

# ***MIZUHO CHINA MONTHLY***

**Industrial and Regional Policies**

1

**The Status of China's Sharing Economy and its Prospects Going Forward**

*July 2017 Edition*

## - Executive Summary -

**Industrial and Regional Policies**

**The Status of China's Sharing Economy and its Prospects Going Forward**

This report provides an overview of trends in the development of China's sharing economy on the basis of several industry reports published by official agencies, examines the various factors, environmental conditions and challenges China faces in its bid to pursue rapid growth for the sector even as it forges ahead with supply-side structural reform, and considers the significance of the development of this new economy and its potential for the future as one of the major achievements of China's "mass entrepreneurship and innovation", an Internet-based innovation initiative that is unique to the PRC.

# The Status of China’s Sharing Economy and its Prospects Going Forward

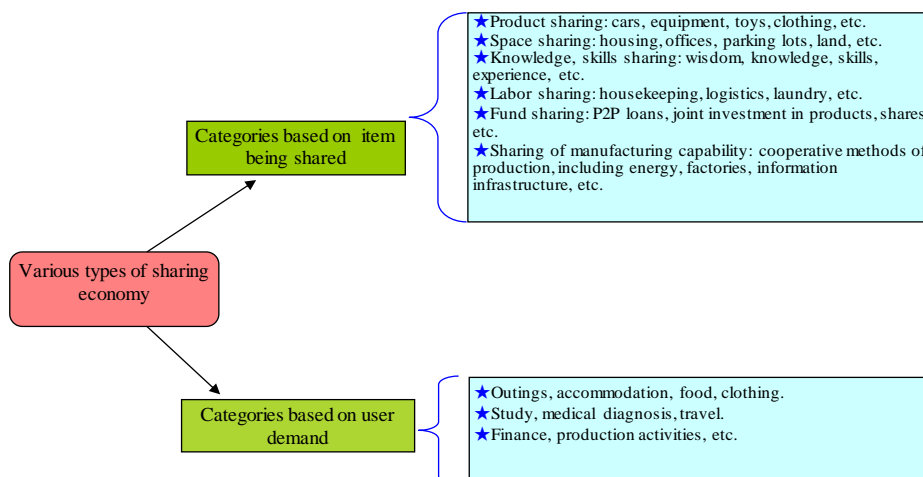
*Factors and the Potential for Growth in the New Economy*

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## 1. Introduction (China’s attention-grabbing sharing economy)

As China presses ahead with supply-side structural reform its booming sharing economy is attracting attention from the international community. Originating in Europe and the United States, the sharing economy is an economic model that has become all pervasive in recent years with the development and diffusion of Internet technology. In China, where it has been coupled with the slogan “mass entrepreneurship and innovation”, the sharing economy has emerged as a remarkable social innovation phenomenon and has grown at an astounding pace such that it now permeates various sectors of society (Fig. 1)<sup>1</sup>.

Fig. 1: A basic example of the sharing economy

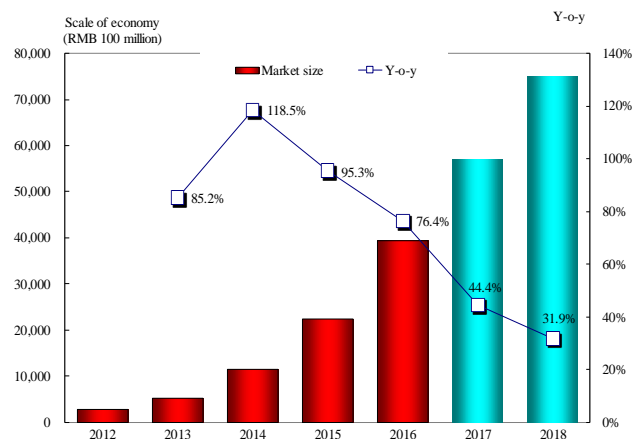


Source: State Information Center of China, MIIT, etc., “Development Report of China’s Sharing Economy 2016”

A number of organizations (primarily government think tanks) have issued reports (industry reports) on development trends in China’s sharing economy. According to the “FY2016 China’s Sharing Economy Development Report”, which was compiled by the China International Electronic Commerce Center (CIECC) and released in May this year, the market trade volume of China’s sharing economy ballooned to 3.9 trillion yuan (approx. ¥63.9 trillion) in 2016 (up 76% on a year-on-year basis; Fig. 2).

<sup>1</sup> As commonly used today, the term “sharing economy” originated in Europe and the United States and has gradually expanded into Asia, Africa and elsewhere, but this is simply a result of the fact that Europe and the United States led the field in the use and dissemination of Internet technologies. The concept of the sharing economy was originally submitted and examined by Martin L. Weitzman in his 1984 book, “The Share Economy: Conquering Stagflation”.

Fig. 2: China’s rapidly expanding sharing economy



Source: China International Electronic Commerce Center, “FY2016 China’s Sharing Economy Development Report”

Note: The figures for 2017 and 2018 are projections.

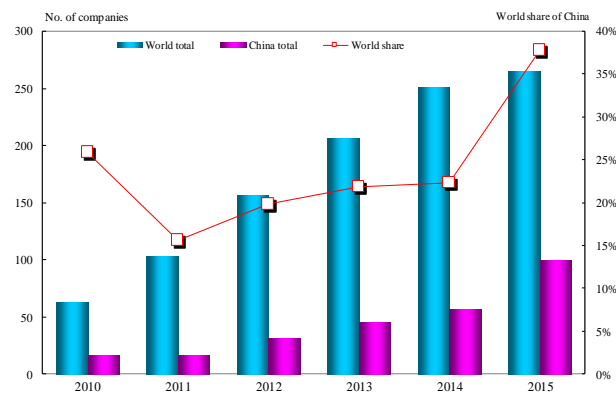
Utilizing statistical data<sup>2</sup> contained in the “Development Report of China’s Sharing Economy 2016 and 2017” issued by the State Information Center (SIC) in conjunction with the Internet Society of China, and the aforementioned CIECC “FY2016 China’s Sharing Economy Development Report”, this report focuses on this rapidly growing new economy, provides an overview of its current status, examines factors for and the background to its explosive growth, the challenges China faces and its prospects going forward.

**2. Development trends in major sectors of China’s sharing economy**

Even in global terms the growth of China’s sharing economy has been spectacular, and in recent years it has frequently made the headlines both at home and abroad. Private unlisted start-ups that are currently valued at US\$1 billion or more are called “unicorn companies”, many of which are in the field of sharing economy, and China’s unicorn herd has grown rapidly in recent years such that it now accounts for more than one-third (or 37.7%) of the global total (Fig. 3). Fifteen of the world’s top 30 unicorn companies are Chinese, and ride-sharing firm Didi Chuxing and Internet finance firm Lufax are recording huge sales (Table 1).

<sup>2</sup> Due to the unconsolidated nature of the statistical data available, reference is also made to the Tencent Research Institute report “中国分享经济风潮全景解读报告” (March 3, 2016), and the China Council for International Cooperation on Environment and Development report “分享经济：生活方式引领的新经济革命” (The Sharing Economy – The New Lifestyle-led Revolution).

Fig. 3: Trends in sharing economy start-ups globally and in China



Source: Tencent Research Institute, “中国分享经济风潮全景解读报告” (March 3, 2016)

Note: Company numbers are cumulative.

Table 1: Globally-ranked Chinese unicorn companies

No.	Company	Sales (US\$100 million)	Industry
1	滴滴出行	338.0	On-demand Transport / Movement
2	陸金所	185.0	e-Commerce
3	新美大	45.0	e-Commerce / Marketplace
4	饿了么	20.0	Restaurant services
5	中商惠民	20.0	e-Commerce
6	微影时代	15.0	e-Commerce / Marketplace
7	挂号网	10.2	Healthcare
8	优客工厂	10.0	Real estate
9	货车帮	10.0	Supply chain and logistics
10	途家网	10.0	e-Commerce / Marketplace
11	新达达	10.0	e-Commerce
12	融 360	10.0	Fintech
13	魔方公寓	10.0	Housing / Accommodation
14	瓜子	10.0	e-Commerce / Marketplace
15	知乎	10.0	Internet software and services

Source: The State Information Center (SIC) and the Internet Society of China’s “Development Report of China’s Sharing Economy 2017”

Note: Sales figures are for 2016.

**Table 2** and **Table 3** provide an overview of the market value and growth rates of major sectors of China’s sharing economy in 2015 and 2016, and show that, with the exception of manufacturing capability, all sectors have been expanding at a prodigious rate, more than doubling year-on-year (with growth rates topping 100%). In 2016, the transaction volume of China’s sharing economy reached 3.45 trillion yuan, up 103 percent on a year-on-year basis, with trade volume in financing reaching 171 billion yuan, for a growth rate of 130 percent. Estimates show that over 60 million people were involved in the sharing economy in China in 2016 (10 million more than in 2015), while the number of people employed by sharing economy platforms increased by 850,000 to reach 5.85 million (**Table 3**). Participation in the various sectors of the sharing economy involves untold billions and is creating new employment opportunities on both the demand and the supply side of the economy<sup>3</sup>.

<sup>3</sup> According to SIC, the number of people employed in sharing economy businesses in 2015 accounted for approximately 5.5% of the total working population. It also projects that the sharing economy’s transaction volume will account for over 10% of the country’s GDP by 2020.

Table 2: Development trends in major sectors of China’s sharing economy (transaction volume: RMB100 million)

Sector (services provided)	2015	2016	Growth rate
Knowledge and skills (crowd sourcing, professional online counseling, etc.)	200	610	205%
Housing and accommodation (guest houses, shared parking lots, etc.)	105	243	131%
Transportation and outings (vehicle dispatch, car sharing, ride sharing, etc.)	1,000	2,038	104%
Life service platforms (housekeeping services, home delivery services, etc.)	3,603	7,233	101%
Manufacturing capability (plant and equipment, staff, researcher sourcing, etc.)	2,000	3,380	69%
Healthcare (matching, referrals of healthcare facilities, physicians, etc.)	70	155	121%
Financial services (person-to-person loans, crowd funding)	10,000	20,863	109%
Total	16,978	34,522	103%

Source: The State Information Center (SIC) and the Internet Society of China “Development Report of China’s Sharing Economy 2017”

Table 3: Participants in China’s sharing economy by sector

Sector	Participants (million people)	Service providers (million people)	Sharing economy platform employees (people)
Life service platforms	520	20	3.41 million
Manufacturing capability	9	5	1.51 million
Transportation and outings	330	18.55	120,000
Knowledge and skills	300	25	20,000
Housing and accommodation	35	2	20,000
Healthcare	200	2.56	50,000

Source: The State Information Center (SIC) and the Internet Society of China’s “Development Report of China’s Sharing Economy 2017”

The following paragraphs provide an overview of industry trends in major sectors of China’s sharing economy based on a report<sup>4</sup> from the CIECC, another research agency.

Firstly, let’s look at the market for car sharing and car rental, two of the most common examples of the sharing economy platform. As **Fig. 4** shows, China’s car-sharing market expanded from 2.45 million users in 2015 to 18.864 million users in 2016 (an increase of around 9-fold), and is expected to increase to 50 million this year. As the passenger numbers for online dispatch services given in the insert show, the ratio of these passengers to all the Internet users in China increased by 5.8 percentage points to 23 percent (approx. 168 million people) in a six-month period. Note that, whilst this information has yet to be reflected in the report referenced herein, participation in transport sharing businesses is particularly vigorous, with developments in electric vehicles, motorbikes, and bicycles (ofo and Mobike being the runaway leaders in this field) occurring rapidly, and there are reports of Chinese players investing in and expanding their operations into neighboring countries, including Japan.

<sup>4</sup> Note that, according to this research organ, the market trade volume of China’s sharing economy topped 3.945 trillion yuan in 2016, up 76.4% from a year earlier. This figure exceeds that reported by SIC (3.452 trillion), but it is within the 3.5 to 4.0 trillion yuan range, thus both reports are considered worthy of complementary reference. Moreover, according to CIECC, the trade volume of China’s sharing economy will hit 5.697 trillion yuan in 2017 and 7.513 trillion in 2018, thus forming a huge new market in the Chinese economy.

Fig. 4: Expansionary trends in the number of users in China's car-sharing market

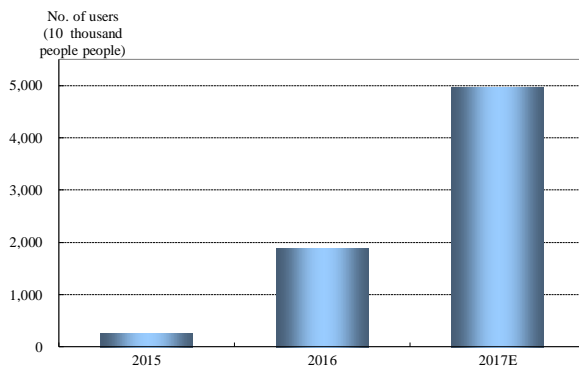
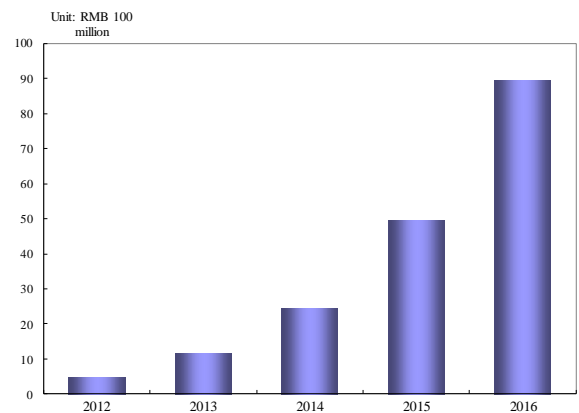


Fig. 5: China's house and accommodation sharing market



[Insert]

Increases in online vehicle dispatch customers

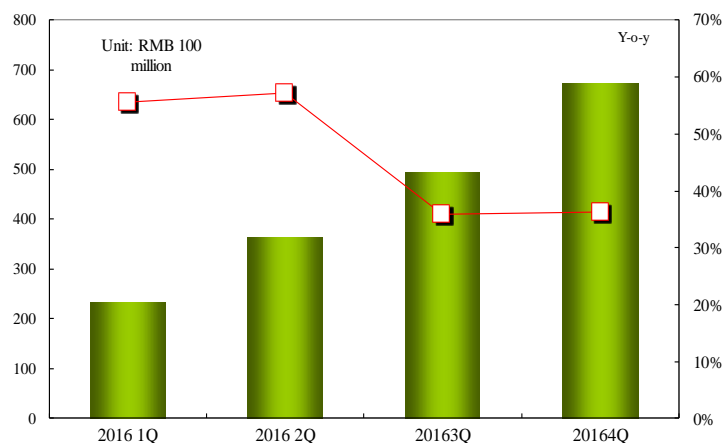
June 2016	121.83 million people, with online users accounting for 17.2%.
December 2016	167.99 million people, with online users accounting for 23%.

Source: China International Electronic Commerce Center "FY2016 China's Sharing Economy Development Report"

Source: Same as Fig. 4

Turning next to trends in housing and accommodation services, as **Fig. 5** shows, trade volume in housing and accommodation sharing (including guest houses) is increasing exponentially, rising from 470 million yuan in 2012 to 8.94 billion in 2016 (an increase in excess of 19-fold). Again, whilst the absence of any inter-annual data on the restaurant services sector of the sharing economy makes it difficult to view long-term development trends, quarterly data for 2016 suggests that trade volumes in this sector are already at maximum levels (**Fig 6**; 4<sup>th</sup> quarter trade volume reached 67.32 billion, which equates to an almost three-fold increase over the first quarter).

Fig. 6: Trade volume in the catering / restaurant sector of China's sharing economy



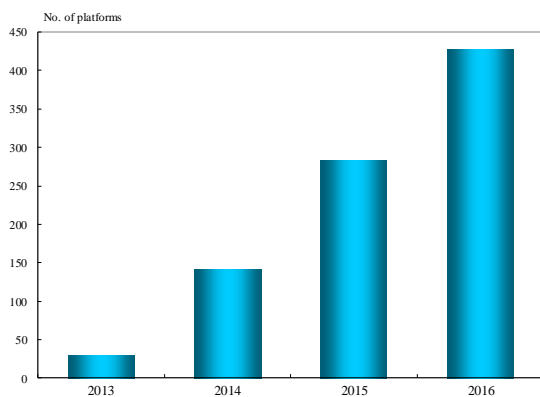
Source: Same as Fig. 4

On one level this is a reflection of the explosive growth in demand for tourism and leisure services in China,

but the new mode of operation brought about by the sharing economy, in increasing levels of convenience and allowing consumers to access services at more affordable prices, can also be seen as evidencing a more rational and ideal way of satisfying consumer preferences.

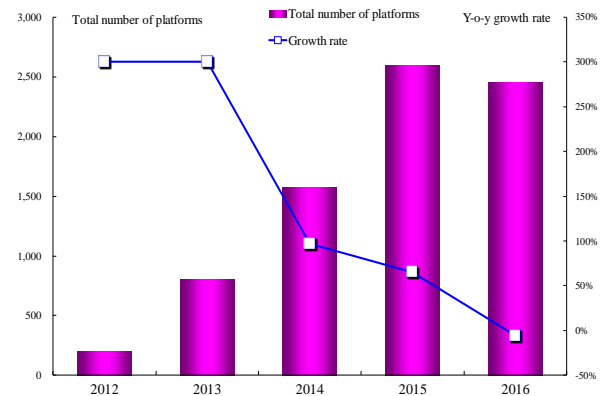
Turning finally to development trends in the financial services sector of the sharing economy, as **Fig. 7** shows, the number of crowd funding companies that have set up websites to provide online financial services in China increased from 29 companies in 2013 to 427 in 2016 (or an increase of approximately 18-fold). The number of peer-to-peer platforms has also increased rapidly, rising from 16 companies in 2012 to 2,595 in 2015 (or an increase of more than 15-fold; **Fig. 8**).

Fig. 7: Numbers of crowd funding companies in China



Source: Same as Fig. 4

Fig. 8: Numbers of peer-to-peer financing platforms in China



Source: Same as Fig. 4

The CIECC “FY2016 China’s Sharing Economy Development Report” examines trends in financing services and provides detailed information on loan numbers (major loans, included) and amounts. This vigorous activity in financial dealings spans numerous sectors of the economy and suggests, indirectly, that online startups and entrepreneurship are booming in China. This expansion in collaborative finance (i.e. peer-to-peer financing) points to a preference for and emphasis on more efficient money management, something that is enabled by modern technology in the form of fintech.

These industries have been in existence for just a few short years, but their growth has been explosive and they continue to attract widespread attention. More recently, start-ups and entrepreneurs in numerous fields and based on a diversity of business models are on the increase, including fields such as healthcare services, manufacturing capacity, knowledge and education, skills training and live online broadcasts by individuals (HiNet, HiChannel), and there can be little doubt that China’s sharing economy as a new economy is a major trend.

**3. Factors for and environmental conditions favoring the rapid growth of China’s sharing economy**

As the above overview demonstrates, China’s sharing economy has developed rapidly and at an explosive rate.

Numerous complex factors have contributed to this explosive growth in China’s sharing economy: industrial, social, economic and political.

In the first instance, China can be said to benefit indirectly from a population dividend through using Internet.



The rapid development of the IT industry facilitated progress in online technologies, with widespread use of mobile broadband (wireless internet) proving decisive (as of the end of 2015 China had 1.3 billion mobile phone users and a mobile broadband user rate of 90%). Needless to say, the success of frontrunners such as Baidu, Alibaba, Tencent and Didi Chuxing, etc., has had a significant effect on subsequent business models. In economic terms, meanwhile, structural reform in the manufacturing sector has led to rapid growth in the service economy. With the advent of the sharing economy, startups and entrepreneurs, which formerly favored the manufacturing sector, are now primarily occurring online, and China is swimming with the tide of the fourth industrial revolution. In social terms, the Internet has made communication and coordination between multiple regions and cities possible in a country that boasts the largest population in the world. The spirit of frugality and cooperation roused by sharing is helping to redress the imbalances in population growth in numerous regions and cities, and can be expected to help China to realize its goal of building a moderately prosperous society by 2020, not to mention effective resource use, environmental conservation and the realization of a green, recycling and low-carbon economy and sustainable development. Moreover, these goals are consistent with the guiding principles of the sharing economy: “innovative, coordinated, green, open and shared” development.

As might be expected, the administrative guidance and policy support of the Chinese government has a key role to play. **Table 4** lists government policy on Internet startups and the sharing economy. In February and May this year the government issued guidelines on the sharing economy in the form of drafts for comment (items 12 and 13 in **Table 4**), and has issued and is implementing policy aimed at promoting startups and innovation based on the sound development of the transport sharing economy, which it hopes will serve as a model for other sectors (items 15 and 16 in **Table 4**). That said, the development of China’s sharing economy is predominantly being led by private-sector investment and is occurring spontaneously as opposed to being engineered by the government, something that is largely based on the lessons that have been learned from the experiences of Alibaba, Tencent and the other leading Internet players that are strongly associated with China’s sharing economy.

Table 4: Developments in policy aimed at cultivating and promoting China’s sharing economy

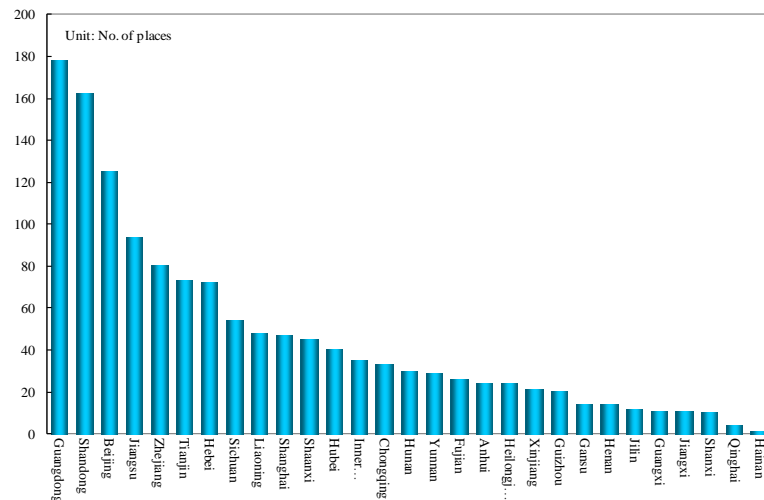
No.	Policy / Plan	Issuing organ	Date issued
1	Guiding Opinions on Developing Mass Makerspaces and Promoting Mass Innovation and Entrepreneurship	The State Council	March 2015
2	Guiding Opinions on Actively Promoting the “Internet Plus” Action	The State Council	July 2015
3	Several Opinions on Further Promoting Tourism Investment and Consumption	The State Council	August 2015
4	Guiding Opinions on Accelerating the Development of Life Service Industry and Promoting the Upgrading of Consumption Structure	The State Council	November 2015
5	Guiding Opinions on Promoting Green Consumption	NDRC, MOFCOM and other 10 offices	March 2016
6	Opinions on Deepening the Implementation of the “Internet Plus Logistics” Action Plan	The State Council	April 2016
7	<b>Deepening the Integrated Development of the Manufacturing Industry and the Internet</b>	The State Council	May 2016
8	National Informatization Development Strategy	Central Committee General Office, The State Council	July 2016

No.	Policy / Plan	Issuing organ	Date issued
9	Action Plan to Promote the Development of Smart Transport by Facilitating “Internet Plus Convenient Transport”	NDRC, MOT	August 2016
10	Opinions on Cultivating and Developing the Rental Housing Market	Central Committee General Office, The State Council	July 2016
11	Opinions on Promoting the Healthy and Orderly development of Mobile Internet	The State Council	January 2017
12	Guidelines for the Development of a Sharing Economy (draft for comment)	NDRC	February 2017
13	Guidelines for the Development of a Sharing Economy (second draft for comment)	MOF, SAT and MIIT	April 2017
14	Action Plan on the Integration of the Affairs of State Information System	NDRC	June 2017
15	Guidelines on Promoting the Healthy Development of the Car-sharing and Car rental industry (draft for comment)	MOT	June 2017
16	Implementation Opinions on the Construction of the Second Batch of Mass Entrepreneurship and Innovation Pioneer Bases	The State Council	June 2017

Source: Chinese government websites. This table does not include other related policy or region-specific countermeasures.

Opinion is divided, even in China, on what stance the government needs to adopt towards the cultivation of new industries, and the Chinese government has demonstrated some differences in its position on promoting the sharing economy and strategic emerging industries. The construction of “group innovation spaces”, a major channel / avenue for sharing economy startups is critical to promoting innovative business models in China, its sharing economy included, the numbers of these spaces installed are basically proportional to the levels of economic and industrial development in each region (**Fig. 9**). Again, the “Internet Plus” action plan, which was unveiled in May 2015 to coincide with the release of the “Made in China 2025” strategy, has served to stimulate a diverse range of businesses that utilize the Internet. Whilst the government appears to be playing catch-up in its drafting of policy, it seems to be assessing and promoting the state and tide of industry development and its policies can be expected to have some effect in the years ahead.

Fig. 9: A comparison of “group innovation spaces” in China’s regions (2016)



Source: “Development Report of China’s Sharing Economy 2017” issued by SIC in conjunction with the Internet Society of China. Data are for 2016.

Note: Group innovation spaces are not only intended for use by entrepreneurs in the early stages of business incubation, but are intended to serve as spaces providing the conditions necessary to entrepreneurship and for the development of startup service capabilities.

**4. The major problems China faces in developing its sharing economy and the prospects for its future**

As the Chinese economy attempts to adjust to a “new normal” by pushing ahead with structural reform, the sharing economy offers significant potential to serve as an engine for renewed economic growth and industrial development in new areas, but challenges and difficulties exist. The transparency and stability of policy on entrepreneurship are a major issue, but many have also pointed to the strong degree of government involvement as being a bone of contention. Entrepreneurs do not necessarily have the tools they need to make the best decision on the right business model to adopt and need information and policy support from the government.

**Table 5** offers an overview of successful startups in the transport sharing economy, most of which have opted for either a peer-to-peer (P2P) or business-to-consumer (B2C) business model, both of which have their advantages and disadvantages; moreover, the success of these models is determined by whether or not they come into conflict with current transport policy. Again, crowd funding, which primarily involves P2P online lending and fund raising, is booming, but the management of credit risk and bad debt involving small-and-medium-sized enterprises (SME) and individuals is problematic, and in the bicycle-sharing industry there have been numerous reports recently of problems securing parking and with the harmonizing of vehicles with the cityscape. Overlapping investment and excess competition are also hampering the healthy growth and development of this new economy. In this sense, there is a need for political management in the form of government-led industry promotion and administration and, in view of the fact that the sharing economy is an emerging industry in global terms, an ongoing process of trial and error between the government and the private sector is inevitable. Many issues, including that of policy coordination, will need to be dealt with, but given that there will be many startups and entrepreneurs for which neither being left to flourish nor being restricted are desirable options, the Chinese government’s decision to issue two drafts for comment on its guidelines for industry development so as to incorporate the

opinions of society and private citizens means that policy guidance and industry policy can be expected to evolve such that it is in line with actual conditions in the sharing economy.

Table 5: Successful startups in China’s transport sharing economy

Type of business	Business model	Service provider		Major platforms	Main uses
		Origin of vehicles	Drivers		
Taxi dispatch software	B2C	Taxi company	Taxi drivers	滴滴	Day-to-day outings
On-demand car services	P2P	Privately-owned vehicles	Personal drivers	滴滴, 优步	Day-to-day outings
	B2C	Car rental company	Professional drivers	神州, 滴滴	Businesses, middle and upper class consumers
Ride sharing	P2P	Privately-owned vehicles	Personal drivers	滴滴, 嘀嗒	Commuting
Car rental (self-drive)	P2P	Privately-owned vehicles	Self-driven	PP, 友友	Short-distance travel
	B2C	Car rental company	Self-driven	神友州, 车纷享	Long-distance travel
Car rental (chauffer-driven)	P2P	Privately-owned vehicles	Personal drivers	滴滴, e 代驾	After drinking and other times when it’s not convenient to drive
Test driving	P2P	Privately-owned vehicles	Self-driven	滴滴	Test drives prior to vehicle purchase
Buses	B2C	Car rental company	Professional drivers	滴滴	Commuting
[Ref] A comparison of the P2P and B2C business models					
P2P		Item	B2C		
Assets not important		Model characteristics	Assets important		
Running costs are relatively low: platform operating costs such as location, technology and customer services, etc.		Business costs	Running costs are relatively high: platform operating costs, the cost of purchasing and maintaining vehicles, paying employee welfare costs, etc.		
Prices are low, so services are amenable to the daily outings of low and middle class consumers		Price levels	Prices are relatively high; services are used by middle and upper class individuals, commercial affairs, and for transporting guests		
Varies from individual to individual, but quality is assured by customer ratings		Service quality	Standardized service		
Some conflict with current transport policy		Policy-related risk	Little conflict with current transport policy		

Source: State Information Center of China’s MIIT and Internet Society of China’s Sharing Economy Association “FY2016 China’s Sharing Economy Development Report”

Given the impact of the explosive growth of China’s sharing economy in the short term and the long timeframe of the structural shift in Chinese economy, promoting the development of the sharing economy (Table 6), which has already expanded into numerous sectors, is of critical importance, and its role as a component of Chinese industry is expected to increase over the long term.

Table 6: Major growth sectors of China’s sharing economy

Sector	Representative platforms
Transport / Movement	滴滴出行, 易到用车, PP 租车, 友友租车, AA 拼车
Short-term housing rental	游天下, 蚂蚁短租, 小猪短租, 途家网
P2P online lending	陆金所, 红岭创投, 宜信, 人人贷, 点融网

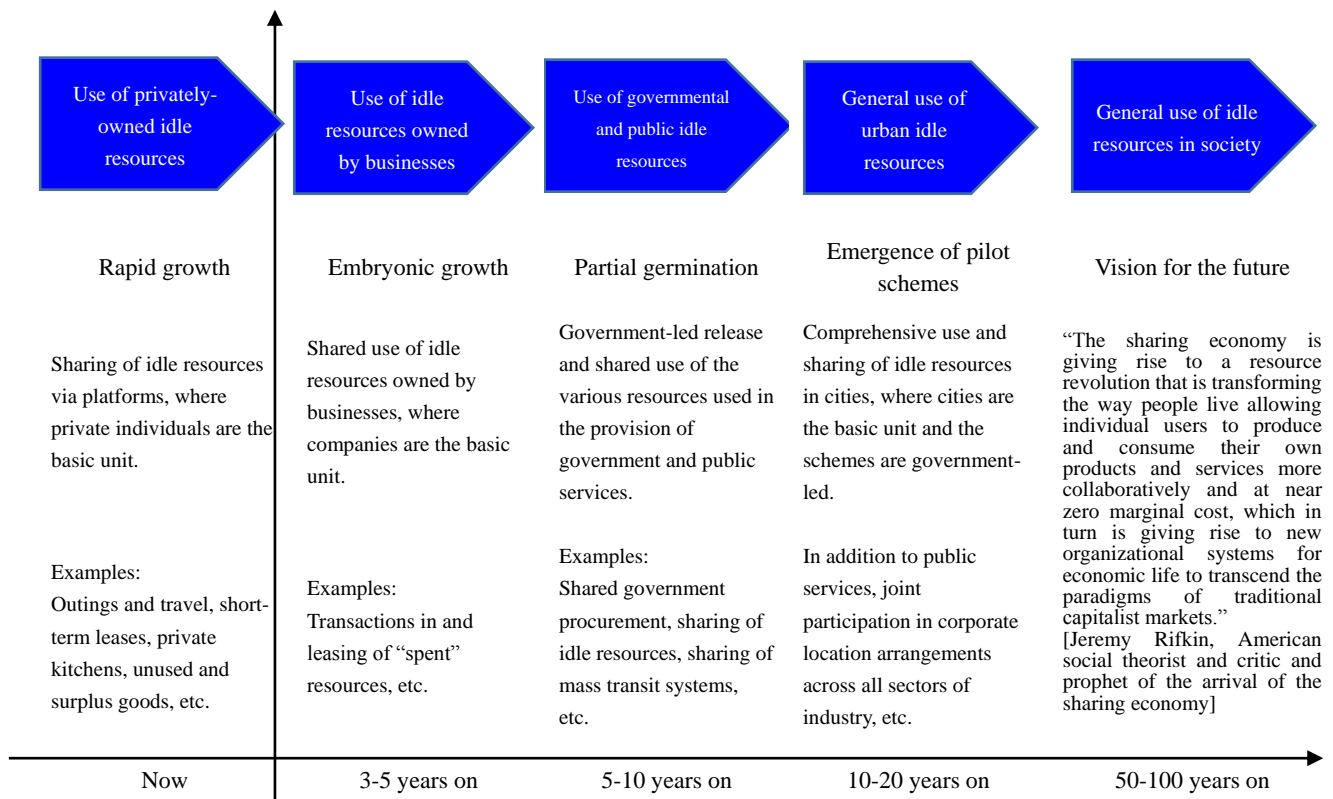
Fund raising	京东众筹, 天使汇, 众筹网, 点名时间, 淘宝众筹
Express logistics	达达物流, e 快送, 人人快递
Life services	58 到家, 功夫熊, e 代驾, 爱大厨, 我有饭, 河狸家
Skill sharing	猪八戒, 在行, K68, 时间财富, 做到网
Knowledge sharing	百度百科, 知乎网, 豆瓣网
Manufacturing capability	沈阳机床厂 i5 智能平台, 阿里巴巴淘工厂, 易科学

Source: SIC “Report on the Development of China's Sharing Economy: Current Status, Problems and Challenges, and Development Trends”, E-GOVERNMENT 2016 Q4 (160<sup>th</sup> edition)

Note: For convenience, platform names are given in Chinese.

According to the “Guidelines for the Development of a Sharing Economy” (Second Draft for Comment) that were issued by the National Development and Reform Commission, promoting the development of China’s sharing economy will improve the utilization efficiency of social resources and make people’s lives more convenient, will facilitate supply-side structural reform, the implementation of its innovation drive strategy and mass entrepreneurship and innovation, and will have significant implications as a new engine for economic growth. The NDRC is also soliciting political opinion and suggestions on promoting the healthy development of a sharing economy in China. Again, from a perspective of utilizing idle resources, which is central to the genesis of the sharing economy, this industry is expected to remain vital for decades to come if not more than a century (Fig. 10), and has the potential to guide global economic and industrial development going forward.

Fig. 10: A long-range outlook for the development of the sharing economy by Tencent Research Institute



Source: Adapted, excerpted from the Tencent Research Institute’s 中国分享经济风潮全景解读报告 (March 3, 2016)

Currently, as evidenced by the “i5” intelligent machine tool series and i-platforms at Alibaba’s Tao

Factory and Shenyang Machine Tool Factory<sup>5</sup> (bottom row, **Table 6**), sharing and cooperation in plant capacity in industry, whilst still in its nascent stages, has the potential to grow and expand rapidly in the near future, taking the sharing economy beyond the level of social life. China has the potential to generate pioneering models in this area and, moving beyond its borders, is expected to expand its development of and collaboration in sharing businesses with countries and corporations over the world.

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<sup>5</sup> Table 6 shows that Alibaba Tao Factory offers product manufacturing services mainly to the customers of Taobao Network by Alibaba. It was established in October 2013 as a system for effectively sharing unused facilities in each factory, was moved online officially in December of the same year, and there had already been almost 8,000 Tao plants throughout China at the beginning of 2015. In addition, “i5 intelligence platform” is an intelligent control system equipped with IoT functions, developed in 2012 by Shenyang Machine Tool Factory, and through using platforms on the Internet, it realizes sharing and effective use of machine tool facility capacity by combining methods of finance and management such as finance lease, management-related lease, and production facility lease.