Edition 02 / 2019

Newsletter

Foreign Trade

Dear Readers,

The economic data in Q1/2019 looks better than expected. It did not deteriorate compared to Q4/2018 and March showed a much better momentum compared to the first two month of the year. Especially the infrastructure construction has contributed to the growth. The overall data in Q1 2019 are as following:

- GDP in Q1: 21.344 trillion RMB, up 6.4%
- Industrial output: up 6.5% (in Q4/2018: 5.7%)
- Fixed-asset investment in Q1/2019: up 6.3%
- China’s Foreign Trade in Q1/2019: 7.01 trillion RMB, up 3.7%
- Exports: 3.77 trillion RMB, up 6.7%
- Imports: 3.24 trillion RMB, up 0.3%
- Balance of Trade: 529.7 billion RMB, widened 75.2%
- CPI: rose by 1.8%

The VDMA China Business Climate Survey (BCS) - Spring 2019 was conducted between March 18 and April 15. The result evaluation will be circulated soon among the companies that participated. That much can already be said: 77% of all participants assessed their current business situation as either good or satisfactory. However, 23% consider the situation as bad which is an increase of 16% compared to the last survey in autumn 2018, where just 7% evaluated their situation as bad. Best rating came from the sub-sectors Construction and Mining Equipment and Food Processing & Packaging Machinery.

Spring was a rather eventful time, with the Two Sessions Meeting and the 2nd Belt & Road Forum (BRF) happening in Beijing. During the BRF (April 25-27), national governments, local authorities and enterprises reached a series of cooperation agreements, the results being categorized in 6 groups and 286. Cooperation agreements worth more than 64 billion USD were signed at a CEO Conference prior to the BRF. Germany was represented by Mr. Peter Altmaier, German Minister of Economy and Energy.

The Two Sessions (NPC & CPPCC) took place March 5-15. Important this year for the government was to project confidence in uncertain times. In the government report of Prime Minister Li Keqiang announced, about 2380 billion RMB of tax reduction measures are introduced, especially for SMEs. VAT rates in manufacturing industries had meanwhile already been reduced from 16% to 13% staring April 1, 2019.

One outcome of the Two Sessions Meetings was the approval of a new Foreign Investment Law (FIL) which will take effect on 01.01.2020 and will replace three previous laws. It will lead to structural changes of FIE’s (Foreign Invested Enterprises). However, it is a rather general legal framework and vague wording. FIE’s will need to wait for detailed implementation rules to better understand what is yet to come.

Yours sincerely

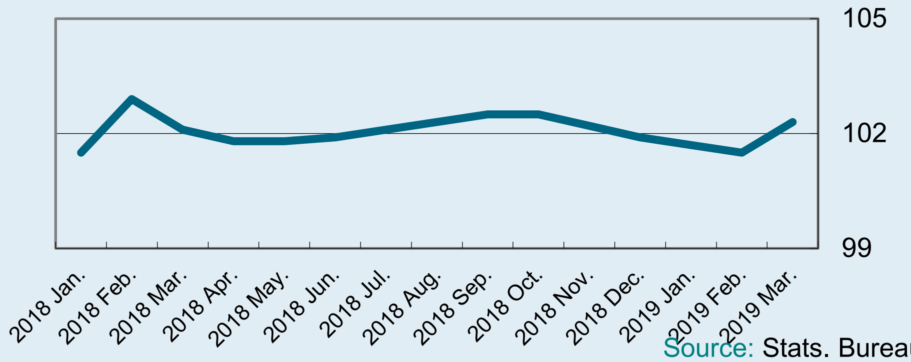
Claudia Barkowsky

Content

1) China Macro Economic Scenario

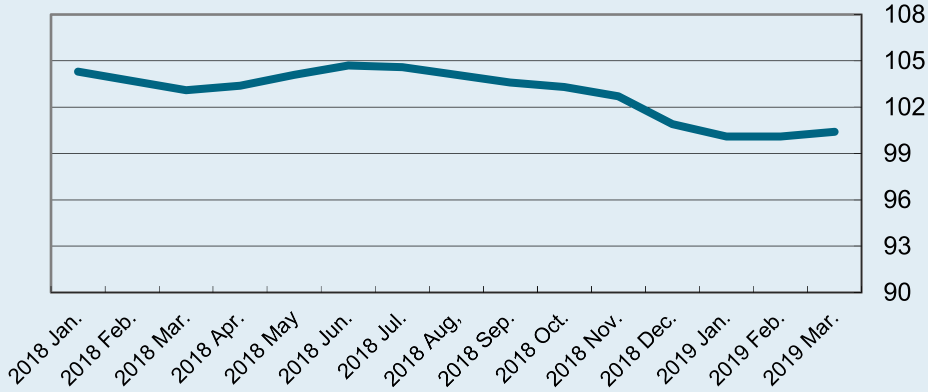
1.1 General Data and Figures

CPI (Consumer Price Index)



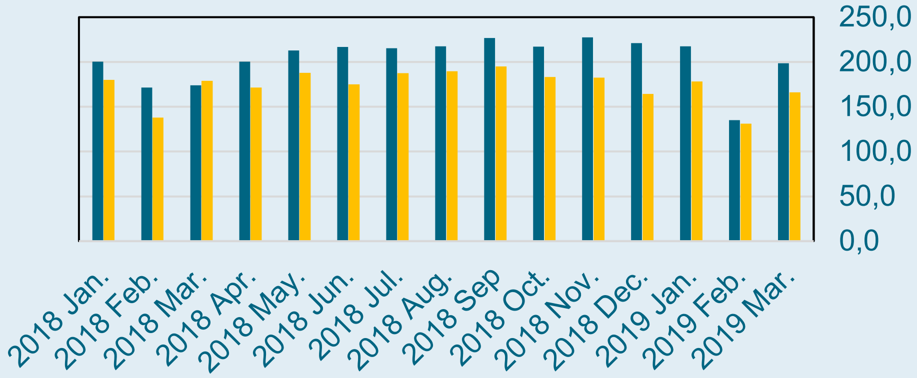
Source: Stats. Bureau

PPI (Producer Price Index)



Source: Stats. Bureau

Export & Import



Unit: Billion USD

1.2 Two Sessions

The 'Two Sessions', NPC & CPPCC annual legislative and consultative meetings took place March 05-15. During the sessions, differentiated policy interests and actors have had their input, have battled it out and higher upstream in the drafting cycle. There are topics that have overweight importance in every year's two sessions. This year, they are:

- Projecting confidence (cut tax, employment support, etc.)
- Foreign Investment Law, All-round opening-up by shortening the negative list for foreign investment.
- Moving up the value chain in global manufacture division
- Speeding up infrastructure investment.
- Healthcare, education
- Upgrading integrated development of the Yangtze River Delta to a national strategy.

In Li Keqiang's Government Work Report, following important points were addressed:

- Economic growth target set at between 6% and 6.5% for 2019
- To reduce the tax burdens and social insurance contributions of enterprises, especially SMEs, at about 2380.3 billion RMB.
- The VAT rate in manufacturing and other industries will be reduced by 3% points to 13%, while the rate in transportation, construction and other industries will see a 1 point cut to 9%.

Picture source: www.chinanews.cn

1.3 Foreign Investment Law

The Foreign Investment Law was adopted on March 15 during the Two Sessions by the 13th National People's Congress and will come into effect on 01.01.2020. The law offers a clear response to common concerns among foreign investors and clarifies protection provisions for issues such as expropriation and compensation, protection of intellectual property rights and the forced transfer of technology.

- The law will replace the WFOE, EJV and CJV law.
- Companies will have five year adapting time to be in line with the law.
- A legal framework instead of detailed implementing rules. China will draft a series of laws and regulations to ensure smooth implementation by the end or 2019.
- FIEs will enjoy pre-entry national treatment. And all national industrial supporting strategies also apply to FIEs.
- The government and officials are not allowed to force foreign investors to transfer their technologies, according to the law, which also stipulates strict protection of the IPR of FIEs.
- FIEs will enjoy the national treatment in terms of market access. The negative list administration will be promoted from FTZs nationwide.
- Foreign-invested companies will enjoy the same rights as domestic outfits to participate in drafting standards and bidding for government procurement projects.

However, it is a rather a very general legal framework and the highly praised principles of national treatment is merely vague wording. Foreign investors will need to wait for detailed implementation rules.

1.4 Belt and Road Initiative

2nd Belt and Road Forum

The 2nd Belt & Road Forum (BRF), April 25-27, took place in Beijing. During the BRF, national governments, local authorities and enterprises reached a series of cooperation agreements, the results being categorized in 6 groups and 286. Cooperation agreements worth more than 64 billion USD were signed at a CEO Conference prior to the BRF. 5,000 participants from more than 150 countries and 90 international organization. A total of 37 heads of state or government. A total of 37 heads of state or government, 11 national high-level representatives came to the Forum. UN Secretary-General and IMF Managing Director also participated.
These outcomes are listed in six categories:

- Initiatives proposed or launched by the Chinese side
- Bilateral and multilateral documents signed during or immediately before the second BRF
- Multilateral cooperation mechanisms under the BRF framework
- Investment projects and project lists
- Financing projects
- Projects by local authorities and enterprises.

Initiatives proposed by the Chinese side

- “BRI Environmental Big Data Platform”
- “Debt Sustainability Framework for participating countries of the Belt and Road Initiative”.
- Multilateral Cooperation Mechanisms under the BRF Framework. These category addresses for example the “Maritime Silk Road Port Cooperation Mechanism” and the “Ningbo Initiative on the Maritime Silk Road Port Cooperation,” jointly set up by China, representatives from government transportation and customs departments, key port enterprises, port authorities and terminal operators from 13 countries.

Germany’s involvement

- Mr. Peter Altmaier, minister of energy and economy, was the highest-level representative of Germany who participated in the forum.
- The country did not reach any bilateral agreement
- Germany is only involved in one of the numerous multilateral agreements: “The seven national railways of China, Belarus, Germany, Kazakhstan, Mongolia, Poland and Russia signed the Rules of Procedures for the Joint Working Group for Transport of China-Europe Container Trains.”
- The NDRC signed the MOU on Strengthening Cooperation on Jointly Building the Belt and Road Initiative with Siemens Aktiengesellschaft of Germany.”

Picture source: www.beltandroadforum.org

Newly founded Belt and Road Cooperation Fund

China Investment Corporation (CIC), the country's sovereign wealth investment fund, is seeking global partners to jointly establish a special cross-border investment instrument which will further finance Belt and Road projects. Some Belt & Road countries have rising worries that BRI projects may create debt traps. These concerns have led to delays and reductions in some proposed projects. A cooperation fund usually selects projects and makes investment decisions based on all shareholders' common interests. A legal framework and clear governance structure will be set at the initial stage. The fund's potential shareholders may cover international organizations and countries along the BRI routes. Through the fund, China may convince more global investors to join long-term and high-cost BRI projects such as ports and railways. The Belt and Road cooperation found will be different from the Silk Road Fund, the latter's sponsors are mainly domestic. CIC's exploration of new investment method includes China-Japan fund and China-France Fund.

Siemens signed Belt and Road MOU

Its Berlin and Munich-headquartered group signed a MOU with the Belt and Road Construction Promotion Center of NDRC to establish a partnership for pragmatic cooperation on the BRI.

Agreement: Rail project in Malaysia to resume

Malaysia Rail Link Sdn Bhd and China Communications Construction Co have signed a supplementary agreement to resume this project, the office of Malaysia's prime minister announced on 12.04. In August 2018, Malaysian Prime Minister Mahathir bin Mohamad announced the cancellation of the project, citing debt issues. But in January, Mahathir was quoted by the Associated Press as saying negotiations for the project were ongoing and the government had not made a final decision. The construction cost for Phases 1 and 2 of the project has been reduced by 21.5 billion RMB to 44 billion RMB.

1.5 Environmental Protection

Major causes of air pollution in the Beijing-Tianjin-Hebei

Excessive coal consumption, harmful gas discharges from chemical plants, and vehicle exhaust are the major causes of air pollution in the Beijing-Tianjin-Hebei region and neighboring areas, experts said in a report released in March. The research was carried out by the National Joint Research Center on Air Pollution Causes and Control and was based on more than a year of monitoring and analysis of PM 2.5 in 28 cities including Beijing, Tianjin and other cities in Hebei, Shanxi, Shandong and Henan provinces.

Green development measures

According to the government report by Li Keqiang, China will unveil a series of measures to strengthen green and environmental industries, including quickening the pace of upgrading thermal power, steel and other industries to achieve ultralow emissions and enforcing upgrades in heavily polluting sectors to achieve compliance with standards. The country plans to reduce sulfur dioxide and nitrogen oxide emissions by 3% in 2019, while making continuous efforts to reduce the density of PM2.5, a major particle pollutant, in key locations, including the Beijing-Tianjin-Hebei cluster, the Yangtze River Delta region and the Fenhe-Weihe River Plain area, most of which is located in Shanxi and Shaanxi provinces. As to water and soil pollution control, the target for the year is to achieve a 2% drop in both chemical oxygen demand and ammonia nitrogen emissions. To achieve the target, the central government plans to allocate 3.7 billion USD, a year-on-year increase of 25%, for air pollution control. Five billion RMB is expected to be allocated for soil contamination control. The planned budget for water pollution control stands at 30 billion RMB.

Beijing's top environment watchdog aims to further curb the emission of pollutants

Especially tiny PM2.5 particles will further be cut by promoting the use of new energy cars and gradually replacing old diesel trucks. Dust management will also get more meticulous attention. An integrated video surveillance regulation for dust control covering the whole city will be released, and industries involved in curbing it will share information through the internet. Beijing also aims to improve its water quality and tackle soil pollution in 2019 by strengthening treatment of tainted water and tightening heavy-metal disposal standards.

The market capacity of industrial wastewater treatment industry is expected to reach 380 billion RMB by 2020

At present, the situation of water resources which is characterized as grim by water shortage, rising water consumption and serious water pollution, etc. The government provide a solid market and policy demand for water treatment industry. At present, more than 10 industrial wastewater treatment standards, more than 30 national environmental standards for the discharge of water pollutants, and more than 20 local environmental standards for the discharge of water pollutants have been issued to regulate the index. "Ten Articles of Water" require all counties and key towns in the country to have the capacity of sewage collection and treatment by 2020. The sewage treatment rates of counties and cities shall reach about 85% and 95% respectively. Beijing-Tianjin-Hebei, Yangtze River Delta and Pearl River Delta regions were completed in 2019. The NDRC and the MEE have continuously increased their investment in industrial wastewater industry. According to the data, the market capacity of China's industrial wastewater treatment industry is expected to reach 380 billion RMB by 2020.

1.6 Trade and FTZ

Sino-US Trade Talk

Chinese vice-premier Liu He and US trade representative Robert Lighthizer resumed trade negotiations from mid February. The two sides discussed technology transfers, protection of intellectual property rights, non-tariff measures, the service sector, agriculture, trade imbalances and enforcement mechanisms.

One positive outcome during the negotiation maybe, approved by the Party Central Committee and the State Council, the Tariff Commission suspends tariffs on automobiles and parts originally from the US from April 1, 2019. The deadline for suspension of tariff measures shall be notified separately. Another outcome is that, starting April, China adds fentanyl-related substances to a supplementary list of controlled narcotics and psychotropic substances used for nonmedical purposes.

Duty reduction to increase consumption

Starting from April, duties on inbound articles including books, computers, food, furniture and medicines was reduced from 15% to 13%, while the tax rate on textiles and electrical appliances will be trimmed from 25% to 20%, the Customs Tariff Commission of the State Council said in a statement.

Hainan launched a 447 million USD fund for FTZ construction

The municipal government of Sanya, a popular tourist city in Hainan, and Hainan Development Holdings Co. each invested 1.5 billion RMB to set up Hainan FTZ Opening and Development Fund. The fund, with a target scale of 50 billion RMB, will offer financial support for various projects in the province.

1.7 Other News

The three provinces of Yangtze Delta Region and Shanghai have reached an agreement to shut down interprovincial toll stations

Jiangsu's traffic and transportation authority has already announced the closing of 17 toll stations in the province. Anhui will use its strength in scientific innovation and industrial development to pursue future growth. It will build a national scientific center and accelerate industrial transformation by leveraging our sound foundation in industrial robots, home appliances, and voice recognition technology

China invests more on Science and Technology

Chinese government revealed the funding target for science and research in a meeting during the Two Sessions. The spending on science and research funding is set to be 2.5% of GDP this year. In 2018, China spent 1.96 trillion RMB on R&D, accounting for 2.18% of GDP. But spending on basic research in China, which stood at 111.8 billion RMB last year, still lags far behind the US.

AI major now available at universities in China

Universities in China will welcome the first group of undergraduate students majoring in AI in September. According to a list issued by the Ministry of Education, 35 universities received approval to establish the four-year undergraduate AI-related majors amid the country's drive to build a strong AI talent pool.

2) 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.

Overall Data for Manufacture Sectors

38 of the 41 major industries are maintained year-on-year growth in value added from January to February. Among them, textile industry grew by 0.2%, chemical raw materials and chemical products manufacturing grew by 4.3%, non-metallic mineral products grew by 8.8%, ferrous metal smelting and calendering industry grew by 7.5%, colored metal smelting and calendering industry grew by 9.3%, general equipment manufacturing grew by 4.4%, special equipment manufacturing grew by 10.0%, automobile manufacturing fell by 5.3%, railways, ships, aerospace and other transportation equipment manufacturing industry grew by 7.9%, electrical machinery and equipment manufacturing grew by 8.0%, computer, communications and other electronic equipment manufacturing grew by 6.0%, and the production and supply of power, thermal industry grew by 6.1%.

5G Rollout Plans (next generation of wireless technology)

The three domestic telecommunication operatores, China Unicom, China Mobile and China Telecom all announced specific test and pilot projects for 5G. Also commercial 5G products and pre-commercial 5G internet series will appear this year to support applications such as networked cards and industrial interne, said a report released by the Internet Society of China. Backed by 5G, China's mobile ecosystem is expected to add 6 trillion RMB in value to the national economy in 2023, from 5.2 trillion last year.

China Unicom named Beijing, Tianjin, Qingdao, Hangzhou and 8 other places.The plan is, that each of the locations will build 100 5G base stations. In early 2019 a 5G base station was launched in Tiananmen Square, the heart of Beijing. They announce plans to invest 21 billion RMB in 5G rollout by 2020.
China Mobile is currently testing 5G in Hangzhou, Shanghai, Guangzhou, Suzhou and Wuhan and plans to build 10,000 5G base stations by 2020. China Mobile were researching 5G technology with Ericcson in 2015 and set up a 5G base station in Guangdong already in June 2017.

China Telecom is currently testing 5G in Xiong An, Shenzhen, Shanghai, Suzhou, Chengdu, Lanzhou.

Picture source : www.sohu.com

2.2. Automobile

China's auto market is showing signes of recovery with the drop in sales in March smaller than in recent month. According to statistics from the CAAM, vehicle sales in March were 2.52 million units (-5.18% compared to last year but increasing 70.1% compared with February 2019). Total vehicle sales in Q1 stood at 6.37 million units (-11.32%).

China is slashing subsidies on new energy vehicles

NDRC, MIIT and Ministry of Finance jointly issued the Notice on Further Improving the Financial Subsidy Policy for the Promotion and Application of New Energy Vehicles, which further reduced the subsidy standards for new energy passenger cars, new energy buses and new energy trucks, with an average decline of about 50% on the basis of 2018. Before the new plan takes effect on June 26, qualified vehicles can receive subsidies at 0.6 times the rate in 2018, somewhat higher than the new rate, offering carmakers and buyers a three-month grace period.

Old-time rivals in Automobile Industry are turning into friends and partners

With the shared goal of slashing costs of expensive electric and autonomous vehicles - and striving for supremacy in the new era that features such technologies, the platform of BYD, on which models including the YUAN are based, was unveiled last year at the Beijing auto show, where its boss Wang Chuanfu vowed to open the platform to others. In five to 10 years, electric cars with BYD logo may account for 15% to 20% of the market, but those sporting core components from BYD's platform is likely to reach half of all. They would like to share our best technology, to open the industrial chain and share the production capacity. The primary target may be to cut cost of the platform's development according to the analysts. The move is a win-win for the long list of smaller players in the sector, because it saves them time and money required to develop their own platform.

The Promotion of methanol-fueled vehicles

MIIT and other seven ministries unveiled a major guideline to promote wider use of methanol-fueled vehicles. According to the guideline, China will speed up the application of M100 methanol-fueled vehicles in Shaanxi, Shanxi, Gansu, Guizhou and other provinces. It also encouraged such vehicles to be used for government cars, taxis and short-distance buses.

Hainan Province will ban the sale of oil-fueled automobiles by 2030

A greater proportion of newly-licensed private passenger cars will be NEVs, with a 10% increase every year, eventually reaching 80% by 2025. The totally ban shall be reached by 2030.

The first autonomous driving road test report in China

The Beijing Commission of Transport has released the first autonomous driving road test report in China at the end of March, the report said Beijing had 56 self-driving vehicles from eight companies traveling more than 153,600 kilometers in 2018. Among the companies - including the Shanghai-based electric car startup Nio and Beijing-based Pony, as well as German auto giants Daimler and Audi, China's search giant Baidu made the most outstanding contribution. While other participants tested their one or two autonomous vehicles, Baidu tested a fleet of 45 cars equipped with its Apollo autonomous driving system. They accounted for more than 80% of self-driving cars tested in 2018 in Beijing. In addition, Baidu's test fleet traveled some 140,000 km on all kinds of road conditions with no accidents, presenting the leading position of Baidu's Apollo system.
Picture source: www.caixin.com

Auto giants announce price cuts

Major brands unveil moves to maintain sales growth amid sluggish market. Five premium automotive brands have cut the prices of their models sold in China after the nation announced that it will reduce the VAT by 3% points in the manufacturing sector starting from April. They are: Mecedes-Benz, Jaguar Land Rover, BMW, Lincoln.

Three major German automobile enterprises increase investment in China

On March 23, the leaders of Daimler, BMW and Volkswagen, German three major automobile companies, gathered in Beijing and said they would expand investment and deepen cooperation in China. While deepening the strategy of localization, they are also increasing investment in R&D and capital in the Chinese market. Besides, the three major automobile companies will vigorously develop new energy vehicles in China.

Daimler will continue to deepen its partnership with local partners, including joint investment with Baic Group in Beijing Mercedes-Benz domestic pure electric vehicles and power batteries. In addition to EQC, which will be listed in China this year, more new energy products will enter the Chinese market in the future, and most of them will be domestically produced in time. As for BMW, it not only announced the upgrading of Shenyang's production facilities to the capacity of 650,000 vehicles per year, but also will produce the first pure electric BMW brand model, BMW iX3 in China from 2020, and export it from China to all parts of the world.

Volkswagen also attaches great importance to R&D in China. In Volkswagen, there are almost 20,000 R&D experts around the world, and about half of them are dedicated to developing technology, products and automotive design for China. In 2019, Volkswagen will invest more than 4 billion euros in innovative technologies, electric travel and new product development. In addition, in the next two years, Volkswagen plans to release more than 30 new energy vehicles in China; in 2020, Volkswagen's modular electric platform MEB will start localized production in China in preparation for mass production of electric vehicles in China.

News that German auto companies have been increasing their shareholdings after the liberalization of the share ratio keep pouring in

Last year, BMW Held Brilliance BMW and Tesla built exclusive plant, the foreign side began to have the opportunity to grasp more discursive power in China. On March 12 local time, at the headquarters of Volkswagen Automobile Group in Wolfsburg, Germany, Diess made it clear in an interview with reporter of “21st Century Economic Report” that Volkswagen Automobile Group was assessing the feasibility of adjusting the share ratio of its joint venture in China. However, on March 18, SAIC Motor issued a statement denying the incident. SAIC Motor said it didn’t consult with Volkswagen Group on the issue of "adjusting the share ratio", and Volkswagen Group did not formally propose a plan to discuss the share ratio to SAIC Motor. Previously, Daimler was also involved in the "gossip" of increasing its shares of Beijing Mercedes-Benz, but it was quickly denied by BAIC Group. Recently, foreign media reported that Daimler was studying the issue of increasing its shares in BAIC Group. Daimler has yet to make a statement.

Volvo Group sees big opportunities to embrace environmentally friendly transportation technologies and services.

Currently, the company is striving to tap into China's booming e-commerce sector which is driving the entire transport system forward and resulting in high demand for punctuality and reliability. Volvo has also tested its autonomous trucks in Beijing, hoping to apply them to local harbors, given that seven of the top 10 busiest ports in the world are located in the country. Consultancy firm Roland Berger forecast in its latest report that about 1.05 million heavy-duty trucks will be sold in China in 2019, down 9 % y-o-y.

2.3. Infrastructure

Behind the improvement of economic macro data (GDP up 6.4% in Q1), infrastructure construction boom has contributed a lot. Local governments continue to increase the investment for infrastructure, issuing 1.2 trillion RMB of bonds in the first quarter. In addition, real estate is also indispensable. Since December 2014, real estate investment growth has reached a new high. According to official data, the national real estate development investment from January to March was over 2 trillion RMB, an increase of 11.8% over the same period last year. According to the latest data released by the Excavation Machinery Branch of China Construction Machinery Industry Association （CCMA）, the industry sales of excavators was at a growth spurt in the first three months of 2019. From January to March, the cumulative total sales of 74,779 units, increased by 24.5% y-o-y; the cumulative domestic sales of 69,329 units, increased by 24% y-o-y; and the cumulative export of 5,450 units, increased by 31.9% y-o-y.

Construction is underway on the electrical facilities for the Beijing-Zhangjiakou high-speed railway

This railway will have the world's first automatically driven trains running at speeds of up to 350 km/h. The first 1,300-meter overhead wire for the railway is now being set up, and smart devices will be enabled throughout the power supply system to ensure operational safety. The new line-an important project for the 2022 Beijing Winter Olympic Games-will be the world's first intelligent, high-speed railway on which automatically operated trains reach speeds of 350 km/h.

A Reuters report said China is positioned to be a hot spot for investment in electric vehicles, with about 45% of a global total of 300 billion USD to be spent in China over the next five to 10 years.

2.4. Energy

Energy Administration: China's clean energy consumption accounts for 22.2%.

China's clean energy (including non-fossil energy and natural gas) accounted for about 22.2% of the total primary energy consumption in 2018, an increase of 7.7% points over 2012, the deputy director of the State Energy Administration disclosed in Berlin on April 9th. However, there is still a gap between the target of 25% in 2020 and 35% in 2030 respectively.

Clean energy installation in the Guangdong-Hong Kong-Macao Greater Bay Area

China Southern Power Grid plans to step up investment in smart grid construction in the Pearl River Delta region in the upcoming years, to continuously improve clean energy installation in the Guangdong-Hong Kong-Macao Greater Bay Area. The Guangzhou-based State-owned enterprise will invest more than 25.3 billion USD from 2018 to 2022 to improve disaster prevention capacity of power grids in the region, which is frequently hit by natural disasters including typhoons.

China Petroleum and Chemical Industry Federation and Greater Houston Partnership signed a MOU

The purpose is to forge a strategic cooperative relationship in the energy sector. China imports a lot of energy products, including crude oil, gas, ethane and such. When China and US will soon reach a trade agreement, China will definitely import a lot of crude oil, gas, ethane and other refined petrochemical products. The United States will find a big market in China for their energy products. China, the No. 1 crude oil importer in the past two years, also became the top LNG importer in 2018.

The first LNG receiving terminal funded by a domestic private enterprise ENN will start construction of its submarine pipelines

It will reach an annual handling capacity of 3 million metric tons in 2020. Its first phase involves an investment of 863 million USD, and the second phase has an investment of 2.4 billion RMB. LNG trading will develop further in the direction of larger volumes, shorter contracts, more flexible trades and lower prices in the coming years. Global LNG trade volume is projected to reach more than 500 billion cubic meters by 2023, around 30% more than in 2017.

China's offshore wind energy sector is expected to boom this year

The maturing of the onshore segment has driven down costs, making this type of clean energy viable. China boasts vast resources of onshore and offshore wind energy. It plans to install 30 gigawatt of offshore wind power capacity by 2020, from the 5 GW at the end of 2015, according to the National Energy Administration. It is also readying to build seven large-scale wind power generation plants in Gansu, Hebei, Jilin and Jiangsu provinces, and the Xinjiang Uygur and the Inner Mongolia autonomous regions in 2020.

Chinese shipping enterprises challenge the world's largest LNG transport vessel

Chinese shipping enterprise Hudong-Zhonghua Shipbuilding (Group) Co., Ltd. announced that it would jointly develop the world's largest LNG carrier with Norwegian DNV GL Classification Society. The jointly developed LNG carrier is provided with the design capacity of 270,000 cubic meters, which can transport 155 million cubic meters of natural gas at a time, equivalent to the gas consumption of more than half of the households in Shanghai for one month.

2.5. Steel

Crude steel production capacity in Hebei province and Tianjin will be capped at 200 million metric tons and 15 million tons by 2020

It is taken as part of China's efforts to optimize the iron and steel industry. The Beijing-Tianjin-Hebei region takes up only 2.2% of China's territory, but accounts for 25% of the nation's crude steel output. Since 2016， China has reduced overcapacity in the sector, fulfilling the upper overcapacity reduction goals for the 13th Five-Year Plan two years ahead of the schedule.

2.6. Chemical Industry

With the decline of economic growth in developed countries such as the United States and the steady growth of developing economies, the global chemical industry is expected to face downward pressure in 2019, but the profitability is expected to remain healthy. The situation of crude oil market is more complex, price shocks are aggravated, and production capacity in North America and Middle East is expanding, the profits of global ethylene industry have declined, competition is becoming increasingly fierce, plant start-up rate has decreased, global economic growth has fallen, and the support for the demand of chemical market has weakened. Moody, a credit rating agency, believes that the demand growth for chemicals is not only slow in North America and Europe, but more importantly, the demand growth in China is also weakening. The slowdown of China's bulk chemical products market has been obvious, and will gradually spread to the downstream of the industrial chain, but the profitability is expected to remain good.

Hainan's "Plastic Restriction" to "Plastic Prohibition" and China's Existing Alternative Materials

The Hainan Provincial Press Office held a press conference to announce and interpret the Implementation Plan for the Comprehensive Prohibition of the Production, Sale and Use of Disposable Non-degradable Plastic Products in Hainan Province (hereinafter referred to as the Plan), announcing that the comprehensive prohibition of plastic products in different categories has gradually been promoted since this year in Hainan. It is understood that the latest research results of biodegradable materials in China are mainly wood-like composite materials, intelligent seawater degradable materials, blue water biotechnology, spider silk-like high strength, high toughness, and fully degradable biomass/polymer composites. The main research achievements abroad are: the PET substitute made of biofuran molecule, "sugar + carbon dioxide" biodegradable plastics, and novel milk protein film, and so on.

China has banned or restricted certain chemicals

They have been identified as persistent organic pollutants in order to fulfill its international obligations, according to the Ministry of Ecology and Environment. According to a notice on the ministry's website, China in March banned most uses of perfluorooctane sulfonic acid, or PFOS, which is used to protect fabrics from stains, among other things.

2.7. Aviation Industry

Private firm planning first orbital launch

The duopoly of State-owned giants China Aerospace Science and Technology Corp and China Aerospace Science and Industry Corp remains unchallenged because they are in control of the most essential part of the space business - the carrier rockets. However, private players appear to be very close to breaking the duopoly. OneSpace Technology, a space startup based in Beijing, finished the construction and testing of its first carrier rocket, the OS-M, and is ready to transport it to the Jiuquan Satellite for the model’s debut mission in late March. In October 2018, LandSpace, another private space company based inBeijing, launched a carrier rocket, the first of its ZQ1 Series, however failed to reach orbit due to mechanical malfunctions.

Several government departments have published policies and guidelines that encourage private enterprises to take part in space-related business. As a result, nearly 10 private rocket firms have come into existence I China over the past three years. Nearly 100 startups established in the industry as investors see rich prospects. Analysts predicted that China's commercial space sector, including rockets, satellite applications, and space-to-ground internet connections, is still in its infancy, but it will grow into a multibillion USD market by 2020.

Two advanced satellites put into service

China put two Earth observation satellites in China put two Earth observation satellites into operation on 21.03 after testing, saying they will assist in a wide range of public services including environmental protection, air-pollution mitigation, agricultural and forestry surveys and disaster relief. The Gaofen 5 and 6 satellites are the latest additions to China's high-definition Earth observation satellite network.

CASC purchased 300 airbus aircrafts, with a total order value of nearly 30 billion euros

Airbus signed an agreement with China Aviation Supplies Holding Company in Paris to purchase 300 airbus aircrafts, including 290 A320 series aircrafts and 10 A350XWB series aircrafts. According to the catalogue price, the total value of the order is close to 30 billion Euro. This fully demonstrates the strong demand of China Airlines in the domestic market, low-cost market, regional and long-distance international routes at all levels of the market.

Aisino and Alibaba Sign Strategic Cooperation Agreement

Aisino Corporation and Alibaba signed a strategic cooperation agreement in Hangzhou. The two sides will rely on their respective advantages to carry out extensive and in-depth cooperation in cloud computing services, intelligent industries, fiscal and taxation services, government affairs, block chains, enterprise market services and other fields.

2.8. Electronics

Chinese smartphone manufacturer Nubia has unveiled its first wearable watch-like smartphone Alpha

The wearable device market offers huge development potential, amid sluggish growth in the country's smartphone segment and mounting competition from

3) M&A Information

January - April 2019

Outbound M&A					
Date	**Target**	**Target sector**	**Acquirer**	**Value (EUR)**	**Notice**
01.15	NEVS	NEV	Evergrande Group	832 million Euro	
01.22	Infranor Holding SA	Automation	Haozhi Industry Inc.	265 million Euro	
01.23	Terminales Portuarios Chancay S.A.	Port	COSCO Group	60% stock right	
01.29	NatSteel Holdings, Tata Steel (Thailand) Public Company	Steel	HBIS Group	60% stock right	
03.29	Smart (Daiymler)	Automobile	Geely Group	50% stock right	TBC
Domestic M&A					
Date	**Target**	**Target sector**	**Acquirer**	**Value (EUR)**	
01.18	Yema Auto	Automobile	Levdeo	100% stock right	
01.24	CENAT	Battery	Evergrande Group	140 million Euro	
03.19	Borgward Auto	Automobile	UCAR Group	7% stock right with 543 million Euro	
02.04	Shanghai BST	Elevator component	Inovance	100% stock right with 331 million Euro	

4) SOE Information

4.1. SOE Reform Updates

Li Keqiang pointed out in his Government Work Report during the Two Sessions that the reform of state-owned assets and enterprises should be accelerated. Deepened reforms in the fields of electricity, oil and gas, railways and so on shall be carried on, natural monopoly industries shall separate network transportation according to the characteristics of different industries and competitive business be promoted to the market in an all-round way.

100 SOEs to join 4th round of mixed ownership reform

China will put over 100 SOEs into its fourth batch list of mixed-ownership reform for SOEs to better spur innovation and meet market changes. Even though the authorities have not released the names of these companies yet, official from the SASAC (State-owned Assets Supervision and Administration Commission), said they will be in more areas at both the centrally-administered and locally-administered levels in the next stage.

As China so far has put 50 pilot central SOEs into mixed ownership reform in three rounds, and the trend has been set, for highly competitive commercial companies, State-owned capital can get involved in forms of either majority stake holders or smaller stake holders.

Mixed ownership system reform of Sinopec, PetrolChina and CNOOC: National Pipeline Network Company is emerging

NDR issued the Report on the Implementation of the National Economic and Social Development Plan in 2018 and the National Economic and Social Development Plan Draft in 2019, which clearly stated that the national oil and natural gas pipeline network company (hereinafter referred to as the "national pipeline network company") would be set up to promote the independence of oil and gas pipelines and achieve the separation of pipeline transportation and sales. In June last year, it was reported that the oil and gas pipeline network assets of PetroChina, Sinopec and CNOOC will be separated. The plan is to merge the related pipeline network assets and employees into a new pipeline network company and social capital will be introduced to seek a listing.

At present, the pipeline companies of the big three seem to be independent, but in fact it is a vertical monopoly. When it is monopolized, the third party can’t participate in the competition, the gas produced by others is not allowed to enter the pipeline network. Moreover, the pipeline network utilization efficiency of oil companies is very low. After the establishment of the national pipeline network company, enterprises will actively participate in upstream and downstream investment, especially the upstream development. The plan for its establishment has been submitted to the State Council. Although specific timetable for its establishment is yet to come, it should be approved soon.

SOE reform continues in 2019

State-owned Assets Supervision and Administration Commission (SASAC) will also encourage independent innovation and breakthroughs in key technologies, as well as promote the transformation and development of the manufacturing sectors.

China is making effort in restructuring the nation's previously monopolized industries by means of bringing in more mixed-ownership management modes. SASAC called on 11 pilot SOE's in late December 2018 to establish independent financial and investment arms to better manage their assets and serve the real economy. They follow on from 10 pilot SOEs chosen in 2016, when China began to take measures to tackle some SOEs structural, operational and debt issues. The reform until 2020 aims to establish a market-oriented income distribution mechanism that directly connects the salaries of employees with the company's performance. Marketization is the goal.

4.2. SOEs Introduction

State-Owned Company Name	Energy China
Headquarter Location	Beijing
Total Number of Employee	160,000
Number of Subsidiaries in China	16
Name of Chairman	Mr. Wang Jianping
Main business:	The comprehensive solutions include one-stop integrated solutions and full life-cycle project management services. The business segments consist of survey, design and consultancy, construction and contracting, equipment manufacturing, environment protection & water affairs, roads and bridge, real estate, civil explosives and cement production, and investment and other businesses. Energy China has provided services in over 140 countries and regions.
General Introduction	Energy China Group is a large internationally energy engineering conglomerate. In 2014, China Energy Engineering Corporation Limited (Energy China) was established by Energy China Group, the principal promoter, and Electric Power Planning & Engineering Institute Co., Ltd. (EPPE Company), with a registered capital of 21.6 billion RMB. Energy China has 3 national research institutes, 3 academician work stations, 8 post-doctoral research and development work stations and 43 provincial level research institutes, 68 high-tech enterprises, boasting more than 3,700 major technological achievements, 40-plus National Science and Technology Progress Awards, over 8,800 valid patents, and compiling more than 920 international and national industry standards.
Turnover in billion Euro	31.5 billion in 2017
Website:	http://en.ceec.net.cn/

State-Owned Company Name	SinoChem
Headquarter Location	Beijing
Total Number of Employee	50,000
Number of Subsidiaries in China	28
Name of Chairman	Mr. Frank Ning
Main business:	Sinochem Group is one of China's four largest state oil companies, China's leading chemical service provider, China's biggest agricultural inputs (fertilizer, seed and agrochemicals) company and integrated modern agricultural service operator. Sinochem Group also exerts strong influence in city operation and non-banking financial service sector.
General Introduction	Headquartered in Beijing, China, Sinochem Group was founded in 1950. Its predecessor was China National Chemicals Import and Export Corporation. Sinochem Group has established five Strategic Business Units (SBU), namely energy, chemicals, agriculture, real estate and finance. It operates more than 300 subsidiaries around the world. It holds a controlling stake in a number of listed companies, including Sinochem International, Sinofert and China Jinmao.
Turnover in billion Euro	53.1 in 2017
Website:	http://english.sinochem.com

5) 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
LongRMB	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: (April 2019)

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

Exchange Rate	
EURO: USD	EURO: RMB
1 : 1.13	1 : 7.5

6) Calendar of Events (VDMA China)

Event Name	Location	Date
Highlight Event		
Flagship Industry 4.0	Shanghai	21-Jun
Summit	Shanghai	30-Oct
China Management Meeting (CMM)		
Construction Equipment	Shanghai	7-May
Food Packaging and Processing Machinery	Suzhou	8-May
EMINT	Shanghai	14-May
Plastic and Rubbery Machinery	Guangzhou	20-May
Technical Networking Meeting	Beijing	24-May
Trade Fairs		
IAMD	Beijing	8-10 May
SNEC PV POWER EXPO	Shanghai	04-06 Jun
CPhI&P-MEC China, FoodPack China & ProPak	Shanghai	18-21 Jun
CEO Roundtable/Breakfast		
B2B Marketing	Shanghai	16-May
Compliance	Shanghai	18-Jun

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7) 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!

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