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NDRC launched new package of projects to enhance core competitiveness of manufacturing sector

On July 13 2015, the National Development and Reform Commission (hereinafter “NDRC”) introduced package of projects (hereinafter “the package”)¹ to boost the manufacturing sector. The package focused on fostering technological progress in 6 major industries including railway equipment, high-end shipping and maritime engineering equipment, industrial robots, new-energy vehicles, modern agricultural machinery and medical equipment. The package aimed to encourage investment in the above business sectors to enhance the core competitiveness of China’s manufacturing industry. We will be introducing the highlights of the package in the report.

I Background

Since September last year, the NDRC has approved 7 project packages featuring information, electricity, oil and gas network, healthcare, water conservancy, transportation, energy and mineral resources security, environmental protection and clean energy. According to the statistics from NDRC, by the end of June 2015, 228 projects had been launched with a total investment of RMB 3.3 trillion. Then an executive meeting of the State Council held in June formally determined to add 4 new project packages focusing on the development of emerging industry, enhancing core competitiveness of manufacturing industry, modern logistics and urban railway system to further bring a new investment boom and encourage more private capital to get involved.

China’s emergence as a manufacturing powerhouse has been astonishing. According to NDRC, manufacturing output accounted for over one third of China’s GDP last year, at RMB 63.6 trillion. However, China faces new challenges as economic growth slows, wages and other factor costs rise, value chains become more complex, and consumers grow more sophisticated and demanding. The government has been making great efforts in giving manufacturing a makeover. In March of 2015, NDRC released an action plan to improve the core competence of six manufacturing sectors from 2015 to 2017, counting on the projects to facilitate breakthroughs in key technology, nurture manufacturers with global influence and create brands recognized around the world. The long-awaited Chinese version of Industry 4.0, the Made in China 2025 strategy² was unveiled on May 19 2015, which has generated a lot of buzz since it was first mentioned at the annual session of the National People’s Congress on March 25, in Premier Li Keqiang’s Government Work Report. The Made in China 2025 strategy emphasized the priorities of Chinese manufacturing industries shall be transformed from made in China to made by China, from speed to quality and from products to brands, with the aim to achieve the basic industrialization by 2020.

To realize the goal of promoting manufacturing sector, the NDRC vowed to attract private investment, increase financial support and encourage acquisitions of foreign high-tech manufacturers. The newly released package detailed key projects to promote manufacturing sector on top of government’s agenda, giving guidelines for the future investment focus for investors.

¹ http://gvs.ndrc.gov.cn/zcfg/201508/t20150804_744357.html

² Please refer to our detailed news focus No.11 report for reference (http://rmb.bk.mufg.jp/files/topics/215_ext_02_en_0.pdf)

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II Highlights

Category	Key projects
1.Railway equipment	Research & development, application and industrialization of: (1) EMU (Electric Multiple Units) including different categories of CRH (China Railway High-speed); (2) Urban rail traffic; (3) Rail traffic control system
2.High-end shipping & maritime engineering equipment	(1) Accelerate domestic manufacturing and application of key products such as luxury cruise liner, the new liquefied natural gas carrier (LNG) and smart eco-ships; (2) Industrialization of key components and systems such as new marine power systems, navigation and communication systems; Strengthening international cooperation through joint development, introduction of advanced technology, joint ventures, overseas mergers and acquisitions; Master key technologies and nurture self-owned brand; (3) Smart shipyard construction; (4) Platform construction of major products research & development, testing and inspection
3. Industrial robots	(1) Whole set of robot production, application and digital renovation; (2) Research & development and application of key components such as high precision reducer, high speed and high performance controllers, high-performance servo motor and driver; (3) Enhance third party inspection capacity such as setting up national inspection and evaluation centers for robots; unifying certification system for industrial robots, etc.
4.New-energy vehicles	(1) Industrialization of new energy vehicle control system Focus on the development of fully functional, high performance vehicle control system products, highly integrated vehicle control, motor control and battery management, build automated production lines, and enhance industrialization of technology and application of the control system; (2) Lightweight new-energy vehicle - Focusing on the development of lightweight material like non-metallic composite material, light alloy and high strength steel; (3) Industrialization of plug-in hybrid system; (4) Industrialization of advanced battery and system integration
5.Modern agricultural machinery	(1) Industrialization and application of key agricultural machinery and improve the production of major agricultural enterprises; (2) Research & development and application of key components such as high-performance large-scale agricultural machinery transmission, drive axle, high-grade agricultural machinery electricity control and hydraulic systems; (3) Improve research and development capability and inspection
6.High-end medical equipment and pharmaceuticals	(1) Research & development, application and industrialization of key technology and components; high-performance diagnostic equipment; In vitro diagnostic medical devices and high-end embedded intervention products; (2) Research & development, application and industrialization of high-end pharmaceuticals; Advance innovation and technology in key products; Push forward the modernization of traditional Chinese medicine

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III Comments

Besides lining up the detailed projects, the package also called for private capital to get involved, gradually increasing the investment fund for promoting highly advanced manufacturing sector. For example, the central government will actively guide financial institutions to strengthen credit support in order to boost industry growth. Enterprises are encouraged to explore financial leasing business by all means and lower the risk by performance guarantees. Support will also be extended to relevant enterprises with issuance of stocks, corporate bonds, medium-term instruments, short-term financing and the involvement of private equity investment.

The package echoes market expectations for further liberation of Chinese manufacturing sectors to facilitate foreign investments. At the same time, against a backdrop of “streamlined administration and power delegation”, major breakthroughs in the foreign investment approval system are also expected. This will bring huge business opportunities for foreign investors.

The interpretation and actual implementation of the package should be worthy of attention. The up-to-date information will be provided continuously by our bank.

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