- etching machines
- film equipment
- test equipment
- cleaning equipment

MIIT announced three more national manufacturing innovation centres:

MIIT released '2019 Implementation Rules on Supporting Provincial Manufacturing Powerhouse Development', focusing on:

- Anhui:
  - electronic information
  - new energy vehicles (NEVs)
  - industrial robots
  - AI
- Shanghai
  - new-gen technologies such as 5G, industrial internet and AI with the real economy
  - strategic advantages in IC, high-end equipment, new materials and NEVs
  - strengthening industry-finance relations
- Jiangsu
  - fostering industry-tech relations by collaborating on provincial sci-tech megaprojects in
  - next-gen IT
  - high-end equipment manufacturing
  - information materials and other fields
  - fostering the Sunan national indigenous innovation demo zone

MoST recognizes 10 more firms as national AI innovation platforms

Ministry of Science and Technology (MoST) added 10 platforms of national new-gen AI open innovation platforms, including：

- Yitu Technology: visual computation
- MiningLamp Technology: marketing intelligence
- Huawei: basic software and hardware
- Ping An Insurance: inclusive finance
- Hikvision: video sensing
- JD.com: smart supply chain
- Megvii Technology: image sensing
- Qihoo 360: security brain
- Tomorrow Advancing Life: smart education
- Xiaomi: smart home

2.3 Cyber Security

Cybersecurity system for the industrial internet to be unveiled

China aims to lay out a primary cybersecurity system for the industrial internet by the end of 2020, with at least 20 innovative products and solutions developed as pilot projects to safeguard information security for areas including automotive, aerospace, and energy. The goal was unveiled by 10 ministries and departments including the MIIT. It is part of a broader plan to build a complete cybersecurity system by 2025.

SAMR revises cybersecurity standards

State Administration for Market Regulation (SAMR) issued revised Cybersecurity Multi-level Protection Scheme (MLPS 2.0) standards. Public and private stakeholders were involved in the drafting process. The revision will go into effect on 1 Dec 2019:

- Adds system-wide conceptualisation
  - integrated defence
  - internal and external defence
  - proactive defence
- Extends coverage from information systems to networks in general
- Extends requirements for specialised systems
  - internet infrastructure

    - cloud computing platforms and systems
    - big data platforms and systems
    - internet of things
    - industrial control systems
    - systems adopting mobile interconnecting technologies
    - integrates
- Three sets of information security technology requirements (basic, evaluation and security design technology)
    - technological and management requirements
    - reduces duplicated requirements
    - raises trustworthiness verification requirements

Sovereignty in Cyberspace Paper unveiled

Three Chinese think tanks jointly released a document that elaborates on the concept and practices of sovereignty in cyberspace. The paper, titled Sovereignty in Cyberspace: Theory and Practice, defined the concept and fundamental principles of sovereignty in cyberspace and elaborated on related practices of different countries, especially China, in recent years.

2.4 5G

MIIT: standalone 5G infrastructure construction to begin in 2020

Following commercial 5G licensing, local governments have accelerated infrastructure construction, as telcos have ramped up investment and strategic partnerships. Telcos have been using non-stand alone (NSA) standards, in part because the superior stand-alone (SA) standards, which enable many of 5G's promised benefits, are not yet finalised. China will likely commence SA 5G network infrastructure construction in 2020, according to Miao Wei, MIIT Minister. Miao noted that 80% of 5G applications will come from IoT, including industrial internet, internet of vehicles (IoV) and telemedicine, and that these require SA standards. MIIT has reached a consensus with Ministry of Transport and Ministry of Public Security on IoV, which involves cars, roads and their interaction.

China Unicom and China Telecom to share 5G network

As smaller rivals of China Mobile, these two telcos' networks will complement each other. The frequencies of their commercial licenses neighbour each other, while China Telecom's network is concentrated in the south, China Unicom's is largely in the north. The two telcos have reached consensus on shared infrastructure such as transportation and wireless networks, which account for 80% of total investment.

Huawei said that it has booked over 60 5G contracts

Among the total contracts by September, 32 are from Europe, 11 from the Middle East, 10 from Asia-Pacific, seven from the Americas and one from Africa.

3) Individual Industry News

3.1. Automobile

The downward spiral in China's automotive market did not stop in August and September: Overall vehicle sales in China market stood at 1.96 million in August and 2.27 in September. It represents a fall of 6.9% and 5.5% y-o-y respectively, according to figures released by CAAM. September was the 15th month of falls since July 2018. Vehicle sales in China reached 1.96 million units in August (-6.9%) and 2.27 million units in September (-5.2%). Chinas total vehicles sales in Q1-Q3 2019 was 14,963,000 (-11.6%). The market remains by far the largest single-country car market in the world.

- Mercedes Benz: Q3/2019 up 12.2% (Q1/2019: up 2.6%; H1/2019: up 1.3%)
- BMW: Q3/2019 up 3.6% (Q1/2019: up 10.2%; H1/2019: up 16.8%)
- VW: Q3/2019 down 2.8% (Q1/2019: down 6.3%; H1/2019: down 3.9%)
- GM: Q3/2019 down 17.5% (Q1/2019: down 17.4%; Q2/2019: down 12%)
- Ford: Q3/2019 down 30% (Q1/2019 down 36%; Q2/2019 down 22%)

On October 15, The EUCCC invited Wang Qing, Deputy Director of Market Economy Research Institute of the Development Research Center of the State Council. Regarding his view:

- Recent automobile development trend:
    - High demand on high-end and personalized and tailor-made products
    - Merging of production and service for automobile industry
    - The city clusters have increasing driving force on automobile consumption
- Why China's automobile industry Decline
    - It is accord with the long-term industry cycle, it is experiencing a stage from middle speed to low speed (from 11% to 5%)
    - Too much policy and regulation intervention from government side (scale back of subsidies, the advanced introduction of National-Six Standard, etc.)
    - Slow-down of economic growth
    - High housing price and high indebted rate especially the younger generation
    - Low-end automobile brands are affected the most.
- For the future
    - Government should let the market adjust itself
    - It there is no technical breakthrough, a pickup to 33 mio units sale per year is expected until 2028.

"China VI" pushes up the dealer's inventory and second-hand cars

In August, the auto dealer inventory warning index was 59.4%, up 7.2% points on a year-on-year basis. China Automobile Dealers Association said that after the "China V" vehicles were sold out, the China VI policy had been retracted to some extent, leading to inadequate consumers which caused slow sales in the recent two months. At the same time, due to a lot of autumn auto shows in September and October, some consumers delayed their demand until the auto shows, so inventory pressure remained high. At the beginning of the year, the total inventory of the entire circulation channel of the automobile industry was around 4 million sets. After the switch between "China V" and "China VI" in the first half of the year, the actual overall inventory in July was less than 3 million sets. However, due to the drastic drop in sales volume in July and August, the inventory coefficient did not improve significantly.

Japanese auto marks are gaining momentum

Despite China's 15-month fall in car sales, major Japanese brands are bucking the downturn with increasing sales in the first three quarters. Nissan, Toyota and Honda achieved decent sales (Q1-Q3: Nissan down 0.4%, Toyota up 8.4%, Honda up 16.4%). Japanese vehicles are widely accepted for their excellent quality, favorable brand reputation and fuel economy.

Daimler and CATL signed an agreement for battery modules

Daimler’s truck and bus division and CATL signed a worldwide supply agreement for battery modules for electric trucks starting from 2021. Daimler will be responsible for the development of the battery systems and would take over assembly at its trucks in Mannheim, Germany, and Dettroit in the US.

Geely and Volvo Cars to merge engine operations

Geely Auto and Volvo Cars are planning to merge their engine operations into a stand-alone business unit will facilitate their electrification campaigns. The proposed new unit will develop and produce more engines and hybrid powertrains for vehicles under all brands across the group as well as other automaker.

BYD sold 329,000 vehicles in the first three quarters

From January to September, BYD sold 329,094 passenger cars, of which 185,919 were new energy vehicles, an increase of 37.4% on a year-on-year basis. BYD achieved revenue of 31.638 billion yuan in the third quarter of 2019, down by 9.17% on a y-o-y basis, according to financial data released by BYD. Net profit belonging to shareholders of listed companies was 120 million yuan, down by 88.58% on a year-on-year basis; Revenue in the first three quarters reached 93.822 billion yuan, an increase of 5.44% on a year-on-year basis. The net profit belonging to shareholders of listed companies was 1574 million yuan, with year-on-year growth of 3.09%.

MIIT: *Announcement on the Subsidy for New Energy Vehicles*

The MIIT issued the *Announcement on the Final Result of the Clearance and Examination of 2017 Subsidy Fund for the Promotion and Application of New Energy Vehicles* (hereinafter referred to as the *Announcement on the Subsidy for New Energy Vehicles*) at the end of October. According to the Announcement, the passing rate of the subsidy for new energy vehicles is about 87.9%, down from the previous year; The Announcement shows that the total number of new energy vehicles declared by the new energy vehicle enterprises is 236,881, and the final number of new energy vehicles approved by the expert panel is 208,226. The subsidy fund to be liquidated is 22,619 million yuan, and the subsidy passing rate is about 87.9%, which is lower than that in 2016, and the passing rate of new energy passenger vehicles is relatively low. In addition, on average, the subsidy funds for each new energy vehicle dropped markedly, from about 133,900 yuan in 2016 to 108,600 yuan in 2017, a drop of 18.89%. The main target of the subsidy was commercial vehicle enterprises, accounting for nearly 60% of the total subsidy. Two of the top three recipients of subsidies were commercial vehicle enterprises, Yutong Bus and Zhong Tong Bus, while BYD was the only passenger vehicle enterprise.

FAW and GAC signed strategic cooperation agreements with Toyota.

On September 26th, FAW and GAC signed Strategic Cooperation Framework Agreement with Toyota in the field of electrification and intelligent networking, respectively, giving full play to their respective advantages. In addition to the introduction of Chinese consumers' favorite hybrid vehicles and plug-in hybrid vehicles, they will also be committed to the introduction of high-quality and low-cost full electric vehicle, hydrogen fuel cell vehicles and other models.

CATL plans to better serve European market with Germany plant

China's largest power battery maker CATL is ready to make deeper inroads into the European market with its Erfurt, Germany, plant. The plant will produce both battery cells and modules for the region's partners. CATL has partnered with BMW, Daimler, Volvo and Volkswagen to offer batteries for their electric vehicles. The Chinese battery maker is also in advanced talks with Porsche and will supply battery cells for Bosch's 48-volt battery system. When completed, the 1.8 billion euro plant will become one of the largest battery plants in Europe both in size and production capacity, covering over 60 hectares of land.

3.2. Infrastructure

Excavator sales in the first three quarters of 2019

In September 2019, the major excavator manufacturers included in the statistics sold about 15,800 excavators, an increase of 17.83% on a year-on-year basis, setting a new record for the same month. In the first three quarters of this year, the cumulative sales volume of excavators has exceeded 179,000 sets, an increase of 14.69% on a year-on-year basis. Since the beginning of this year, the construction machinery industry has shown a favorable trend thanks to the further implementation of policies such as domestic demand pulling and supplementing infrastructure short boards, environmental governance and the in-depth development of the Belt and Road Initiative.

Special debt of local government boosts infrastructure projects

After entering the fourth quarter, under the support of local government special debt, many major projects began. In Jiangsu, Hubei, Jiangxi and Henan provinces, tens of billions of yuan worth of major projects have been launched. A number of insiders believe that under stable investment, the issuance of special bonds will further expand effective investment, and it is expected to increase the issuance of special bonds by around 100 billion yuan in the fourth quarter. Under debt and financial constraints, infrastructure investment will be structurally robust. The rapid growth of high-speed rail, rail transit, municipal facilities and other infrastructure areas is worthy of attention.

BICES2019 Construction Machinery Exhibition was held in Beijing

In mid-September, the 15th BICES 2019 was held in Beijing. BICES 2019 is themed with "Connect the World With Intelligence, Paint the Future with Green". Su Zimeng, executive vice-president and secretary-general of the China Construction Machinery Industry Association, said that the annual sales revenue was more than 600 billion yuan, from which the revenue of 20 categories of pure construction machinery products has been deducted. Since 2016, the industry has grown at an average annual rate of more than 10%.

The investment in fixed assets reached 2,291.8 billion yuan from Q1 to Q3

In the first three quarters of this year, fixed assets investment in transportation totaled 2,291.8 billion yuan, an increase of 2.2% on a year-on-year basis, according to a ministry spokesman from Ministry of Transport. Of this total, 1,671.3 billion yuan was invested in highway and waterway construction, an increase of 3.5%, and 92.9% of the target for the whole year was achieved, 1.1% points faster on a year-on-year basis.

Jinan-Qingdao railway receives 200 million USD investment from Kuwait

The Kuwait Investment Authority's investment in the Jinan-Qingdao high-speed railroad in East China's Shandong province will propel more global investors to be part of big-ticket projects conducted by State-owned enterprises. Their comments came after the State-owned Shandong Railway Investment Holding Group Co, signed an investment agreement to transfer a 7.16% stake to CICC Capital - an investment unit of China International Capital Corp and an investment subsidiary of Agricultural Bank of China for 336 million USD on 11.10.2019. CICC Capital has invested 200 million USD on behalf of KIA, making it the first time that a domestic high-speed railway has attracted capital from a well-known foreign institutional investor, according to Shandong Railway Investment Holding Group Co.

3.3. Energy

Li Keqiang: Speeding up the construction of coal and electricity transmission channel and improving self-sufficiency of oil and gas

On October 11th, Premier Li Keqiang of the State Council and director of the National Energy Commission presided over a meeting of the National Energy Commission. Li said at the meeting that it was necessary to promote safe and green coal mining, clean and efficient development of coal and electricity, and effectively develop and utilize coal-bed methane. The implication is that China's energy structure is still inseparable from coal, putting a clean "green coat" on coal and promoting the clean and efficient use of coal, which will provide important support for China's energy system. In the field of oil and gas, the Energy Commission advocates a supply approach that combines self-sufficiency with international cooperation.

NEA official urges wind industry stable development

At the China Wind Power 2019 conference, Li Chuangjun, National Energy Administration New Energy Department vice director urged the wind power industry to ensure orderly development and said that racing to build new wind turbines and acquire equipment has driven higher turbine prices. Average on-shore wind turbine prices stand at around 3,700-3,800 RMB per kW, up 25-30% from the start of 2019. The turbine manufacturer has received two to three times as many orders as previous years. The rush to install more wind power plants is now worrying regulators. Grids are unable to accept so much new wind power within the upcoming year, meaning that new projects will not receive state subsidies, and project developers who paid high turbine prices will likely face financial difficulties.

Renewable energy subsidies may go to biomass and garbage power

In mid-October, the Ministry of Finance, NDRC and the National Energy Administration solicited opinions on two documents, namely, *Opinions on Promoting the Healthy Development of Non-water Renewable Energy Generation* and *Measures for the Administration of Renewable Energy Electricity Subsidy*. According to the exposure draft, the state will no longer publish the catalogue of renewable energy subsidies, and all renewable energy projects will fill in the additional application information of electricity price through the national renewable energy information management platform. Although the draft does not explicitly state that the state will reduce renewable energy subsidies, at least it has revealed that government subsidies for renewable energy projects will be tightened step by step. According to insiders forecast, in the future, the country will adopt different policies for new energy power generation. Wind and photovoltaic power generation will be absorbed through a mandatory green card system, while the biomass and waste power will benefit from renewable energy subsidies over a long period of time.

NDRC to promote joint-operation between coal and electricity industries:

NDRC and NEA jointly issued ‘Further supporting the development of joint-operation between coal and power industries’(the policy is not yet officially published, but has been circulated on media and industry sites). It specifies

- entities encouraged to implement coal-power joint operation
  - newly-built coal mines and power plants
  - large thermal coal and power generation firms
- joint operation types to consist of
  - coal-power integration, meaning coal mines and power plants are constructed and operated by one legal person
  - cross-holdings
  - mergers and acquisitions
- improving new capacity planning
  - focusing on coal pithead-power generation integration

  - encouraging joint operation in eastern and central China
  - encouraging joint operation in northern regions' clean heating projects
  - supporting use of low heating value coal
- optimising existing capacity
  - supporting cross-holdings between different regions
  - encouraging mergers and acquisitions
- supporting measures
  - increasing capacity replacement ratio for joint-operation mines to 300 percent
  - exempting joint-operation mines from production control
  - prioritising grid access for joint-operation power plants
  - promoting joint-operation power plants in the cross-regional power market and power spot market
  - ensuring full access for joint-operation projects in rail transport capacity allocation
  - encouraging mixed-ownership joint-operation
  - prioritising joint-operation power plants in coal imports

Guangzhou announces comprehensive support for hydrogen energy

Mid Octobern, Guangzhou Huangpu District and Guangzhou Development District jointly announced *'Hydrogen energy industry development measures'*, laying out support for

- up to 100 million RMB for newly settled major projects
- R&D
  - 10 million RMB for nationally certified R&D, and testing institutes
  - 5 million RMB for provincially certified R&D, and testing institutes
- Industry associations
  - one-time subsidy for officially registered hydrogen industry associations
  - industrial parks
  - one-time incentives of 250,000 RMB plus 3-year subsidies
  - hydrogen fueling station
  - subsidies of up to 6 million RMB for constructing hydrogen fueling stations
  - subsidies of up to 20 RMB per kg for operating hydrogen fueling stations
- special financial support for
  - firms obtaining production or R&D loads through commercial banks or financial guarantees
  - entrepreneurial firms that obtain investment risk for the first time

3.4. Chemical Industry

China and Russia will jointly construct the world's largest Ethylene integration project

On October 11th, China National Chemical Engineering Group Co., Ltd. signed the FEED + EPC general contract for the Russian Baltic Chemical Complex (BCC) project with RusGasDobycha in Chengdu. The project is the world's largest ethylene integration project, and is currently the largest single contract in the global petrochemical sector, with a contract value of approximately 12 billion euros.

Pilot demonstration of Hydrogen energy will be carried out in Shanxi

At the end of October, the Shanxi Provincial People's Government issued the Notice on Printing and Distributing the Three-Year Action Plan for Technological Innovation Development of Enterprises in Shanxi Province. According to the Notice, pilot demonstration Hydrogen energy will be carried out in Taiyuan, Datong, Changzhi and other cities in Shanxi province. The Notice clearly states that we will vigorously promote breakthroughs in new energy technologies such as hydrogen energy technologies; we will give priority to the implementation of 100 high-tech and high-efficiency technology transformation benchmark projects such as hydrogen fuel cells, promote the synchronous progress of hydrogen refueling stations, hydrogen fuel cells and hydrogen fuel cell vehicles, and promote the construction of demonstration bases for the production and utilization of hydrogen energy. by 2021, a number of innovative platforms will be allocated in the frontier emerging industries, and pilot demonstration of hydrogen energy will be carried out in Taiyuan, Datong, Changzhi and other cities.

3.5 Steel Industry

Steel firms report disappointing Q3 2019 financial results: Steel producers have been increasing production, as demand improved after the October holiday. But as overall economic downward pressure continues and winter low-demand season approaches, steel prices, which dropped during the week of 14 Oct 2019, may fall further.
The profit decline was due to

- low steel prices, dragged down by tepid demand from vehicle and home appliances
- rising iron ore and other raw material prices, China Iron and Steel Association's Q3 iron ore price index remains higher than the same period last year

3.6. Aviation Industry

Boeing ups its forecast for China market

Boeing Co has raised its forecast for China, saying that over the next 20 years, Chinese carriers will need 8,090 new airplanes, worth nearly 1.3 trillion USD based on list prices, to meet fast-growing airplane passenger traffic in the country, especially rapid rising demand from second-tier cities.

Boeing opens a 737-800 converted freighter production line in Guangzhou

On October 28th, Guangzhou Aircraft Maintenance Engineering Co., Ltd. (GAMECO) and Boeing announced the plan to open a new 737-800 Boeing converted freighter (BCF) production line in China, which will be located in the GAMECO hangar at Guangzhou Baiyun International Airport. The conversion of the first freighter will be started in 2020. Since its launch in 2016, the 737-800BCF has collected 130 orders and committed orders. The project plans to deliver 17 freighters this year, with the production being more than double that of last year. To date, 20 freighters have been delivered under the project. The FAA certification has been approved by regulators in four countries and regions.

4) M&A Information and Investment

September-October 2019

Outbound M&A and Investment					
Date	**Target**	**Target sector**	**Acquirer**	**Value (EUR)**	**Notice**
Sep.04	Pilbara	Lithium Mineral	CATL Griyo	32.9million, 8.5% stock right	TBC, to secure the battery supply chain
Sep.15	Marlok Automotive GmbH	Automobile electrical devices	Beijing Jingwei Vehicle Equipment	750 thousand, 50% stock right	TBC
Inbound M&A					
Sep.16	Chery	Mini NEV for express delivery	StreetScooter	500 million	Both companies investet 500 million Euro to develop electrical commercial vehicles
Oct.08	FutureMove Automotive	IoV	Accenture Group	Unknown	
Domestic M&A					
Date	**Target**	**Target sector**	**Acquirer**	**Value (EUR)**	
Sep.07	Yangchunxin Steel	Steel	Valin Group	209 million	51% Stock right
Sep.24	Tianjin Bohai Chemical Industry Group	Chemical Industry	Global Magnetic Card Co.Ltd.	23 million	100% Stock right

5) SOE Information

5.1. SOEs Introduction

Company Name	China General Technology Group
Headquarter Location	Beijing
Total Number of Employee	45000
Number of Subsidiaries in China	31
Name of Chairman	Mr. Xu Xianping
Main business:	Equipment manufacturing, new materials, inspection and certification, medicine, medical care, health, engineering contracting, trade, etc.
General Introduction	China General Technology Group (hereinafter referred to as the "group") was established in March 1998, a merged stated owned company from former China National Technical Import and Export Corporation, former China National Machinery Import and Export (group) co., LTD., former China Instrument Import and Export Corporation, former China's Overseas Economic Cooperation. In the year of 2006, the Group incorporated the Chongqing Automobile research institute (now renamed as China automotive engineering research institute co., LTD.), the China national light industrial products import and export corporation, China Academy of Textile Research Institute, China's Xinxing Group, China P&T Appliance Group.
Turnover in billion Euro	0.87 billion Euro in 2018
Website:	https://www.genertec.com.cn/

Company Name	CSCEC
Headquarter Location	Beijing
Total Number of Employee	302000
Number of Subsidiaries in China	71
Name of Chairman	Mr. Zhou Naixiang
Main business:	Investment and development (real estate, construction financing and operation), construction engineering (housing and infrastructure) as well as survey and design

	(green construction, energy conservation and environmental protection)
General Introduction	Founded in 1982, China State Construction Engineering (CSCEC) is now a global investment and construction group. CSCEC has been doing business in more than 100 countries and regions in the world. In China, the Group has built more than 90% of skyscrapers above 600m, three-quarters of key airports, three-quarters of satellite launch bases, one-third of urban utility tunnels and half of nuclear power plants. It ranked 23rd in Fortune Global 500 and 44th Brand Finance Global 500 2018.
Turnover in billion Euro	133 in 2017
Website:	https://english.cscec.com/

6) Our Resources

Source	Links	Language
China Briefing	www.china-briefing.com	EN
People Net	people.com.cn	CN
Mofcom Website	mofcom.gov.cn	CN,EN
Finance World	jrj.com.cn	CN
Chinese Customs	customs.gov.cn	CN
China Daily	www.chinadaily.com.cn	EN
National Petroleum Corp.	www.cnpc.com.cn	CN,EN
Ministry of Finance	mof.gov.cn	CN,EN
Sina News	news.sina.com	CN
China Policy	https://policycn.com/	EN
Machinery & Electronics Business	newspaper	CN
China Machinery Industry Federation	cmif.mei.net.cn	CN, EN
Yicai	https://www.yicai.com/	CN
Jiemian	https://www.jiemian.com/	CN
FTChinese	http://www.ftchinese.com/	CN, EN
Caixin	http://www.caixin.com/	CN, EN
Longyuan	http://qikan.com.cn	CN, EN
Huajx	http://www.huajx.com/	CN
DealGlobe	http://cn.dealglobe.com/	CN, EN
Enterprise M&A Network	http://www.zgqybg.com/	CN
China Autonews	http://www.chinaautonews.com.cn/	CN
Steel CN	http://shanghui.steelcn.cn/	CN
Belt & Road Official Site	https://www.yidaiyilu.gov.cn/	CN
21 Sun	http://news.21-sun.com/	CN

Note: (November 2019)

All information in the newsletter was provided at following exchange rate:

Exchange Rate	
EURO: U. S. Dollar	EURO: RMB
1 : 1.11	1 : 79

7) Calendar of Upcoming Events (VDMA China)

Event Name	Location	Date
China Management Meeting (CMM)		
Mining Machinery	Beijing	1-Nov
Construction Machinery and Building Material Equipment 2	Shanghai	7-Nov
Machine Tool 2	Taicang	21-Nov
Engines and Systems	Shanghai	28-Nov
Woodworking Machinery	Foshan	4-Dec
EMINT 2	Suzhou	28-Nov
Mining Machinery	Beijing	1-Nov
Trade Fairs		
China FoodTech	Shanghai	30 Oct- 01 Nov
EMO Hannvoer 2019	Hannover	16-21 Sept
CIIE	Shanghai	6-Nov
CEO Roundtable/Breakfast		
HR	Shanghai	7-Nov
China Economic Outlook 2020	Beijing	12-Nov
Compliance	Shanghai	27-Nov

Contact:

Ms. Wu Fei

Research Analyst VDMA China - Beijing Representative Office

Tel: +86 10 87730210

Email: fei.wu@chinavdma.org

8) Services of VDMA China Office

With 10 years of service experience in China, the **VDMA China Office**, namely **VDMA Beijing Representative Office** and **VDMA Shanghai Representative Office**, provides support for VDMA member companies in China. The VDMA China Office has a **strong focus &profound understanding** with regard to selected machinery industry sectors in China:

- **Agricultural Machinery**
- **Construction Equipment & Building Material Machinery**
- **Food Processing and Packaging Machinery**
- **Machine Tools and Manufacturing Systems**
- **Metallurgy (Foundry, Metallurgical Plants and Rolling Mills, Thermo Process Technology)**
- **Electronics, Micro & Nano Technologies**
- **Electrical Automation**
- **Plastics and Rubber Machinery**
- **Power Transmission Engineering / Fluid Power**
- **Robotics + Automation**
- **Textile Machinery**
- **Woodworking Machinery**

The VDMA China Office is established to act as a bridgehead for VDMA member companies. We support the following enquiries:

- **HR issues** (e.g. salary reports)
- **Translations** (e.g. company brochures, business cards, technical translations)
- **Trade Fairs** (e.g. booth at large scale VDMA-pavilion (“German pavilion”), speaker slots)
- **Seminars** (e.g. about debt collection, sales management)
- **Project Management** (e.g. business travel support, site investigation)
- **Market Entry Package** (e.g. market entry plan, personal one day support of Chief Representative)
- **Conformity and Standardization Issues** (e.g. local machinery norms and standards)

Our professional teams in Beijing and Shanghai are fluent in German, English and Chinese.

We look forward to serving you - please do not hesitate to contact us today!

Contact:

Mrs. Claudia Barkowsky
VDMA China - Beijing Representative Office
Unit 1102, Landmark Tower 2, 8 North Dongsanhuan Road, Chaoyang District, Beijing 100004, P.R. China
Tel.: +86 10 8773 0210 /11 /12 Fax: +86 10 8773 0209
E-Mail: **claudia.barkowsky@chinavdma.org** Website: **http://china.vdma.org**

Mr. Daniel Yoo
VDMA China - Shanghai Representative Office
Room 1802, SOHO Donghai Plaza, No.299, Tongren Road, Jing’an District, Shanghai, 200040, P.R.China
Tel.: +86 21 6249 0188 / 6248 8029 Fax: +86 21 6248 9851
E-Mail: **d.yoo@chinavdma.org** Website: **http://china.vdma.org**