CHINESE MACHINE TOOL MARKET - WEEKLY BULLETIN

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Manufacturing in nationwide high-tech push

The nation will seek to maintain strong industrial growth momentum in 2018 by making a fresh push to marshal the country's high-end manufacturing power, according to the country's top industrial development regulator.

The promise came after China's industrial output rose by 6.6 percent in 2017, marking a notable growth.

Miao Wei, Minister of Industry and Information Technology (MIIT), said on Jan 30 that "China will set up a raft of national innovation demonstration zones and ratchet up resources to promote the integration of manufacturing and new technologies in 2018."

According to Miao, high-tech sectors will play a bigger role in driving the country's economy. In 2017, China produced more than 120,000 industrial robots, a surge of 68 percent year-on-year. When it comes to new energy vehicles, China led the world, producing 794,000 of them last year, up by 51 percent.

The Ministry of Industry and Information Technology predicted in late December 2017 that the country's industrial output is likely to grow by around 6 percent in 2018.

The goal to move up the industrial value chain is gaining substantial steam across the country, with a total of 97 intelligent manufacturing pilot projects already announced in October. Companies such as Beiqi Foton Motor Co and Lepu Medical Technology (Beijing) Co are active participants of such initiatives.

Wang Peng, deputy director of the China Center for Information Industry Development, said intensified efforts to cut overcapacity will add more impetus to the industrial economy and improve economic quality.

In 2017, China achieved its goal of reducing steel capacity by more than 50 million metric tons. It also cut overproduction in other industries, such as cement.

Earlier this month, experts who advise the central government on industrial restructuring plans updated the national Made in China 2025 strategy road map, by placing more emphasis on new technologies such as artificial intelligence. The move is in line with a three-year plan unveiled by the Ministry of Industry and Information Technology to boost the application of AI in sectors such as automobiles, robots and healthcare, among others.

Yu Chengdong, CEO of consumer business group at Chinese tech heavyweight Huawei Technologies Co Ltd, said the company will step up its exploration of AI-enabled services and products to empower consumers.

Top-level design of Made in China 2025 completed

The top-level design of China’s Made in China 2025 strategy, the country’s manufacturing upgrade program, has been completed, Miao Wei, Minister of Industry and Information Technology (MIIT), said on January 30th.

According to Miao, a group of key landmark programs and projects have been launched in areas such as manufacturing innovation, intelligent manufacturing and green manufacturing, and the country has climbed to a new level in building a manufacturing powerhouse.

In priority areas such as large aircraft, integrated circuit, new material, aircraft engine and gas turbine, 5G as well as new energy vehicles, positive results have also been achieved, Miao said.

Last year, a total of 331 major projects to strengthen industrial development got support from the state, according to the minister. Bottlenecks in some key areas such as the gear transmission system of high-speed train and pump seal used in nuclear power generation system have been preliminarily solved.

In the area of intelligent manufacturing, Miao said the comprehensive standardization and new model application of 428 intelligent manufacturing projects have made positive progress so far, 206 projects conducted pilot demonstrations, 22 national intelligent manufacturing standards have been released, and a number of digital workshop and smart factory have been initially built.

To bolster a green manufacturing system which takes green standard, green factory, green product, green industrial park and green supply chain as the core, the MIIT has supported a total of 225 major green manufacturing projects, Miao said.

The nation has also made great technological achievements in high-end equipment innovation projects, according to Miao. For instance, C919, China's first home-developed large passenger plane, made its maiden flight in Shanghai last May; the Chinese-made AG600, the world's largest amphibious aircraft, carried out its maiden flight last December; Blue Whale 1, the ultra-deep-water semisubmersible drilling rig, conducted successful tests in the South China Sea last May; and the CR400, with a maximum operating speed of 350 kilometers per hour, became the world's fastest wheeled train in commercial use.

To fully implement Made in China 2025 strategy, Miao said the MIIT will focus on the following works in 2018.

It will continue to boost the manufacturing innovation center construction projects, the projects to strengthen industrial development, intelligent manufacturing projects, green manufacturing projects and high-end equipment innovation projects.

It will set up 'Made in China 2025' national demonstration zone, nurture several world-class advanced manufacturing industry clusters and promote the integrative development of manufacturing sector and internet.

In addition, the ministry will improve the quality of manufacturing industry's supply system and optimize the development environment of the industry.

Belt & Road boosts foreign investment

The Belt and Road Initiative represented a big boon for Chinese investors amid an overall slump in outbound Chinese merger and acquisition activity in 2017, according to a report released by Morning Whistle Group, a Shanghai-based trade group specializing in cross-border M&A.

Chinese firms' M&A activity soared 47.4 percent in terms of transaction volume in countries and regions involved in the initiative, which contrasted with an overall 13.5 percent slide for Chinese investment in deals globally in 2017, the report showed.

The trend echoed statistics from the Ministry of Commerce, which found that overall investment in regions taking part in the Belt and Road Initiative ebbed only 1.2 percent, against a steeper drop of 29.4 percent globally.

The initiative, proposed in 2013, aims to revive the old Silk Road connecting Asia, Europe and Africa, by promoting trade, financial integration, infrastructure inter-connectivity and people-to-people exchanges among the continents.

The top 100 Chinese deals from 2014 to 2017 by transaction volume were secured by 38 State-owned enterprises and 62 private ones, with the biggest buyers coming from Shanghai, Beijing and Guangdong province. The sectors that drew the most Chinese investors were technology, media and telecommunications (TMT), energy and health-care.

China Vanke Co Ltd’s $11.6 billion acquisition of property developer Global Logistics Properties Ltd made it the most generous spender. In total, seven deals involved transaction volumes of more than $1 billion.

Xiong Jianguo, an analyst at Morning Whistle, said Chinese companies have incorporated overseas investments as a solid and consistent part of their development strategies, with Alibaba Group Holding Ltd, for example, increasing its stake in Lazada Group last year, showcasing its long-term bet on Southeast Asia.

He said he expects more countries and regions involved in the initiative to emerge as popular destinations for outbound deals, a list currently dominated by developed economies such as the United States, the United Kingdom and Germany.

Singapore attracted 18 deals, the highest number of transactions taking place, followed by Israel’s 14 and 10 in India.

“ Singapore’s well-governed and global leading financial sector can provide much-needed financial resources to support infrastructure projects in ASEAN countries,” according to Zhang Miao, a research fellow at the University of Malaya’s Institute of China Studies.

“ The country’s expertise in project design and planning, dispute settlement and logistics could also play an important role,” she added.

Looking forward, Morning Whistle’s report highlighted companies in health-care and manufacturing as most likely to be sought-after targets in 2018.

In terms of the motivations behind outbound M&A activity, securing broader distribution channels and gaining market access are giving way to seeking out technological upgrades and capitalizing on premium foreign brands’ established markets as key drivers, according to the report.

PwC sees outbound M&A rebound

China's outbound mergers and acquisitions, or M&A, will rebound this year, thanks to more clarity on relevant policies and a stronger yuan, according to a report from global accounting firm PricewaterhouseCoopers or PwC.

Sectors like technology, industrial products and consumer products will continue to be the main overseas M&A targets of Chinese players.

The latter will seek to bring foreign technologies to the domestic market in order to upgrade the industrial base, and to introduce new intellectual property, brands and products to China, PwC said.

"That will bring the whole M&A levels in 2018 close to—or possibly exceeding—that of 2017. PE (private equity) and financial buyer activities, both domestic and outbound, will also increase under pressure to defray large amounts of capital," said Wei Guo, PwC's China transaction services partner.

China's M&A activities in 2017 were down 11 percent in value terms compared to the record high of 2016, mainly due to a reduction in outbound deals from the Chinese mainland. At $671 billion, the total value of deals last year was roughly equal to the previous record set in 2015.

Last year has seen the decline of the value of deals for the China outbound, foreign inbound and financial buyer segments. But the value of domestic strategic deals experienced an increase of 14 percent.

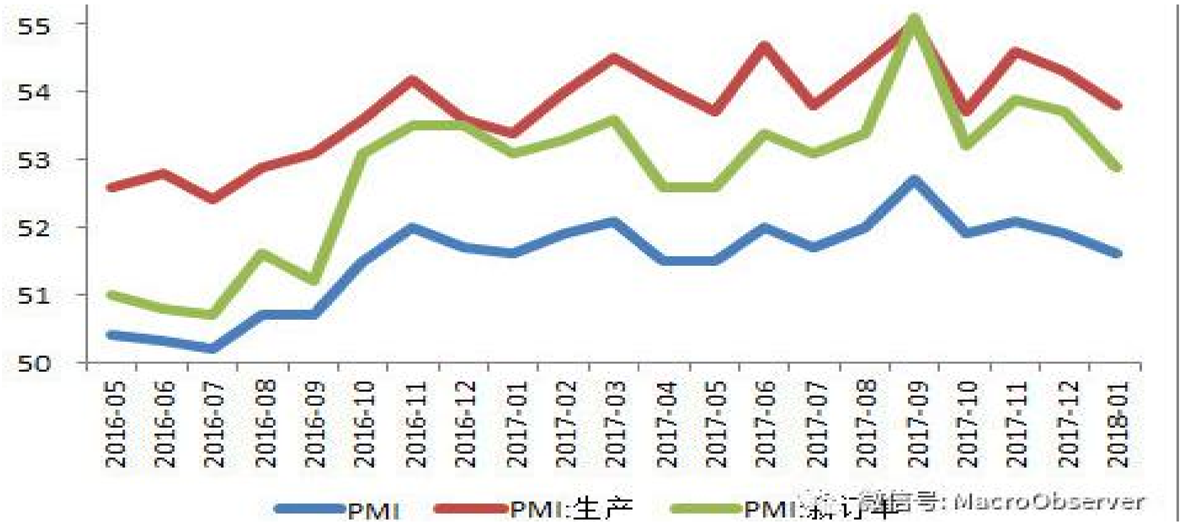
The number of mega-deals (those with a value in excess of $1 billion) declined from 103 in 2016 to 89 last year, mainly because of the fall in China's outbound deals.

"The government's policy guidance on outbound deals has had an undoubted effect," said Wei. "There has been a re-focusing on strategic outbound deals and away from passive or trophy assets. That said, the total value of outbound deals still exceeds 2014 and 2015 combined."

Traditional private equity and venture capital fundraising, however, continued a strong upward trend in 2017. The Asset Management Association of China reported $1.5 trillion of assets under management by private equity funds at the end of 2017—a sevenfold increase over the last three years.

"Shenzhen and Shanghai were the favored venues, because of higher valuations," said Effie Yang, PwC's China transaction services partner.

China's manufacturing activity holds steady



China's factory activity expanded at a slower pace in January but still stood well above the boom-bust line, adding to evidence of a stable broader economy, official data showed on January 31st.

The manufacturing purchasing managers' index (PMI) came in at 51.3 this month, decelerating from 51.6 in December, according to the National Bureau of Statistics (NBS). A reading above 50 indicates expansion, while a reading below reflects contraction.

Despite the slowdown, the index, the same as that of a year ago, suggested the factory activity remained steady, NBS senior statistician Zhao Qinghe said.

Echoing Zhao's remarks, Bloomberg economist Tom Orlik said that although the market may focus on the decline, "small movements in the PMI are not particularly meaningful, and the basic picture of growth at a steady, if unspectacular, pace remains unchanged."

The manufacturing PMI has been in positive territory for 18 straight months.

Sub-indices for production and new orders went down slightly to 53.5 and 52.6, respectively, which Zhao partly attributed to the fact that some industries entering the slack season weighed down growth in supply and demand.

"But manufacturers of consumer products saw more rapid increases due to the upcoming Spring Festival holiday," he said. Sectors including farm produce processing, food and beverages, textiles and garments, and medicine witnessed robust growth.

"Consumption has demonstrated its role in driving the economy," Zhao added.

The Chinese economy is shifting to a consumption-led growth model to wean itself from reliance on exports and investment. Consumption accounted for 58.8 percent of economic growth last year.

Meanwhile, sub-indices for raw material inventory, employment and suppliers' delivery time were still lower than 50. "Businesses saw easing pressure from operating costs," Zhao said.

The NBS data also showed the non-manufacturing sector picked up the pace as its PMI came in at 55.3, up from 55 in December and 54.6 in the same period last year. The index has been on a gaining streak for three months.

The service sector, another economic driver accounting for more than half of the country's GDP, reported stronger expansion with its sub-index rising to 54.4 from 53.4 a month ago. Retail, aviation, telecom, information technology, banking and other commercial services were robust.

"The earliest data of 2018 suggest China's growth momentum is steady, though with some warning signs as export orders fall and the industrial reflation cycle turns down," Orlik said, adding that optimism on growth prospects remains high.

Combined profits of major Chinese industrial firms surged 21 percent last year, the fastest since 2012. "The profitability may improve further in mid-to-downstream industries with the rising inflationary impulse in consumer goods," according to CICC.

China's economy expanded by a forecast-beating 6.9 percent in 2017, speeding up for the first time in seven years and well above the government annual target of around 6.5 percent.

Still, concerns are on the rise as January's PMIs showed softened export growth as overseas demand had started to retreat after the Christmas and New Year holidays. The revival in exports is considered a significant factor for China to sustain growth.

Orlik cautioned about impacts from trade frictions with the United States, which just boosted tariffs on washing machines and solar panels -- major products of China and the Republic of Korea.

The holiday factor led to seasonal volatility in economic indicators, including trade data, which is normal and will not represent the whole trend in 2018, Bank of Communications said in a report.

"The manufacturing PMI will rise after March and remain in expansion territory," it said.

Rebound expected in China's TV sales

China's television industry is expected to rebound this year after witnessing a downturn in 2017, with sales ascending to 48.98 million units, up 3.1 percent year-on-year, an industry report said.

The sales of televisions in the domestic market reached 47.52 million units last year, down 6.6 percent year-on-year due to the tough oversight of the red-hot property market, the rising price of display panels and the lack of major sports events, according to the report, which was released by Beijing-based consultancy All View Cloud and the China Video Industry Association.

Affected by the soaring price of raw materials, the average price of liquid crystal display (LCD) TVs has increased from 3,200 yuan ($500.8) early last year to 3,500 yuan at the end of last year, up 12 percent year-on-year.

Meanwhile, the previously buoyant internet TVs sector saw a downturn last year, with its market shares dropping 6 percent compared with the same period of the previous year, accounting for 13 percent, the report said.

However, people's incomes have improved and they're upgrading homes, partly by purchasing medium and high-end TVs, including OLED, ultra-thin, curved screen, large-sized TVs, said Peng Jianfeng, deputy secretary general of the China Video Industry Association.

Zhu Yuanyuan, deputy general manager at All View Cloud, said that "2017 was the most difficult year for the TV industry as we have experienced the biggest decline since 2003, but we are seeing several technological innovations in AI-powered and intelligent TVs."

Moreover, the global panel manufacturing capacity will continue to increase this year. Panel prices are expected to fall, which will alleviate some cost pressures on TV companies, and the shipment of domestic TV manufacturers is expected to increase by 23 percent year-on-year.

Chinese major panel manufacturers are pressing ahead with ambitious expansion plans, investing heavily in display panels. BOE Technology Group Co Ltd, the country's biggest display producer, will continue to strengthen its position in the industry amid a surge in demand for large-sized high-definition panels.

Last December, BOE's Generation 10.5 TFT-LCD production line in Hefei, Anhui province, was put into production earlier than expected. The plant will produce high-definition LCD screens of 65 inches and more.

Machinery exports to see 7% growth

Machinery manufacturers from China are expected to maintain a 7 percent year-on-year growth in exports this year on the back of the Belt and Road Initiative, rebound of global infrastructure, manufacturing and energy markets, industry officials said on February 2nd.

Total exports by the country's machinery sector stood at $406 billion in 2017, up 8.33 percent from 2016, while imports during the same year jumped 12.31 percent to $306.3 billion, according to data released by Beijing-based China Machinery Industry Federation.

All its 13 main sub-sectors gained encouraging year-on-year growth in foreign trade business, with double-digit growth in exports of agricultural and construction machinery, machine tools and automobiles last year.

Among them, harvesting and field operation machinery, bulldozers, loaders, numerical control machines and vehicles, saw their export volume jumping by 51.5 percent 70.4 percent, 48.6 percent, 44.1 percent and 31.2 percent year-on-year respectively.

Chen Bin, executive vice-president of the CMIF, said after more than two years of decline, the rebound in the world's transportation, manufacturing, oil and construction sectors eventually created more growth momentum for domestic players to ship their products abroad in 2017, as the machinery industry mainly serves those sectors.

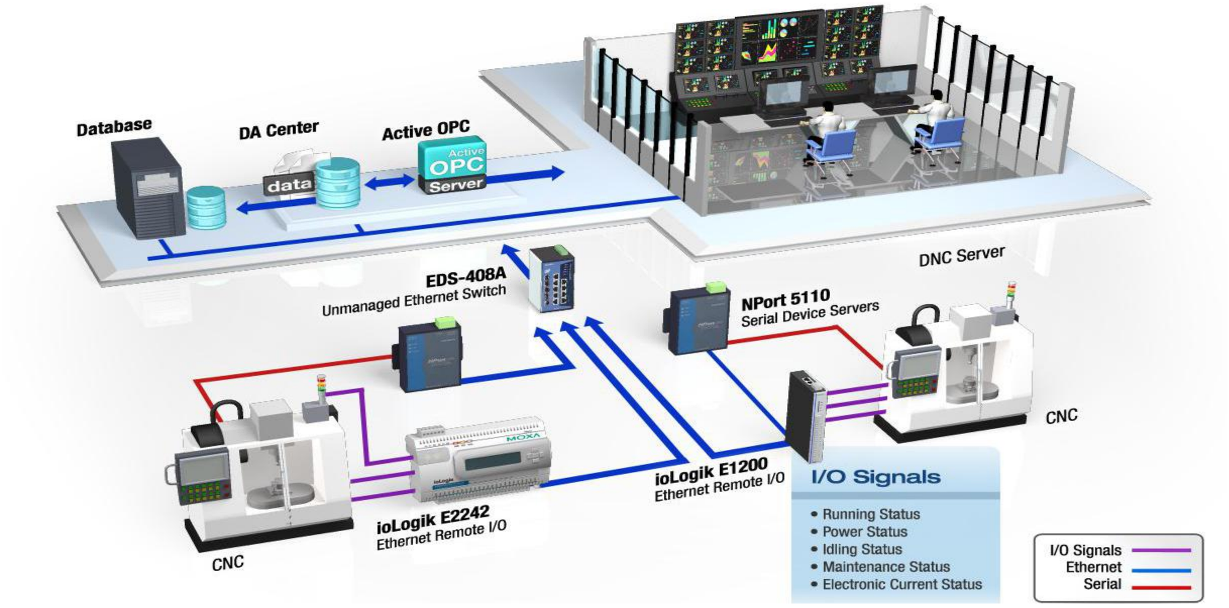
The federation said profits of China's machinery manufacturers amounted to 1.71 trillion yuan ($272.21 billion) in 2017, up 10.74 percent year-on-year, while their main business revenue came in at 24.54 trillion yuan, rising 9.47 percent from 2016.

"However, high labor and logistics costs, as well as financing difficulties will remain cumbersome issues for the industry," said Zhao Xinmin, deputy secretary-general of the CMIF.

"Chinese companies also should be aware that some countries already have trade protectionist measures to help their own companies, which may pose problems for machinery exports from China this year," said Zhao.

promote the craftsmanship spirit of entrepreneurs, managers and staff members.

TAMI plan to connect machines with TAMI smart box



In 2018, **TAMI** (*Taiwan Association of Machinery Industry*) plans to launch a new product, called "smart box," a device that enables companies to build industrial intelligent systems by connecting machines to it. The smart box is developed in cooperation with the Precision Machinery Development Association, it is like the commonly seen internet box for TVs, but for industrial application. TAMI's smart box will have the function to connect machines, robots, sensors while collecting statistics at the same time.

This is not a completely new notion, multinational manufacturers like Mazak has similar devices like this. But what is unique in TAMI smart box is that it is more economic; furthermore, it functions as an open-source system that easily connects systems and devices from different suppliers. The motivation for designing TAMI smart box originated from the particular fact that a majority of SMEs face obstacles in adopting Industry 4.0 systems in their shop floor. Many lacks sufficient resources or technology to build a system of their own, others struggle to find feasible long-term strategies. TAMI smart box targets these companies and advocates a simple way to make factory smarter. In addition, there will be a Cloud platform and Machine Cloud that functions multilaterally (similar as MT connect). Services such as educational/technical training lessons can be operated remotely, and facilitated as an exchanging platform between different disciplines and industries.

"We hope that TAMI smart box is the solution for the SMEs on the journey of digitalizing, and eventually I envision a future that with the help of standardized service from smart box, producers would later advance with diversified machining features," president Wang Zhengqing remarked.