

## Guangzhou to Boost Development of Auto Parts Industry

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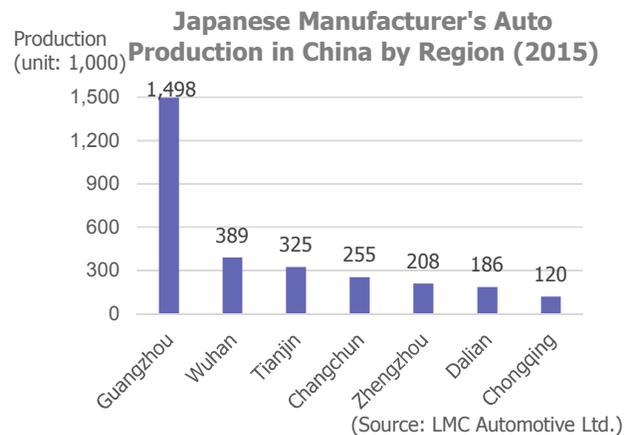
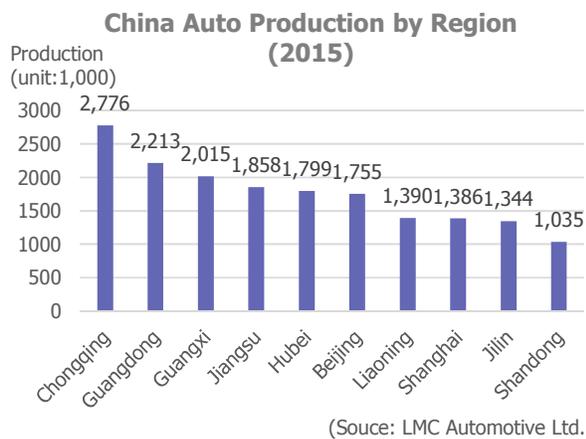
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On 3 November 2016, the Guangzhou Municipal Government released Guangzhou International Auto Parts Industry Base Construction Implementation Plan (Hereafter "the Plan"). The Plan is with the aim to promote the construction of supply chain, and to make Guangzhou a more integrated auto production base. The plan targeted that by the year of 2020, the production value of Guangzhou International Auto Parts Industry Base shall increase by RMB200 billion, the local procurement rate of core auto parts shall increase to 80%, and the auto parts export value shall reach USD5 billion. This report will give a brief introduction of the Plan.

### BACKGROUND

China produced 24 million automobiles last year. Among which, Guangdong Province contributed 2.21 million, making it the second largest auto production base after Chongqing. As the capital city of Guangdong Province, Guangzhou accounted for almost 80% of the province's total number of auto production. It is also the largest industrial cluster for Japanese auto makers in China, as 43% of the auto production by Japanese auto manufacturers in China were achieved in Guangzhou last year.



According to a recent news report, boosted by the investment and production expansion of auto makers in Guangzhou, over 500 auto parts makers have established businesses in the area accordingly. In addition, the city's auto industry investment for the first three quarters in 2016 has grown by 32.1% comparing to the same period last year, and further development of auto industry can be expected.

However, according to Guangzhou municipal government, the city's auto parts production (excluding engine production) remains at around 26% of the city's total value of auto production last year, and there is still room to improve the industry's added value. The Plan reflected Guangzhou's intention to optimize its supply chain for the auto industry. It is targeting at the enhanced development and manufacture of high value-added auto parts, and auto parts for new energy vehicle or intelligent & connected vehicle<sup>1</sup> (Hereafter "ICV").

## HIGHLIGHTS

The plan laid out the "153 Strategy" in order to attract investment in auto parts industry. The structure of the strategy is explained as follows.

"1" refers to the 1 auto parts industry base.

"5" refers to the 5 industrial parks (Located in Panyu, Zengcheng, Huadu, Nansha and Conghua respectively).

"3" refers to the 3 aspects of auto parts industry including

- i. High-end auto parts for the traditional auto industry such as drive train, electronic control system, and light-weight parts
- ii. Auto parts for new energy vehicle or ICV, such as power battery, drive motor, electric control system, in-vehicle optical system, in-vehicle radar system, high-precision positioning system, in-vehicle wireless internet devices
- iii. Combine manufacture with service, develop the public facilities such as technology research, inspection and measurement, industrial incubation, financial service, trade and logistics, and improve the comprehensive function of the base

To promote the "153 Strategy", Guangzhou has formed an Automobile and Auto Parts Industry Development Leading Team, and new land development projects in the 5 industrial parks have been pushed forward so as to make industrial land available for use by August 2018. In addition, an "Encouraged Auto Parts Industry Catalogue" has been released. Related investments are able to enjoy preferential measures such as investment rebate, research cost subsidy, land supply and talent employment assistance, for the purpose of promoting the industrial development.

### (1) About the "Encouraged Auto Parts Industry Catalogue"

The preferential measures will be given to companies applicable to the "Encouraged Auto Parts Industry Catalogue", which is reviewed on an annual basis. The content of the current catalogue is explained as follows:

[Encouraged Auto Parts Industry Catalogue (provisional translation)]

<b>High-end Auto Parts</b>	<ul style="list-style-type: none"> <li>■ Core auto parts for traditional vehicles: core parts such as engine and automatic transmission, engine control system, automatic transmission and clutch set, active safety parts, electric and electronic control parts</li> <li>■ Other core parts: automotive transmission system, driving system, suspension system, steering System, brake system, chassis frame, vehicle axle, propeller shaft, wheels, brake devise, tire, rubber dumper, shift lever, sub-frame, automotive cluster, ball bearing</li> </ul>
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1 According to China Association of Automobile Manufacturers, "Intelligent & Connected Vehicle" refers to a vehicle installed with high-end sensor, controller or implement device, which is combined with modern telecommunication network technology, realizes the information exchange between the vehicle with people, other vehicle, road and backup office, senses complicated environment, practices the function of cooperative control and implementation, provides safe, comfortable, energy-saving, efficient driving experience. The ultimate Intelligent & Connected Vehicle is a next-generation vehicle that replaces human driver to realize pilot automation.

	<ul style="list-style-type: none"> <li>High value-added Parts: auto electric control, auto electronics, engine electronic control, electronic power steering system, electronic brake, electronic parking</li> </ul>
<b>New Energy Vehicle-related Auto Parts</b>	<ul style="list-style-type: none"> <li>Battery with energy density over 200Wh/kg, battery module, permanent-magnet motor, electronic control system, drive electrode, coupler system</li> </ul>
<b>ICV-related System &amp; Projects</b>	<ul style="list-style-type: none"> <li>Demonstration operation: construction of testing and demonstration area</li> <li>R&amp;D cluster: Attraction of R&amp;D centers to enter the upstream/downstream industry chain</li> <li>Big data: Encouragement of domestic and international big data operators to participate in smart city, intelligent transportation projects etc.</li> <li>Hardware integration: in-vehicle optical system, in-vehicle radar system, in-vehicle high-precision positioning system, in-vehicle wireless internet devices, integrated control system</li> </ul>

## (2) About Preferential Measures ~ Financial Assistance

In order to reinforce the supply chain and upgrade the industry structure, the Plan has set up series of rewards and subsidies to encourage company investment and technology innovation. Some of the applicable rewarding and subsidizing policies are extracted below.

### [Main Financial Assistance Measures (provisional translation)]

Business Actions	Rewards/Subsidies	Remarks
Establishment of auto parts projects with paid-in capital over RMB20 million	Reward will be given amounting to 5% of paid-in capital (Up to RMB50 million for each company)	Not allowed to relocate business registration and tax registration out of Guangzhou within 10 years
Expansion of international market by automobile or auto parts manufacturers in Guangzhou	Eligible to apply for the Outbound Economic Development Special Fund	Supervised by Municipal Commission of Commerce and Municipal Finance Bureau
Establishment of R&D and manufacturing center of core auto parts	Reward will be given amounting to 10% of paid-in capital (Up to RMB20 million per company)	
R&D innovation activities by auto parts manufacturers	Subsidy will be given up to 5% of the actual R&D expenditure in the previous year	
Establishment and operation of auto parts new-model R&D institutions	Financial assistance provided for the eligible research subject which meet the practicality and industrialization requirement Subsidy will be given based on the actual R&D expenditure in the previous year	Legal personality is required for new-model R&D institutions (in line with Huikexin[2014]No.2 and Huifuban[2015]No.27)
Establishment of new company due to business division of existing auto parts company	Reward paid at 10% of paid-in capital (Up to RMB20 million for each company)	
Technical improvement, production expansion or facilities renovation by the existing auto parts company	Eligible to apply for the Industry and Information Technology Development Special Fund	Supervised by Municipal Industry and Information Technology Commission and Municipal Finance Bureau
Establishment of technical service platform including examination & measurement center, 2 <sup>nd</sup> -hand vehicle transaction platform etc.	Reward will be given up to 30% of paid-in capital (Up to RMB50 million for each company)	Applicable to new establishment and relocation to Guangzhou International Auto Parts Industry Base
Usage of the service platform developed by and operated in industrial park	Subsidy will be given amounting to 30% of expenditure (Up to RMB1million for each company per year)	Advanced approval is required

Besides, the following preferential policies are applicable.

- No less than 20% of “Guangzhou Automobile Industry Innovation & Development Fund”<sup>2</sup> will be invested in Guangzhou’s auto parts companies.
- At obtaining land for industrial use, a discount of up to 30% of the standard price can be offered, as long as the offered price is no less than the land cost and advanced development cost.
- High-end professionals introduced to develop new energy vehicles or ICV industry may enjoy priority at applying for preferential policies under “Zhujiang Talent Plan”<sup>3</sup>.

## COMMENTS

The 13<sup>th</sup> 5-year Development Plan for Advanced Manufacturing Industry in Guangdong Province pointed out that its auto parts production to its auto production ratio in value was far below that of a developed country. Therefore, it is essential to make great effort on R&D of smart auto production and core auto parts such as battery for new energy vehicles.

The Plan, based on the provincial 13<sup>th</sup> 5-year plan for advanced manufacturing industry, has laid out the preferential measures to support auto industry as Guangzhou’s main industry. It is expected that the supply chain of Guangzhou’s auto industry will be further consolidated. Also, focusing on the next-generation vehicle, further development of high-potential auto parts industry can be expected in Guangzhou.

However, the Plan failed to clarify the procedure to apply for preferential measures, and the enjoyment of preferential policies by established companies relocated to Guangzhou. Continued attention shall be paid in the future to the release of administrative guidelines and relevant government correspondence.

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- 2 “Guangzhou Automobile Industry Innovation & Development Fund” is made up of Guangzhou Industry Structure Upgrade Development Fund, Guangzhou Industry Structure Upgrade Instruction Fund and other source of funds, with a total scale over RMB 10 billion. It provides all-round support to the development of Guangzhou’s auto industry, including its auto parts industry.
  - 3 The facilitating measures regarding residential identity (visa), children’s education, housing allowance, working-related expenditure subsidy, which is used to attract high-end professionals. Similar talent attraction schemes also include Leadership 1+4 Policy, Goat Town Innovation Leadership Assisting Plan, Talent Green Card Measures etc.