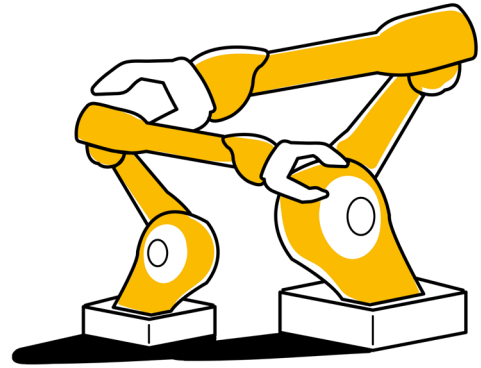


MAY 8, 2024 (REPORTING PERIOD: APRIL 2 - APRIL 30)

MERICS

China Industries



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MERICS TOP 5

1. Procuring breakthroughs: Finance ministry promotes public private R&D

At a glance: The Ministry of Finance (MOF) released details of a new form of government procurement, called “cooperative innovative procurement” (CIP). Through this model, state buyers and corporate suppliers invest jointly in the R&D of a specific product. The buyer also commits to procure a certain amount of the new product if it meets agreed-upon standards. For a prospective product to qualify for the CIP arrangement, it must:

- Be researched and developed in China
- Align with national science and technology (S&T) and related industry development plans
- Support the implementation of major national strategic goals and tasks
- Result in a technological breakthrough, or form a new paradigm or solution which significantly improves performance

The regulations will come into effect on June 1, 2024.

MERICS comment: With these measures, the government has found another mechanism to concentrate public resources on its S&T goals. In theory, the CIP scheme will enable the government to extract more value out of its procurement spending and stimulate further innovation in the economy. In reality, such an approach will have its drawbacks. Government bodies may struggle to strike a balance between feasibility and efficiency when setting the R&D goals, budgets and deadlines for projects. But even if it is wasteful, Beijing could still consider it a success if it helps reduce reliance on foreign technology.

The policy stipulates that apart from projects involving national security and state secrets, domestic and foreign enterprises can equally participate in the scheme. In effect, the scheme seeks to coopt foreign firms into advancing the China’s S&T capabilities and the industrial development of Chinese firms. While there may be short term gains for foreign firms to participate in the scheme, such as gaining local authorities’ goodwill, they will also be aiding their current or future competitors.

A more important issue for foreign firms in China is equal treatment in government procurement generally. Although there are no legal barriers for foreign firms to put in a bid, they are often at a disadvantage due to regulatory barriers, [local content requirements](#) and so on.

Article: Interim Measures for the Administration of Cooperative Innovative Procurement Methods in Government Procurement (关于印发《政府采购合作创新采购方式管理暂行办法》的通知) ([Link](#))

Issuing body: MOF

Date: April 26, 2024

2. Digital talent: China moves to level up its labor force in emerging industries

At a glance: The Ministry of Human Resources and eight other government agencies issued an action plan to foster talent in newly emerging industries such as big data, artificial intelligence, smart manufacturing, integrated circuits, and data security. The plan points out measures in education and professional training to support the development of China's digital economy. Targets for 2026 are:

- Implement digital technology engineering programs, establish new majors at universities and expand national occupational standards
- Create vocational training packages, teaching materials and courses for digital occupations
- Carry out international exchanges for digital talents
- Support digital talents to become entrepreneurs through training and exchange platforms

MERICS comment: As China's labor market is changing it faces severe labor shortages in the digital industry. According to a joint report by [Deloitte and Chinese firm Renrui Human Resources Technology in 2023](#), the AI-industry is short of over 5 million workers, while the smart manufacturing sector will lack 5.5 million qualified workers by 2025. The shortages pose a challenge to China's digital and manufacturing ambitions and the problem will grow as the work force shrinks due to China's ageing population.

The policy shows that Beijing acknowledges the need to align its education system with industry requirements and to enhance the productivity of its limited workforce in order to address the labor shortage. Therefore, the training broadly covers different groups, including university and vocational school students, engineers and digital talents who are supposed to adjust their skills as well as regular workers to improve "digital literacy."

Overseas expertise remains highly valued for newly emerging sectors. The policy encourages measures to attract both foreign talent and Chinese students who have studied abroad to contribute to China's digital economy. Furthermore, the policy is in line with encouraging it also foresees cooperation with international partners in vocational education and the inclusion of overseas materials for its training programs.

However, the plan does not address structural challenges such as limited upward mobility for workers and talents, the poor reputation of vocational training and unequal access to education. It also remains unclear if an even greater portion of Chinese students can be persuaded to study STEM subjects and how administrative burdens for foreign talents coming to China might be lowered.

Article: Action Plan to Accelerate the Cultivation of Digital Talents to Support the Development of the Digital Economy (2024-2026)(加快数字人才培养支撑数字经济发展行动方案 (2024—2026 年)) ([Link](#))

Issuing bodies: MOHRSS, Organization Department CCP, CAC, NDRC, MOE, MOST, MIIT, MoF, NDA

Date: April 02, 2024

3. Equipment upgrading plan aims to fast track advanced manufacturing

At a glance: The Ministry of Industry and Information Technology (MIIT), along with six other agencies, issued an implementation plan to promote equipment upgrades across the industrial sector. This includes enterprises in high-tech sectors such as aviation, solar and batteries, as well as more traditional sectors such as agriculture and construction. The policy set the following goals for 2027:

- Increase the scale of investment in industrial equipment by over 25 percent compared to 2023
- Raise the share of large industrial enterprises using digital R&D and design tools to 90 percent, and applying computerized methods for key process to 75 percent
- Enhance safety standards across all industries
- Improve the energy efficiency of major energy-consuming manufacturing equipment; in key industries, phase out production capacity falling below energy efficiency benchmark levels

MERICs comment: The policy is marketed as a measure to support “new quality productive forces,” and will further strengthen China’s manufacturing sector, which has become the main driver of economic growth in the midst of the real estate crisis and weak consumer confidence. The 500-billion-yuan (approx. 65 billion euros) relending program announced by the People’s Bank of China in April will further support this endeavor. In addition, the government is attempting to stimulate consumer spending by making goods more affordable through [product turn-in schemes](#).

Raising China’s already high rate of fixed asset investment could deliver a boost to near-term growth. However, in the long run, it is unlikely to help growth as industrial upgrades made now pull forward investments that would’ve likely been made later. The policy risks wasted investment and contribution to overcapacity for China as well. Improvements in energy and production efficiency could drive firms to produce more and sell their products cheaper as they try to survive heightened competition. Some sectors run the risk of becoming saturated with excess production, particularly in the already heavily subsidized green and high-tech sectors. It is highly unlikely that China’s domestic consumption can meet the quick increase in supply. This will push Chinese firms to export excess production overseas at cheap prices, which is already taking place in some sectors.

Article: Implementation Plan for Promoting Equipment Updates in the Industrial Field (工业和信息化部等七部门关于印发推动工业领域设备更新实施方案的通知) ([Link](#))

Issuing bodies: MIIT, NDRC, MOF, PBOC, STA, SAMR, SAFR

Date: April 9, 2024

4. AI law: Leading experts suggest eased compliance burden on developers

At a glance: A team of influential Chinese AI experts led by Zhou Hui (周辉), deputy director of the Chinese Academy of Sciences (CASS) Cyber and Information Law Research Office, updated their suggested draft for an Artificial Intelligence (AI) law. The following changes are noteworthy compared to the [previous version](#) released in August 2023, signaling an intent to support industry and avoid excessive red tape:

- Support measures for open-source AI research and development (R&D), e.g. tax incentives and liability exemptions tied to transparency measures
- 30-percent tax credit for investments made in AI safety
- Greater leeway for developers to use (labelled) copyrighted data for model training
- Possibility for users to obtain copyright protection for edited AI-generated content

MERICS comment: While these are recommendations by academic scholars, they offer an invaluable window into what China's AI expert community thinks a potential Chinese equivalent of the EU's AI Act should say. The State Council launched legislative work in May 2023, enabling academia and industry to provide input. Whether China will eventually end up with a comprehensive AI law, complementing existing vertical regulations for recommender systems, deep synthesis, and generative AI, remains to be seen. Still, since academics often [actively influence](#) regulatory and standardization processes, this version provides a good indication of what such a law could look like.

Like other countries, China is grappling with the societal, economic, and political disruptions that general-purpose AI systems bring about. Public-facing generative AI models are already subject to a [de-facto licensing regime](#) through the algorithm registry managed by the Cyberspace Administration of China, which is most concerned about controlling AI-generated information. The Model Law goes one step further, proposing a national AI office that would compile a negative list for AI products and services that pose higher risk and hence can't be released without a license. This risk-based approach mirrors the EU's and finds precedent in local regulatory experiments, e.g. in Shenzhen.

So far, China's regulators have taken a relatively pro-industry stance. The Model Law's drafters seem to lean in the same direction, for example on copyright. How risks will be defined, monitored, and mitigated, and by whom, is a key aspect to watch. With existing Sino-Western AI governance exchanges [focusing heavily on safety and catastrophic risks](#), there may be room for EU experts to engage Chinese counterparts on issues that industry is notoriously less keen on, such as transparency, accountability, and non-discrimination.

Article: Artificial Intelligence Model Law Version 2.0 (Expert Suggestion Draft) (人工智能示范法 2.0 (专家建议稿)) ([Link to multilingual version](#))

Issuing body: CASS's Major Research Project on National Condition, Research Group for the "Investigation on the Status of the Construction of China's Artificial Intelligence Ethics Review and Regulatory System"

Date: April 16, 2024

5. Pilot scheme allows full foreign ownership in value-added telco services

At a glance: The MIIT announced a pilot program to scrap foreign ownership restrictions in selected value-added telecommunications services (VATS), i.e. services which extend beyond the core business of network providers. The pilot areas will be in Beijing, Shanghai, Shenzhen and Hainan, and may be expanded to other areas. The scheme will permit full foreign ownership of businesses in the following VATS areas:

- Data centers, content distribution and internet access
- Online data and transaction processing
- Information release, delivery and protection (excluding online news publishing, online audiovisual services and internet cultural services)

Foreign-owned telecommunications enterprises can apply to the MIIT for approval to participate in the pilot scheme and independently provide the above-mentioned services.

MERICs comment: The pilot scheme will be welcome news to European firms which have struggled to expand into the China VATS market or obtain operating licenses in this area. [Previous regulations](#) state that only companies that are less than 50 percent foreign owned can apply for a VATS license, with a few exceptions. Foreign-invested enterprises account for only about [4.5 percent](#) of the total number of VATS business operators issued by the MIIT.

Global providers of VATS services should now be able to maintain uniform data and storage services in China and abroad. Industrial firms may also choose to set up related services for their own operations. For instance, a European company that provides after-sales services in China can now set up its own local data center to directly monitor and manage product data.

The announcement of the pilot scheme came just a couple of days after Shanghai inaugurated its [cross border data service center](#) and pledged to adopt internationally recognized standards. Through these moves, the Chinese government is signaling its intent to address the concerns of foreign business around data regulations, particularly regarding cross border data flows. Even so, data security measures will continue to constrain the operations of foreign firms. The new pilot scheme also requires authorities to strengthen their ability to supervise network and data security, even as foreign firms are permitted more control over how they handle data.

Article: Notice on Launching a Pilot Program to Expand the Opening Up of Value-Added Telecommunications Services (工业和信息化部关于开展增值电信业务扩大对外开放试点工作的通告) ([Link](#))

Issuing body: MIIT

Date: April 10, 2024

NOTEWORTHY

Policy news

- *April 2:* The State Council issued instructions to facilitate financing for micro-, small- and medium-sized enterprises, and encouraged local financing credit service platforms to support strategic emerging industries, future industries, as well as green and low-carbon development ([State Council notice](#))
- *April 2:* The MOF and MIIT launched a new pilot project aiming to upgrade manufacturing in cities and offering up to CNY 300 million (EUR 38.6 million) per city to support projects in areas such as smart factories and digital supply chains ([MOF notice](#))
- *April 8:* The MIIT issued policy measures to improve the quality of industrial enterprises, including through advanced quality standards and digital quality management, with a focus on key industries such as industrial aircraft, instrumentation, agricultural machinery products and civil unmanned aircraft ([MIIT notice](#))
- *April 10:* The China National Intellectual Property Administration released an overview of its core policy goals for 2024, including reducing the examination period for patents, enhancing IP protection mechanisms, and expanding international cooperation ([CNIPA notice](#))
- *April 17:* The MIIT kicked off the application process for the sixth batch of [Little Giant](#) companies; companies have until May 19, 2024, to apply ([MIIT notice](#))
- *April 19:* The China Securities and Regulatory Commission released 16 measures to improve access to capital markets for high-tech firms, including preferential treatment with regards to listing and bond issuing for companies which have achieved breakthroughs in core technologies ([CSRC notice](#))
- *April 24:* The Beijing City Government unveiled a computing infrastructure implementation plan which aims to achieve complete self-sufficiency in the supply of smart computing hardware and software by 2027 ([Beijing City Government notice](#), [South China Morning Post article](#))
- *April 28:* The Ministry of Commerce issued an action plan for the development of digital commerce, covering 2024-2026, with an aim to support innovative digital business and boost digital consumption ([MOFCOM notice](#))

Corporate news

- *April 5:* The S&T Daily reported that in 2023 China accounted for 57 percent of global orders for “green ships,” referring to ships powered by alternative fuel- and energy systems, such as hydrogen, LNG, and battery-power ([S&T Daily article](#))
- *April 10:* The German Chamber of Commerce in China released a survey showing that the majority of German firms feel that competition in China is unfair; most

respondent firms felt that they're competitive in quality and innovation, but not in price. ([Reuters article](#))

- *April 14:* A new drone delivery service was launched in China's Greater Bay Area by drone manufacturer Phoenix Wings; the service costs 40 CNY (5.16 EUR) per order and takes 45 minutes – cutting nearly an hour off intercity transport time for goods between Shenzhen and Zhongshan ([South China Morning Post article](#))
- *April 20:* China's second domestically produced cruise ship entered its final assembly at dock and is planned for delivery by the end of 2026 ([S&T Daily article](#))
- *April 26:* BMW announced it will invest a further CNY 20 billion (EUR 2.6 billion) in its Shenyang plant in China; the firm has been increasing its investment in Shenyang as of late, with total investment in the production base now rising to around CNY 105 billion (EUR 13.8 billion) ([Reuters article](#))
- *April 30:* China Southern Airlines purchased 100 Chinese-developed C919 aircraft, with total orders for the model now exceeding 1,200, including overseas orders by large aircraft leasing firms ([Global Times article](#))
- *April 30:* US carmaker Tesla together with Chinese tech firm Baidu have received a permit from Chinese authorities for their jointly developed advanced driver assistance map ([Yicai article](#))

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