



SMEs in China Policy Environment Report

2023 UPDATE



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SMEs in China: Policy Environment Report

2023 Update

1. INTRODUCTION TO SMEs IN CHINA

1.1 DEFINITION AND CLASSIFICATION OF SMEs IN CHINA

SMEs in China are defined, according to the *Law of the People's Republic of China on the Promotion of Small and Medium-sized Enterprises (2017)* (SME Promotion Law), as companies that “have a relatively small size in personnel and scope of business.”¹ The standards for classifying small and medium enterprises are formulated by the relevant departments of the State Council, and the identification of a company as a micro, small or medium-sized enterprise is dependent on a series of variables such as the industry it belongs to, its operating income, its total assets and its number of employees.² On 23 April 2021, the Ministry of Industry and Information Technology (MIIT) and the National Bureau of Statistics (NBS), along with relevant departments, launched a public consultation on a revision of the Regulations on SME Classification Criteria.³ This draft reassesses the division standard of enterprises with few employees but high business income or large total assets that used to be considered as SMEs, and it also simplifies the industry classification of SMEs from 16 to 9 categories. The final version of the notice has not yet been released as of mid-June 2023.⁴

SMEs constitute an overwhelming majority of the enterprises in China and are key to its economic development.

Around 50 per cent of the nation's tax revenue and 60 per cent of China's gross domestic product (GDP) come from SMEs. Small businesses are also major contributors to employment and to innovation. In 2022, the total number of micro, small and medium-sized enterprises in China exceeded 52 million, where specialised SMEs accounted for 59 per cent of enterprises that went public (in terms of the capital market).⁵

1.2 EUROPEAN DEFINITION AND CLASSIFICATION OF SMEs

While in China the identification of a company as a micro, small or medium-sized enterprise is subject to variables such as the industry it belongs to, its operating income, its total assets and its number of employees, the European definition and classification of what constitutes an SME is mainly based on staff headcount and financial ceiling (either turnover or balance sheet total). If an enterprise has access to significant additional resources, it might not be eligible for SME status.⁶

Like in China, in the EU, SMEs are the backbone of the economy. In the non-financial business sector, they account for 99.8 per cent of all enterprises, more than 65 per cent of total employment, and 53 per cent of overall value added.⁷

1 *Law of the People's Republic of China on the Promotion of Small and Medium-sized Enterprises (2017)*, National People's Congress, 1st September 2017, viewed 20th June 2023, <<http://www.npc.gov.cn/npc/c12435/201709/700912e2aeed405f815485892d935e16.shtml>>

2 *Statistical criteria for the classification of large, medium, and small micro-enterprises (2017)* [CN], NBC, 3rd January 2018, viewed 20th June 2023, <http://www.stats.gov.cn/sj/tjbz/gjtjbz/202302/t20230213_1902763.html>

3 *Notice of Public Consultation on the Regulations on SME Classification Criteria (Revised Draft for Comments)*, MIIT, 23rd April 2021, viewed 20th June 2023, <https://www.miit.gov.cn/gzcy/yjzj/art/2021/art_4952142da8aa407aab85ac87bf74a1b9.html>

4 The new categories are agriculture, forestry, animal husbandry and fishery; industry, transportation, warehousing and postal services; construction and organisation and management services; wholesale; retail; accommodation and catering; ICT; real estate development and operations; and real estate excluding the beforementioned activities, leasing and business services, scientific research and technical services, water conservancy, environment and public facilities management, resident services, repair and other services, education, health and social work, culture, sports and entertainment.

5 *Newly established SMEs surge in China in 2022*, State Council Information Office of China, 2nd March 2023, viewed 20th June 2023, <http://english.scio.gov.cn/pressroom/2023-03/02/content_85139011.htm>

6 *User guide to the SME Definition*, European Commission, 8th September 2020, viewed 20th June 2023, <<https://ec.europa.eu/docsroom/documents/42921>>

7 *SME Annual Report - 2020/2021*, European Commission, 30th June 2021, viewed 20th June 2023, <<https://ec.europa.eu/docsroom/documents/46062>>

Company category	Staff headcount	Turnover	or Balance sheet total
Medium-sized	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

Table 1 European Commission

Understanding the different approaches to determining what constitutes an SME in the EU and in China is important when analysing their respective ecosystems,

as some companies considered as SMEs in China would not have this denomination in Europe due to their larger size in terms of employees and/or annual turnover.

1.3 EUROPEAN SMEs AND CHINA – DATA FROM THE EU SME CENTRE

The European Commission estimates that around 600 000 European SMEs engage in international trade. While most of these SMEs tend to remain within the Single Market, the most updated data on European SME internationalisation by a Eurobarometer survey shows that only 3 per cent of EU SMEs exported to China as of 2019.⁸ While detailed estimates on European SMEs operating in or exporting to China by sector are not available, website registration data from the EU SME Centre’s Phase III (October 2020 to July 2022) and Phase IV (starting from July 2022) shows a predominance of businesses in food and beverages, commercial services, healthcare,

education and machinery equipment and components looking to benefit from Centre services. Although this does not constitute a comprehensive overview of European SMEs either doing business in China or looking to do business in China, the data provides an indication of what types of companies could be interested in exploring opportunities in the Chinese market.

Data from enquiries received by the EU SME Centre from Phase III to Phase IV also shows that the top five countries of origin of newly registered SMEs were Italy, Germany, Spain, Turkey and France.

Phase III & Phase IV enquiries by sector (Oct. 2020 – March 2023)

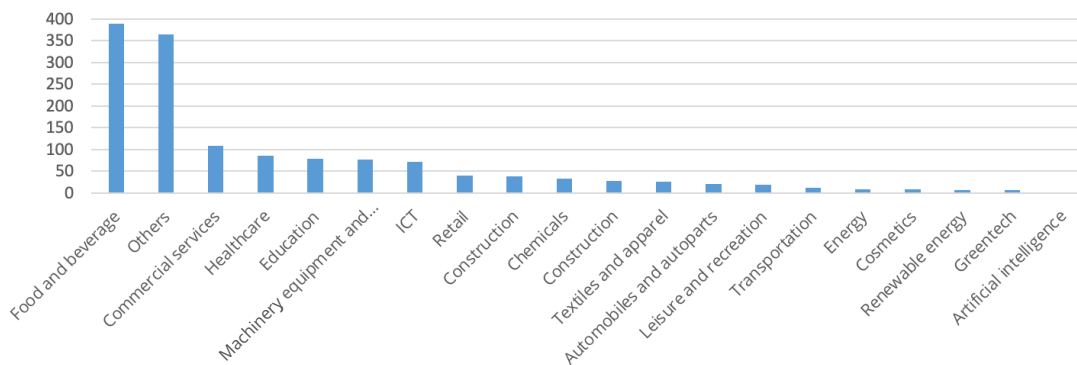


Figure 1
EU SME Centre

Phase III & Phase IV enquiries by country of origin (Oct. 2020 – March 2023)

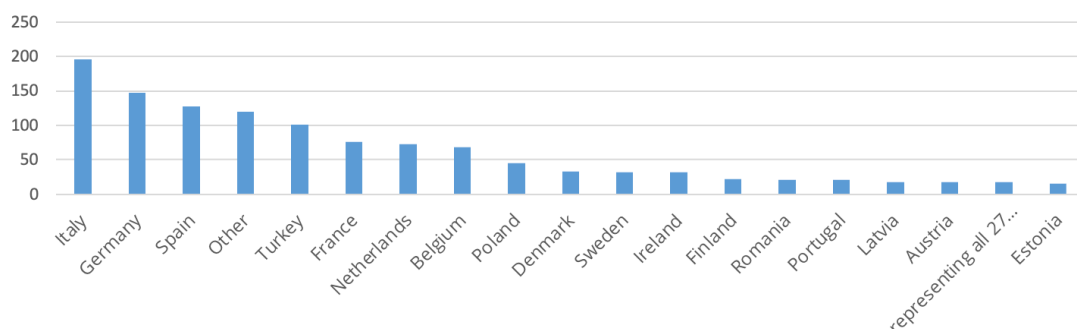


Figure 2
EU SME Centre

⁸ SMEs, start-ups, scale-ups and entrepreneurship, European Commission, September 2020, viewed 20th June 2023, <<https://europa.eu/eurobarometer/surveys/detail/2244>>

2. ANALYSIS OF THE CURRENT POLICY ENVIRONMENT OF SMEs IN CHINA

When looking at the policy environment for SMEs, it is important to note that it can vary considerably from region to region, as seen in the MIIT's Centre for the Promotion of SMEs' *SME Development Environment Assessment Report 2022*.⁹

Throughout 2021 and 2022, the outbreak of COVID-19 and the subsequent lockdown and travel restrictions – along with external Russia-Ukraine War and internal triple economic pressures of shrinking demand, disrupted supply and weakening market expectations – led to disruptions in business operations and considerable uncertainty, which prompted several policies and regulations to support and stabilize the economy.

The Chinese economy expanded by just 3 per cent in 2022 according to official numbers, far below the government's target of 5.5 per cent and the second-weakest growth figure since 1976. SMEs are as a rule more exposed to disruptions in the economy, and in the case of the COVID-19 pandemic they were the first to be hit and the last to recover. According to the *European Business in China Business Confidence Survey 2023* (BCS 2023), SMEs saw the biggest changes to their revenues in 2022. A disproportionately high per centage of SMEs

reported y-o-y decreases in their bottom lines (36 per cent), 15pp more than the proportion of companies with 1,000+ employees that reported the same. This reflects the fact that many SMEs, which often lack the resources to navigate unexpected changes in China's business environment, were substantially impacted by COVID-19-related containment measures. At the other end of the spectrum, a higher per centage of SMEs recorded substantial revenue increases (>20 per cent of their annual revenue), highlighting that opportunities remained for some.¹⁰

Abandonment of 'zero-COVID' policy and reopening

The abandonment of China's 'zero-COVID' policy in late November 2022 was a turning point for the whole country, including foreign SMEs. Data from the China Association for SMEs' (CASME) SME Development Index (SMEDI), which is based on a regular survey of 3,000 SMEs, showed some signs of recovery (see Figure 4 on p. 6).¹¹ The SMEDI of the first quarter of 2023 was 89.3, up by 1.3 from the previous quarter, reversing the consistent downward trend in 2022. However, recovery was not as strong as expected – the SMEDI of March, April and May continued to drop, indicating a lack of vitality. SMEs were still facing challenges such as surging costs and fewer

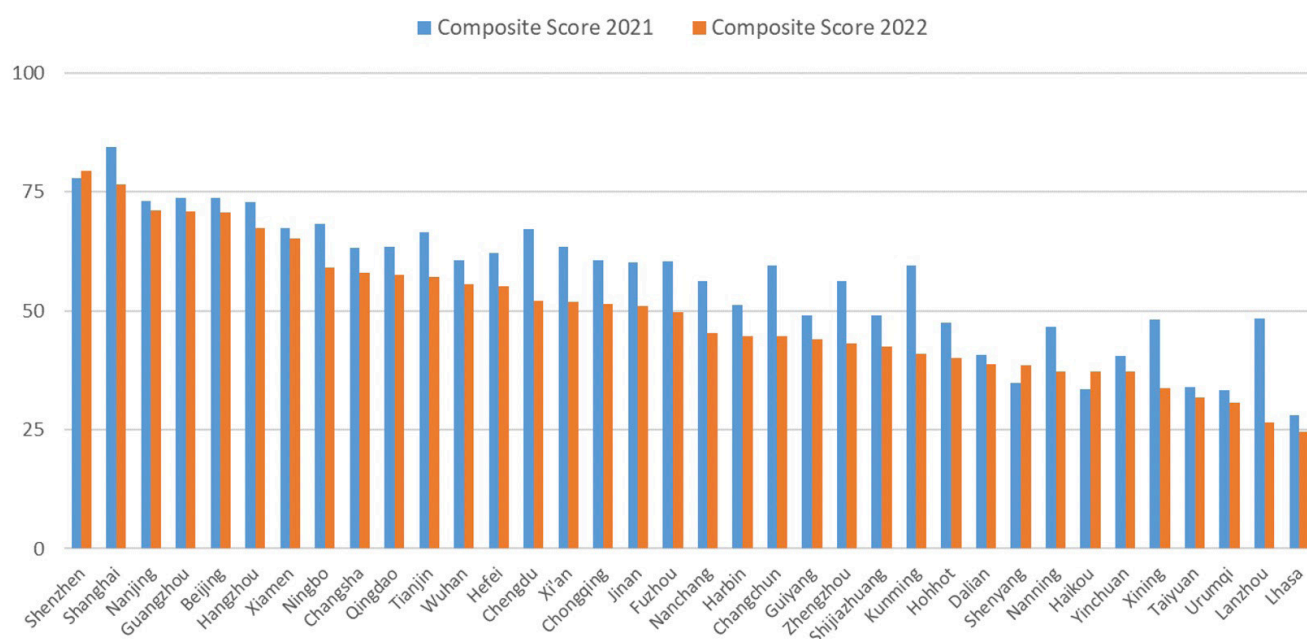


Figure 3 MIIT, EU SME Centre

⁹ *SME Development Environment Assessment Report 2022*, China Centre for the Promotion of SMEs, MIIT, 21st February 2023, viewed 25th June 2023, <https://www.cnii.com.cn/qy/202302/t20230221_448668.html>

¹⁰ *European Business in China Business Confidence Survey 2023*, European Chamber, 21st June 2023, viewed 26th June 2023, <<https://www.eurochamber.com.cn/en/publications-archive/1124>>

¹¹ *China's SME Development Index rebounded sharply in the first quarter of 2023*, CASME, 9th April 2023, viewed 26th June 2023, <<https://ca-sme.org/content/Content/index/id/38719>>

中国中小企业发展指数运行图

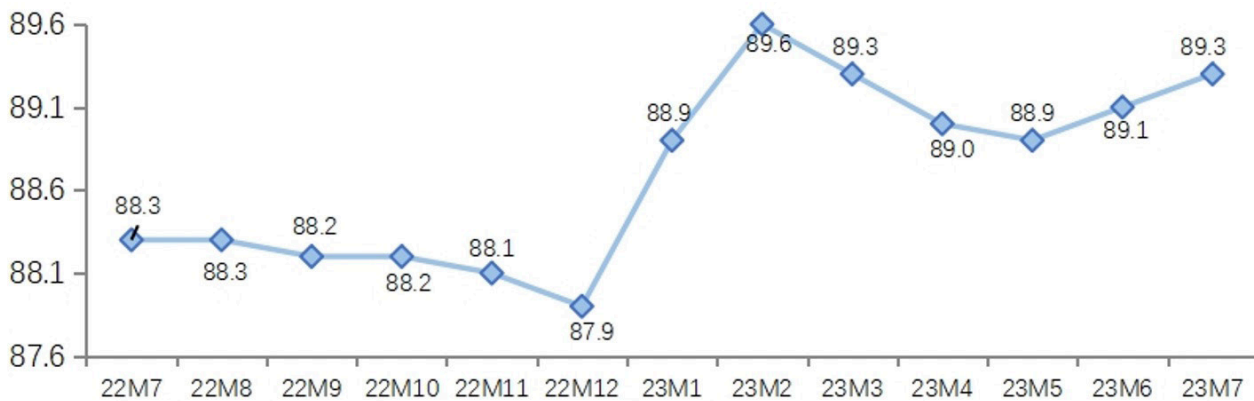


Figure 4 CASME

orders, according to CASME.¹² Finally in June, the index ended three consecutive months of decline. CASME has cautioned about challenges facing the SMEs, including high corporate costs and rising financial constraints, and has called for further expanding effective demand and improving the business environment.

In addition, in spite of China's reopening, foreign business confidence remains subdued. Data from the BCS 2023 shows that the lowest per centage of respondents on record (55 per cent) view China as a top three destination for future investments, that 53 per cent do not plan on expanding their China operations in 2023 and that 14 per cent are considering shifting future investments previously planned for China to other markets (with eight per cent having already done so).¹³

In light of the slow economic recovery, the Chinese government has rolled out policies to support businesses and encourage foreign investment. On 28th July, the National Development and Reform Commission (NDRC) and other departments jointly issued a notice on *Implementing Measures to Promote the Development of the Private Economy*.¹⁴ This notice introduces favourable policies targeting SMEs in terms of supply chain, innovation, procurement, financing, land, and government services. On 13th August, the State Council released a notice on *Further Optimizing the Foreign Investment*

Environment and Making More Efforts to Attract Foreign Investment,¹⁵ covering specific measures on better using, protecting, facilitating, and supporting foreign investment as well as securing the equal treatment of foreign-invested enterprises with domestic firms. It will be important for China to implement these new support measures in a timely, coordinated and consistent manner to improve business confidence, keep the growth momentum and promote sustained economic recovery.

2.1 FINANCING AND REDUCTION OF FINANCIAL BURDEN

2.1.1 Financing

Access to financing is a common problem for SMEs, and particularly so for SMEs operating in China where domestic banks prefer to go with the safe option of state-owned enterprises (SOEs). Major national policies throughout the years have attempted to address the issue of SME financing, as described below.

Public financing

On the basis of the SME Promotion Law, public financing is provided by the government at all levels through the establishment of special funds for SME development,

¹² *China Small Business Index Tumbles for Second Month in a Row in April*, Yicai Global, 9th May 2023, viewed 18th July 2023, <<https://www.yicai.com/news/20230508-10-china-small-business-index-tumbles-for-second-month-in-a-row-in-april>>

¹³ *European Business in China Business Confidence Survey 2023*, European Chamber, 21st June 2023, viewed 26th June 2023, <<https://www.europeanchamber.com.cn/en/publications-archive/1124>>

¹⁴ *Implementing Measures to Promote the Development of the Private Economy*, NDRC, 1st August 2023, viewed 16th August 2023, <https://www.ndrc.gov.cn/xwdt/tzgg/202308/t20230801_1359008.html>

¹⁵ *Further Optimizing the Foreign Investment Environment and Making More Efforts to Attract Foreign Investment*, State Council, 13th August 2023, viewed 16th August 2023, <https://www.gov.cn/zhengce/content/202308/content_6898048.htm>

with a focus on micro and small enterprises. This type of multi-level SME financing is also provided for in the *Five-Year Action Plan for Promoting the International Development of SMEs and China Manufacturing 2025*. Public financing can also be provided for SMEs in certain sectors or conducting specific activities (for instance, innovative SMEs).

These framework policies have been accompanied by implementing regulations issued by various ministries. Looking at more recent measures, in June 2021 the MOF released the *Administrative Measures for Special Funds for the Development of Small and Medium-Sized Enterprises* with the goal of optimising the environment for innovation and entrepreneurship; supporting the improvement of the public service system for SMEs and promoting cooperation and exchange among SMEs; and improving the financing environment for SMEs.¹⁶ Following the special fund policy issued in 2021, in September 2022, the MOF launched the *Notice on the Issuance of the 2022 Budget for Special Funds for the Development of Small and Medium-Sized Enterprises*,¹⁷ targeting SMEs that are professionally advanced, specialized, special, and innovative, with the goal of supporting their high-quality development. More recently, in June 2023, the MOF issued the 2023 special funds for SMEs,¹⁸ adding a subsidy for pilot SME digitalisation public service platforms.

At the local level, according to the *SME Development Environment Assessment Report 2022*,¹⁹ Changsha, Taiyuan, Urumqi and Lhasa have newly established special funds for SME development in the budget of their own finance or SME authorities, while 13 cities, including Shanghai, Hefei, Xiamen, Changsha, Guiyang and Shenyang, have newly established SME development funds. So far, all surveyed cities have set up special funds for SME development.

Private financing

Private financing is as a rule not easy to obtain for SMEs

in China, as they are usually seen as a high-risk and low-return investment, and Chinese authorities are well aware of this issue.

Regarding direct financing, article 18 of the SME Promotion Law provides for the development of a multi-level capital market system and the promotion of bond market and equity financing as channels for SME funding. SMEs can access this type of financing through the National Equities Exchange and Quotation (NEEQ) – also known as the New Third Board.²⁰ Over the past few years, other boards encouraging the listing of SMEs have appeared – for instance the Nasdaq-style Shanghai Science and Technology Innovation Board (also known as STAR), which targets innovative start-ups and which was established in 2019, and a Beijing Board with a similar premise of supporting innovative companies was launched in 2021.²¹ One of the goals of the 14FYP for SMEs is to increase the scale of direct financing for SMEs through measures like implementing pilot projects at the regional level, optimising the services provided in the NEEQ, improving the functions and roles of the Beijing, Shanghai and Shenzhen stock exchanges and further developing the credit enhancement mechanism for SME bond financing.

The State Council's notice in January 2023 vowed to give full play to the Beijing Stock Exchange and the National SME Development Fund to increase direct financing support for high-quality SMEs. The Beijing Stock Exchange will speed up the listing process of specialised and new SMEs, while the National SME Development Fund and the National Science and Technology Achievement Transformation Guidance Fund will drive more social capital to invest in early-stage companies.

On indirect financing, the SME Promotion Law allows for the usage of movable property and accounts receivable as collaterals for chattel secured financing, and also provides for the encouragement of credit guarantee issuance.²² The 14FYP for SMEs mandates

16 *Administrative Measures for Special Funds for the Development of Small and Medium-Sized Enterprises*, Ministry of Finance, 17th June 2021, viewed 28th June 2023, <http://jjs.mof.gov.cn/zhengcefagui/202106/t20210617_3720730.htm>

17 *Notice on the Issuance of the 2022 Budget for Special Funds for the Development of Small and Medium-Sized Enterprises*, MOF, 16th September 2022, viewed 19th July 2023, <http://www.mof.gov.cn/zhuantihuigu/wjjzc/wjjzcwj/202209/t20220916_3840850.htm>

18 *Notice on the Issuance of the 2023 Budget for Special Funds for the Development of Small and Medium-Sized Enterprises*, MOF, 27th June 2023, viewed 19th July 2023, <<https://www.sme.com.cn/cms/news/100000/000000700/d4e884c39c734a5a9d16f0990fe87f90.shtml>>

19 *SME Development Environment Assessment Report 2022*, China Centre for the Promotion of SMEs, MIIT, 21st February 2023, viewed 25th June 2023, <https://www.cnii.com.cn/qy/202302/t20230221_448668.html>

20 The NEEQ is a national securities trading market that – thanks to its less stringent and lower capital threshold requirements for listing – provides an alternative financing method for SMEs that cannot list on the Main Board market.

21 *The New Beijing Stock Exchange for SMEs – What You Need to Know*, China Briefing, 18th November 2021, viewed 28th June 2023, <<https://www.china-briefing.com/news/beijing-stock-exchange-for-smes-what-we-know/>> and Shanghai Stock Exchange Statistics Annual 2021, Shanghai Stock Exchange, viewed 28th June 2023, <<http://www.sse.com.cn/aboutus/publication/yearly/documents/c/5641852.pdf>>

22 Also known as chattel mortgage: A type of financing using movable personal property rather than real estate as security.

the development of long-term mechanisms and policies that will incentivise lending. Other measures include improving credit information sharing mechanisms, supporting financial institutions in using financial technology to innovate financial products and services, and strengthening the financing guarantee system.

Looking at relevant regulations rolled out in 2023, in April the China Banking and Insurance Regulatory Commission (CBIRC) proposed to form a financial service system for small and micro enterprises that is compatible with the development of the real economy, by optimising the financial service structure, enhancing the precision of services in key areas and maintaining the overall stability of loan interest rates, thereby gradually reducing SMEs' financing costs.²³ In addition, to help small and micro enterprise raise funds and lower financing costs, China exempts financial institutions from paying value-added tax (VAT) on their interest income derived from small loans to farmers, small enterprises, micro enterprises, and individually owned businesses. Besides, loan contracts signed between small or micro enterprises and financial institutions are exempt from stamp duty. Both measures are effective until 31st December 2023.

The *2023 Government Work Report*²⁴ indicates that inclusive loans to micro and small businesses increased at an annual rate of 24 per cent, rising from RMB 8.2 trillion to 23.8 trillion, with the average interest rate falling by 1.5 percentage points compared to five years ago. Meanwhile, recent data from CBIRC shows that inclusive loans for small businesses in the first quarter of 2023 grew by 25.8 per cent y-o-y.²⁵ At the province/city level, the *SME Development Environment Assessment Report 2022* indicates that Shanghai, Shenzhen, Hangzhou, Ningbo and Beijing ranked the top 5 in terms of overall scores in financing environment (the indicator is based on four sub-indicators: loan acquisition, credit and guarantee, venture capital, and financing satisfaction).

There is still room for improvement on SME financing. Looking at direct financing, the Beijing Stock Exchange was originally developed as a hub for small businesses to attract investors directly and reduce their reliance on banks for funding. But a year after it opened, trading volume remains low.²⁶ On indirect financing, according to the *Greater Bay Area SME Report: A Story of Resilience and Opportunity* from January 2023, which surveyed more than 460 SMEs in the Greater Bay Area – which tends to consistently rank as one of the regions with the most optimised business environment in China – SMEs struggle with the loan application process because they lack collateral or because the documentation requirements are too high.²⁷

Looking at European business sentiment on access to financing, the European Chamber's *Business Confidence Survey 2023* shows that less respondents reported it was one of their top three issues (from 8 per cent in 2022 to 3 per cent in 2023). However, difficulties with access to financing remain challenging for a number of European small businesses: those from South China and Shanghai report that movable assets cannot not be mortgaged for a bank loan and that their domestic SME counterparts experience less difficulties when applying for loans.²⁸ SMEs in South China also report a lack of transparency regarding requirements, standards and criteria for getting bank loans.²⁹

2.1.2 Reduction of financial burden

Tax relief measures

Throughout the years, China has accommodated a number of favourable tax policies for SMEs. In addition, local governments may in some cases provide subsidies on taxes paid.

At the national level, in January 2023, the MOF and the State Taxation Administration (STA) jointly issued an announcement to clarify some of its VAT incentives for

23 *Notice on Strengthening the Quality of Financial Services for Small and Micro Enterprises in 2023*, CBIRC, 27th April 2023, viewed 28th June 2023, <<http://www.cbirc.gov.cn/cn/view/pages/governmentDetail.html?docId=1106034>>

24 *2023 Government Work Report*, 5th March 2023, viewed 26th June 2023, <<http://www.gov.cn/zhuanti/2023lhfgzbg/index.htm>>

25 *Inclusive Loans to Micro and Small Enterprises by Banking and Financial Institutions in 2023 (Quarterly)*, CBIRC, 19th May 2023, viewed 28th June 2023, <<https://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1109311>>

26 *Beijing Stock Exchange fights to make its mark*, Nikkei Asia, 12th December 2022, viewed 28th June 2023, <<https://asia.nikkei.com/Spotlight/Caixin/Beijing-Stock-Exchange-fights-to-make-its-mark>>

27 *Greater Bay Area SME Report: A Story of Resilience and Opportunity*, Bain & Company, 9th January 2023, 28th June 2023, <<https://www.bain.com/insights/greater-bay-area-sme-report-a-story-of-resilience-and-opportunity/#>>

28 *Shanghai Position Paper 2023/2024*, European Chamber, 14th February 2023, viewed 27th April 2023 <https://www.eurochamber.com.cn/en/publications-archive/1073/Shanghai_Position_Paper_2023_2024>

29 For more information on individual accounts of European SMEs and access to financing, see the 2023/2024 Inter-Chamber SME Working Group Position Paper – to be released in September 2023.

VAT Liability Threshold for Small-Scale Taxpayers, 2021 to 2023		
Monthly sales	Quarterly sales	Effective period
RMB 100,000	RMB 300,000	January 1, 2021, to March 31, 2021
RMB 150,000	RMB 450,000	April 1, 2021, to December 31, 2022
RMB 100,000	RMB 300,000	January 1, 2023, to December 31, 2023

Figure 5 Source: Dezan Shira & Associates

Corporate Income Tax Cuts for Small and Low-Profit Enterprises				
Annual taxable income (ATI)	Tax base	CIT rate	Effective CIT rate	Effective period
The portion below RMB 1 million	ATI*12.5%	20%	5%	2023.1.1–2024.12.31
The portion between RMB 1 million and RMB 3 million				2022.1.1–2024.12.31

Figure 6 Source: Dezan Shira & Associates

2023.³⁰ From 1st January to 31st December 2023, small-scale taxpayers with monthly sales below RMB 100,000 (inclusive) shall be exempted from VAT. This threshold is a bit lower than that in 2021 and 2022.

Meanwhile, during the same period, small-scale taxpayers that are subject to a VAT rate of 3 per cent can enjoy a reduced rate of 1 per cent; and the VAT items that are subject to a 3 per cent VAT prepayment rate shall enjoy a reduced prepayment rate of 1 per cent. Previously, small-scale VAT taxpayers that were subject to a VAT levy rate of 3 per cent would be exempted from VAT payment or prepayment.

In March 2023, the MOF and the STA announced the extension of preferential policies for small taxpayers on Corporate Income Tax (CIT) and personal income tax.³¹ Small and low-profit enterprises will be subject to a 20 per cent CIT rate on 25 per cent of the taxable income amount for the portion of taxable income not exceeding RMB 1 million during the period from 1st January 2023 to 31st December 2024. That is, the effective CIT rate

for an annual taxable income below RMB 1 million will increase from 2.5 per cent to 5 per cent.

Reduction of administrative charges

Since February 2016, taxpayers whose sales amount does not exceed RMB 100,000 per month will be exempt from education surcharge, local education surcharge, and water conservancy construction fund.³¹ Aside from these, from 2022 to 2024, local governments are granted authority to reduce six types of taxes and two fees on small-scale taxpayers at the reduced tax rate of 50 per cent or less.³² These are the resource tax, urban maintenance and construction tax, property tax, urban land use tax, stamp duty (excluding stamp duty on securities transactions), arable land use tax, education surcharge, and local education surcharge.

One area where room for improvement remains is social insurance. SMEs' operations continue to be seriously hit by significant increases in social security payments. Since late 2022, more than a dozen cities and provinces have

30 *Announcement of the Ministry of Finance and the State Taxation Administration on the Clarification of the Policy on VAT Reduction and Exemption for Small-scale VAT Payers*, State Taxation Administration, 9th January 2023, viewed 26th June 2023, <<http://www.chinatax.gov.cn/chinatax/n359/c5183530/content.html>>

31 *Notice on Expanding the scope of exemption of relevant government-managed funds*, State Taxation Administration, 29th January 2016, viewed 21st July 2023, <<http://www.chinatax.gov.cn/n810341/n810755/c2005027/content.html>>

32 *Further Implementation of the "Six Taxes and Two Fees" Reduction and Exemption Policy for Small and Micro Enterprises*, State Taxation Administration, 1st March 2022, viewed 21st July 2023, <https://www.gov.cn/zhengce/zhengceku/2022-03/04/content_5676898.htm>

increased minimum employer-funded social security payments by 10 per cent or more. Small companies in the services sector are particularly vulnerable to these increases, as social security expenditures can take up about one-third of their operating costs.³³

2.2 ADMINISTRATIVE PROCEDURES AND SERVICES

Regulatory costs and barriers have traditionally been a big issue for SMEs. However, in recent years there has been significant progress in areas like reducing administrative charges, dealing with construction permits, getting electricity, and resolving insolvency, as well as simplifying tax declarations.

Looking at the SME-specific policy framework on administrative procedures, articles 27 and 31 of the SME Promotion Law already provide for the simplification and streamlining of the entrepreneurship approval and deregistration processes. Other initiatives to further simplify these administrative mechanisms have been put in motion throughout the past few years.

On 7th April 2022, Premier Li Keqiang signed off on the *Decision of the State Council on Amending and Abolishing Certain Administrative Regulations*, which amends some provisions in 14 administrative measures and abolishes six others in order to better separate permits from business licenses.³⁴ The Decision also cancelled some review and approval processes for foreign investments in telecommunications businesses and streamlined the procedures for the establishment of medical institutions.

According to the *2023 Government Work Report*³⁵ released in March 2023, the average time it takes to register a business today in China is less than four working days, down from more than a month; and a simplified deregistration system is in place for micro, small and medium-sized enterprises.

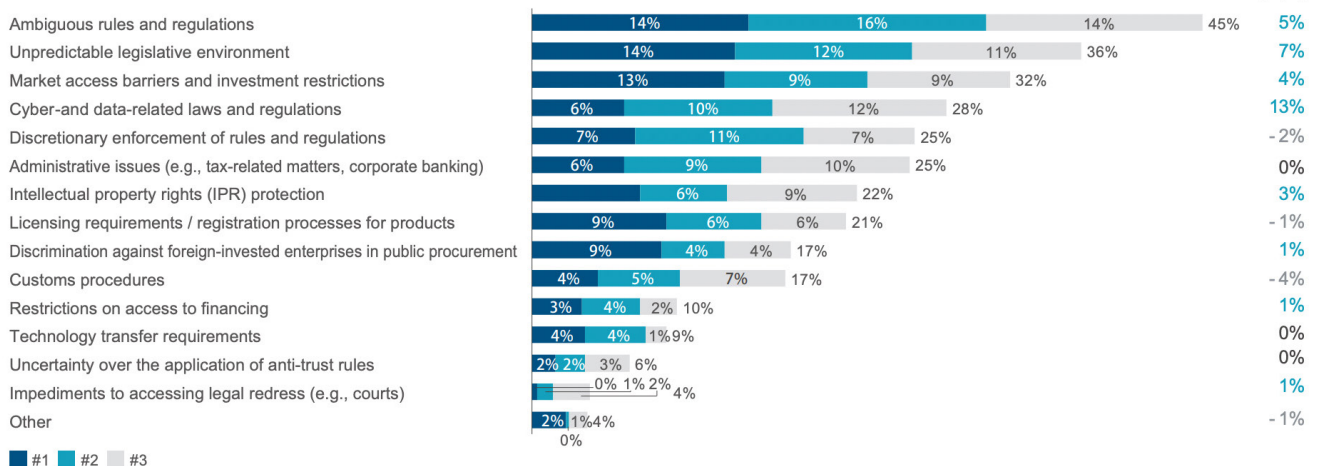
On 17th April 2023, the NDRC announced that the *Special Administrative Measures on Foreign Investment Access (Negative List) (2023 edition)* is to be shortened in order to channel more foreign investment to advanced manufacturing, high-end technologies and modern services.³⁶ In response to this, and other national policies aimed at improving the business environment, various local government bodies, including the

Figure 7 BCS 2023: Ambiguous regulations and unpredictable legislative environment top regulatory obstacles

Which are the top three most significant regulatory obstacles for your company when doing business in Mainland China? ¹⁾

N=570

Δ 2022-23
[p. p.]



33 *China pins growth hopes on struggling small businesses*, Financial Times, 17th January 2023, viewed 25th June 2023, <<https://www.ft.com/content/dba30bf4-c52d-40fc-a4cd-3fc1dc9b879c>>

34 *Decision of the State Council on Amending and Abolishing Certain Administrative Regulations*, 29th March 2022, viewed 23rd June 2022 <http://www.gov.cn/zhengce/content/2022-04/07/content_5683886.htm>

35 *2023 Government Work Report*, 5th March 2023, viewed 26th June 2023, <<http://www.gov.cn/zhuanti/2023lhfgzbg/index.htm>>

36 *All-out effort to make a new breakthrough in building a new development pattern*, NDRC, 17th April 2023, viewed 16th May 2023, <https://www.ndrc.gov.cn/fzggw/wld/cl/dddt/202304/t20230417_1353658.html>

municipal Commission of Commerce in Tianjin and the Shanghai Municipal People's Government, have held policy training sessions promoting services like a 'one-stop' administration system, and have released notices listing various support schemes.^{37&38}

Albeit the push to improve the business environment has generally yielded positive results, there is still room for improvement in terms of implementing these reforms across different provinces in China and streamlining administrative services. Regarding the former, the *SME Development Environment Assessment Report 2022* shows that, although improvements in terms of scores have been registered across the board, the development and implementation of SME policies is not uniform across provinces, with a huge gap between the best and worst performers. From the perspective of European businesses, data from the BCS 2023 shows that administrative procedures and licensing issues remained on the top ten regulatory obstacles listed by European companies. In 2023 62 per cent of respondents reported missing out on business opportunities because of market access and regulatory barriers, as opposed to 42 per cent in 2022. Indirect barriers—including complex and time-consuming administrative approval requirements and de facto obstacles to obtaining operating licences—remained an important challenge for European businesses in China.

The process for approval of the business scope and granting of licenses and permits for foreign-invested companies is still subject to extensive scrutiny, particularly for a number of key sectors. BCS 2023 data shows that licensing requirements/registration processes are less of an issue for those in professional services, automotive and retail, but are a significant problem for the medical devices, petrochemicals, food and beverages, and aviation and aerospace sectors.

2.3 SME MARKET DEVELOPMENT

2.3.1 Talent acquisition and retention

As a response to the negative impact of the pandemic on jobs, since 2020 Chinese authorities have rolled measures to stabilise employment such as the *Opinions of the General Office of the State Council on the Implementation Measures to Strengthen Stable Employment in Response to the Impact of the COVID-19*.³⁹

The 14th Five-Year Plan for the Promotion of Employment, published on 27th August 2021, included provisions aiming to support the development of SMEs to increase employment, including improving the institutional environment and policy system for promoting the development of SMEs, reducing their burden in order to enhance their employment capabilities and supporting entrepreneurship.⁴⁰

On 11th January 2023, the State Council published *Several Measures to Assist Small and Medium sized Enterprises in Stable Growth, Structural Adjustment and Strong Capacity*.⁴¹ The Notice establishes measures to foster talent development within small companies, by further implementing the training of talents in the management of SMEs, optimising the evaluation of professional titles of SMEs, and supporting the establishment of post-doctoral research stations in qualified 'little giants'.⁴² The government will also select a group of experts to serve as technical and management mentors for SMEs, providing one-to-one consulting and guidance services, so as to attract college graduates to innovate and start businesses in SMEs.

From the supply side perspective, urban youth unemployment – which has been rising since data was first made available in 2018 – has been closely correlated to the fallout from COVID-19. It spiked in early 2020, and more recently it hit a record high of 21.3 per cent in

37 Shanghai Municipal People's Government published the Notice on Issuing the Measures of Shanghai Municipal on increasing the attraction and utilisation of foreign investment, Shanghai Municipal Government, 3rd April 2023, viewed 16th May 2023, <<https://www.shanghai.gov.cn/nw12344/20230404/6ebb74adcc9241ef87e3fe8eaff578aa.html>>

38 Tianjin International Trade Single Window, Tianjin Municipal Government, viewed 17th May <<https://www.singlewindow.tj.cn/>>

39 *Opinions of the General Office of the State Council on the Implementation Measures to Strengthen Stable Employment in Response to the Impact of the COVID-19*, State Council, 20th March 2020, viewed 24th June 2022 <http://www.gov.cn/zhengce/content/2020-03/20/content_5493574.htm>

40 *Notice of the State Council on Printing and Distributing the "14th Five-Year" Employment Promotion Plan*, State Council, 27th August 2021, viewed 20th June 2022 <http://www.gov.cn/zhengce/content/2021-08/27/content_5633714.htm>

41 *Notice on Printing and Distributing Several Measures to Assist Small and Medium sized Enterprises in Stable Growth, Structural Adjustment, and Strong Capacity*, State Council, 11th January 2023, viewed 27th June 2023 <http://www.gov.cn/zhengce/zhengceku/2023-01/15/content_5737024.htm>

42 So-called 'little giants' – highly specialised companies that dominate niche markets – are meant to emulate Germany's 'hidden champions' and develop the core technologies China is lacking.

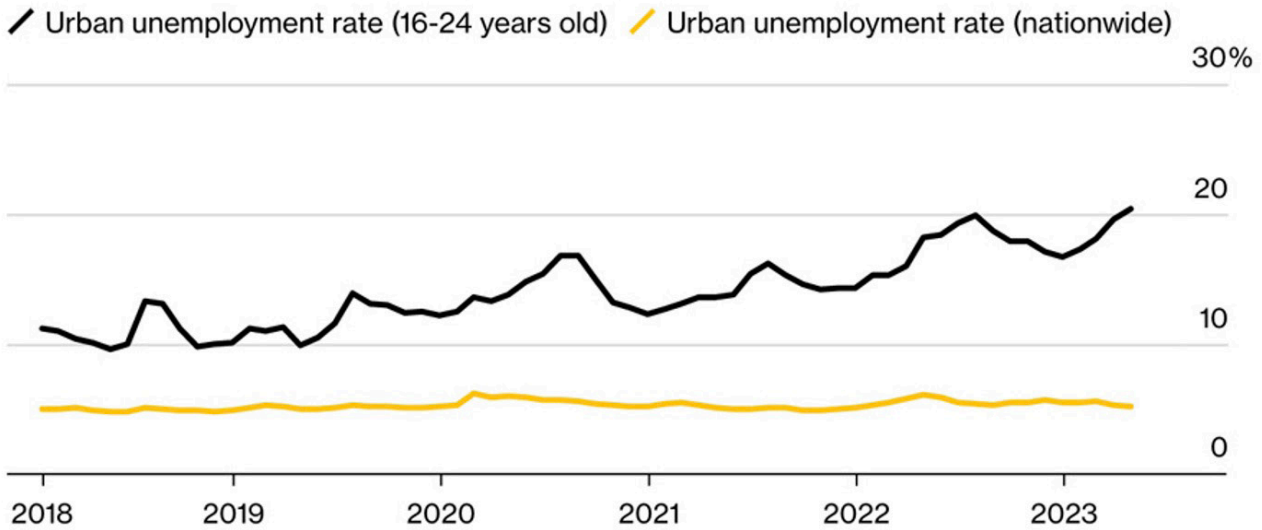


Figure 8 China's National Bureau of Statistics; Bloomberg

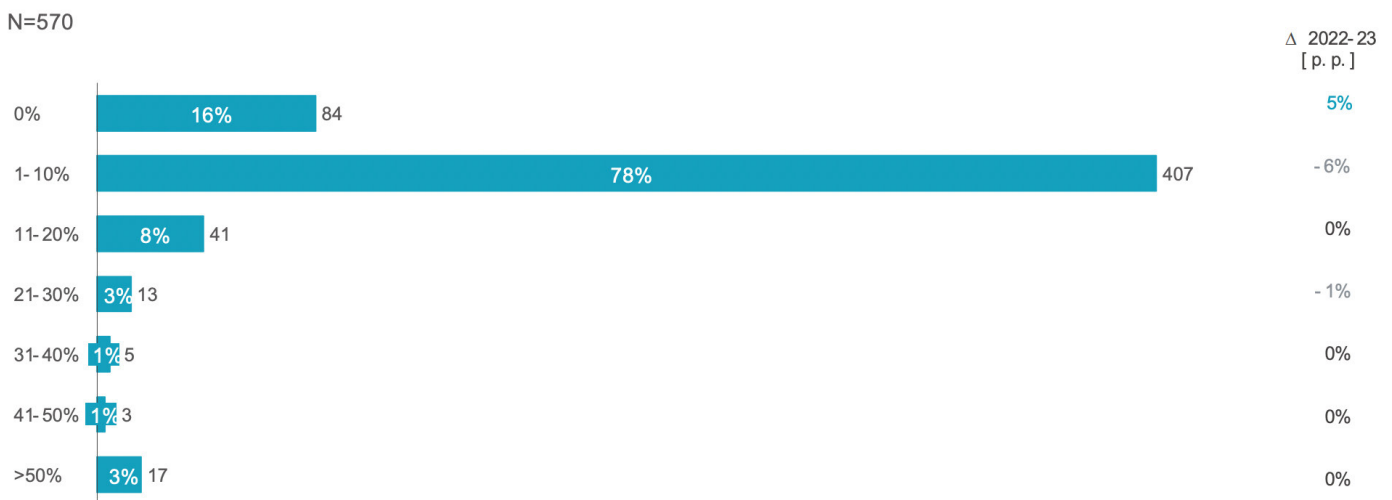
June 2023.⁴³ The surge in joblessness underscores how much the economy is struggling to absorb new workers, even as growth rebounds from its pandemic slump and the overall labour force declines. Many companies thus remain cautious about increasing capital expenditure or hiring more people. According to analysts, “pressures on margins and lingering uncertainty about the strength and durability of the recovery” are key factors behind the surging unemployment rolls, alongside “skills mismatch” in the job market. Authorities have taken some steps to try and stop youth unemployment from

spiraling out of control. Measures include expanding recruitment within state-owned enterprises, as well as providing subsidies to employers that recruit new graduates and young people.⁴⁴

From the perspective of foreign businesses, attraction and retention of international talent has become much more complicated in the past few years. Data from the BCS 2023 shows that the exodus of foreign nationals, an issue exacerbated by China’s ‘zero-COVID’ policy, continued throughout 2022. Nearly one in six (16 per

Figure 9 BCS 2023: 16% of members employ no foreign nationals in China

What percentage of your total staff in China are foreign nationals?



43 From GDP to youth unemployment, 6 takeaways from China's economic data in June, South China Morning Post, 18th July 2023, viewed 21st July 2023, <<https://www.scmp.com/economy/economic-indicators/article/3228016/gdp-youth-unemployment-6-takeaways-chinas-economic-data-june>>

44 China's Record-High Youth Unemployment Rate Likely to Worsen, Bloomberg, 16th May 2023, viewed 27th June 2023, <<https://www.bloomberg.com/news/articles/2023-05-16/china-s-youth-jobless-rate-jumps-to-record-20-4-in-danger-sign>>

cent, +5pp y-o-y) respondents report having no foreign nationals working in their China operations, a figure that jumps to 21 per cent for SMEs, many of which experienced severe difficulties getting staff into China over the past three years. This has been accompanied by an erosion of the soft infrastructure that is vital for the well-being of the foreign community in China, with international schools and medical clinics finding themselves short of both staff and customers, putting many under pressure to close.

2.3.2 Competition and procurement

Government procurement in China is governed by the Bidding Law and by the Government Procurement Law, both of which are undergoing a revision (public consultations were launched in 2019 and 2020 respectively). In July 2022, the MOF once again called for comments on the revised draft of the Government Procurement Law. However, since the National People's Congress (NPC) 2023 Legislative Workplan makes no mention of these two laws, it is unlikely that the revisions will be concluded this year.⁴⁵

In the meantime, throughout the past years, the government has worked to increase the engagement of domestic SMEs in government procurement activities. On 18th December 2020, the MOF published *Administrative Measures for Government Procurement to Promote the Development of SMEs*.⁴⁶ This document sets a 4-6 per cent discount rate for the purchase of goods and services from SMEs; consortia composed of SMEs and large companies, or projects that involve large companies outsourcing to SMEs will receive a discount rate of 2-3 per cent. Following the publication on 30th May 2022 of the *Notice on Further Strengthening Government Procurement Support for SMEs*, starting from 1st July 2022, the former discount rate will be raised to 10-20 per cent, while the latter will be raised to 4-6 per cent. In addition, procurement projects of less than

RMB 4 million should be reserved for SMEs as long as they qualify; for procurement projects exceeding RMB 4 million but still within the capacity of SMEs, the quota for SMEs will be gradually increased by the second half of 2022 from more than 30 per cent to more than 40 per cent. Other complementary measures include higher advance payment rates, credit guarantee, contract financing, and free electronic procurement documents.⁴⁷ The State Council's notice in January 2023 confirms the extension of the policy of increasing the quota of government procurement projects reserved for SMEs to more than 40 per cent until the end of 2023. Large enterprises and platform organisations are also encouraged to publish SME-oriented procurement lists.⁴⁸

Although as part of changes made to its *Foreign Investment Law* in 2020, on paper no discrimination against foreign parties is permitted in a number of areas, including procurement, European businesses in some industries continue to experience discriminatory treatment.⁴⁹ According to the BCS 2023, while discrimination against foreign enterprises in public procurement does not pose a significant barrier for many industries, it is a key challenge for FIEs operating in the medical devices, civil engineering, and IT and telecommunications sectors.

While the outlook for the participation of foreign SMEs in public procurement in China is bleak – especially given the difficulties large companies with more leverage and resources still face – it is important that Chinese authorities continue to work towards opening up its public procurement market. In this respect, China's accession to Government Procurement Agreement will be key. The EU has also taken steps to ensure reciprocity when it comes to the openness of third country procurement markets through the development of its International Procurement Instrument, which came into force on 29th August 2022.⁵⁰

45 *China's National Legislature Releases 2023 Legislative Plan*, NPC Observer, 29th May 2023, viewed 27th June 2023 <<https://npcobserver.com/2023/05/29/chinas-national-legislature-releases-2023-legislative-plan/>>

46 *Administrative Measures for Government Procurement to Promote the Development of SMEs (2021)*, EU SME Centre, 14th January 2021, viewed 27th June 2023, <<https://www.eusmecentre.org.cn/publications/administrative-measures-for-government-procurement-to-promote-the-development-of-smes-2021/>>

47 *Notice on Further Strengthening Government Procurement Support for Small-and-Medium-Sized Enterprises*, CCGP, 31st May 2022, viewed 27th June 2023, <http://www.ccg.gov.cn/zcfg/mof/202205/t20220531_17999872.htm>

48 *Notice on Printing and Distributing Several Measures to Assist Small and Medium sized Enterprises in Stable Growth, Structural Adjustment, and Strong Capacity*, State Council, 11th January 2023, viewed 27th June 2023 <http://www.gov.cn/zhengce/zhengceku/2023-01/15/content_5737024.htm>

49 *Improved Tax Assistance for China SMEs Belt & Road Procurement Contract Bids*, Dezan Shira Associates, 22nd April 2021, viewed 27th June 2023, <<https://www.silkroadbriefing.com/news/2021/04/22/improved-tax-assistance-for-china-smes-belt-road-procurement-contract-bids/>>

50 *International public procurement instrument: securing fairness for EU firms*, European Parliament, 9th June 2022, viewed 27th June 2023, <<https://www.europarl.europa.eu/news/en/press-room/20220603IPR32143/international-public-procurement-instrument-securing-fairness-for-eu-firms>>

2.4 PROTECTION OF THE RIGHTS OF SMEs AND SUPERVISION MECHANISMS

Chapter 8 of the SME Promotion Law addresses the protection of the rights of SMEs. Some of the measures set to ensure the protection of the rights of SMEs include improving the feedback mechanisms for SMEs; ensuring government units, public institutions and large enterprises refrain from abusing the rights of SMEs; and standardising administrative fees and publishing a detailed catalogue to counter the charging of excessive fees.

The 14FYP for SMEs includes a dedicated project focussing on the protection of the rights of SMEs. Measures cover the following areas:

- Guaranteeing the timely payment of SMEs.
- Protecting the IPR of SMEs (see section 2.5).
- Opening up more complaint channels, providing public welfare legal aid service activities and trainings for SMEs.
- Guaranteeing fair competition for SMEs.

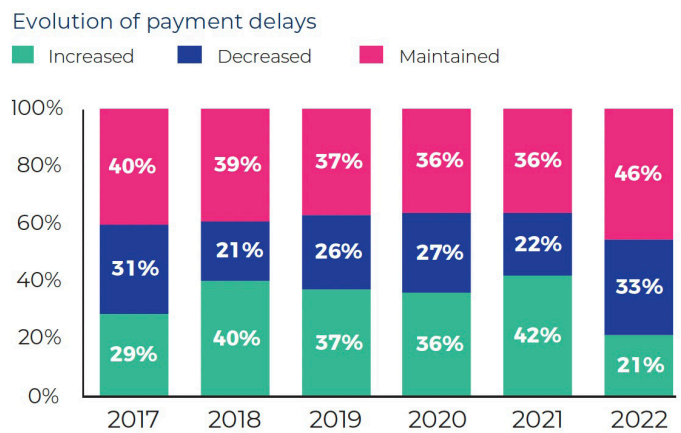
Looking at late payments in particular, in July 2020 the State Council issued the *Regulations on Ensuring Payments to Small and Medium-Sized Enterprises* (the Regulations) which went into effect on 1st September 2020. The Regulations aim to tackle the long-standing issue of late payments to SMEs through measures like setting standardised requirements on the payment period or establishing deadlines for the provision of confirmation of the creditor’s rights and debt relationship when SMEs apply for financing through accounts receivable.⁵¹

Furthermore, in December 2021, the State-owned Assets Supervision and Administration Commission released a *Notice on Conscientiously Implementing the Regulations on Ensuring Payments to Small and Medium-sized Enterprises*, which establishes concrete guidelines for SOEs to implement the Regulations. Also in December 2021, the MIIT issued the *Interim Measures for Handling Complaints on Safeguarding Payments to SMEs*, which provides concrete guidance on channels

to report instances of late payments and provides details on things like division of labour and timeline for handling complaints.⁵²

More recently, in January 2023, the State Council established several measures including strengthening the protection of legal rights and interests of SMEs, strictly implementing the *Regulations on Ensuring Payments to Small and Medium-Sized Enterprises* and the information disclosure system for overdue payments to SMEs by public institutions and large enterprises, and carrying out in-depth rectification of non-compliant charges related to enterprises.⁵³

Figure 10: Coface Payment Survey



Official data from the NBS shows that in 2022 there was an increase of the average collection period of accounts receivable to 52.8 days, 3.5 more than 2021.⁵⁴ Other surveys such as Coface’s annual survey of 1,000 companies in China show, however, longer average corporate payment delays. According to the latest report, the average payment delay shortened from 86 to 83 days in 2022, as longer credit terms were offered. Fewer respondents reported increased amount of overdue payments (42 per cent to 21 per cent), but those who did were mainly small enterprises that relied on the domestic market. Despite modest improvement following Beijing’s reopening of borders, many companies reported struggling with overdue payments, especially in the construction and automotive sectors.⁵⁵

51 *Regulations on Ensuring Payments to Small and Medium-Sized Enterprises*, State Council, 5th July 2020, viewed 24th June 2022 <http://www.gov.cn/zhengce/content/2020-07/14/content_5526768.htm>

52 *Interim Measures for Handling Complaints on Safeguarding Payments to SMEs*, MIIT, 30th December 2021, viewed 24th June 2022, <http://www.gov.cn/zhengce/zhengceku/2021-12/30/content_5665561.htm>

53 *Notice on Printing and Distributing Several Measures to Assist Small and Medium sized Enterprises in Stable Growth, Structural Adjustment, and Strong Capacity*, State Council, 11th January 2023, viewed 27th June 2023 <http://www.gov.cn/zhengce/zhengceku/2023-01/15/content_5737024.htm>

54 *The Profit of Industrial Enterprises above Designated Size in 2022*, NBS, 1st February 2023, viewed 27th April 2023, <http://www.stats.gov.cn/english/PressRelease/202302/t20230201_1892630.html>

55 *China Payment Survey 2023: Shorter Payment Delays But Worsening Credit Conditions In Chemicals And Wood*, Coface, 23rd May 2023, viewed 27th June 2023, <<https://www.coface.com/News-Publications/Publications/>>

As of 27th June 2023, the MIIT's official complaint platform for SMEs had 27,973 creditors registered and 91,696 complaints logged in,⁵⁶ almost double y-o-y.

2.5 INTELLECTUAL PROPERTY

China's development and enforcement of laws and regulations around IPR protection have slowly but steadily improved over the years. Major IP related legislation rolled out in the recent past have included the E-Commerce Law and Trademark Law, which came into force in 2019, as well as the Copyright Law and Patent Law, which came into effect in June 2021.^{57,58&59} The E-Commerce Law aimed to strengthen IPR enforcement on e-commerce platforms, while the Trademark Law improved trademark protection and banned bad faith applications, and by all accounts it seems to have been actively implemented by Chinese regulators.⁶⁰ Meanwhile, the Copyright Law and the Patent Law introduce measures like the extension of copyrightable works, as well as the creation of a patent linkage system and an open license system.

In January 2023, the Chinese authorities decided to further revise the Trademark Law. The proposed Draft Amendments would further strengthen the law on bad-faith trademark applications by broadening the definition of malicious trademark applications, thus providing the rights owners with additional means to challenge bad-faith trademark applications.⁶¹ In addition, the rules on forbidding trademark agencies from engaging in trademark squatting would be further strengthened. The Draft Amendments also modernise

the existing law by expanding protections for the use of trademarks in e-commerce and on the internet.

Looking at SME-focussed policies, the 14FYP for SMEs includes sections that aim to tackle IP creation and IPR protection and enforcement for SMEs. In particular, the Plan includes measures like implementing special plans for patent transformation, encouraging universities and institutes to transfer patents to SMEs, guiding large state-owned enterprises to lower the threshold for SMEs to acquire patent technologies. It also includes a project to protect the legal rights and interests of SMEs which has an IPR component.

Finally, with regards to international cooperation and dialogues, a landmark achievement in terms of IP protection is the EU-China Agreement on Geographical Indications (GIs), which entered into force in March 2021. The first batch of GI products approved by the China National Intellectual Property Administration (CNIPA) included 96 European products, and another 175 EU GIs will be considered by the CNIPA in the next years.⁶²

In February 2022, China joined the *Hague Agreement Concerning the International Registration of Industrial Designs*, which facilitates the registration and the protection of industrial designs (design patents) in more than 90 countries, a step long-awaited by rights holders.⁶³ For foreign SMEs, a country's accession to this agreement could mean not only a broader protection for their industrial designs, but also a reduction of their costs and registration procedures by up to 60 per cent,⁶⁴ making it easier for them to access and operate in that market. Furthermore, in March 2023, China's

[China-Payment-Survey-2023-Shorter-payment-delays-but-worsening-credit-conditions-in-chemicals-and-wood](#)

56 Official complaint platform for SMEs, viewed 27th June 2023, <<https://sme-dj.miit.gov.cn/#/>>

57 *Trademark Law*, NPC, 7th May 2019, viewed 14th June 2022, <<http://www.npc.gov.cn/npc/c30834/201905/dacf65eec798444e-821a1e06a347f3ee.shtml>>

58 *Decision of the Standing Committee of the National People's Congress on Amending the Copyright Law of the People's Republic of China*, NPC, 11th November 2020, viewed 12th of April 2021, <<http://www.npc.gov.cn/npc/c30834/202011/272b72cdb759458d94c9b875350b1ab5.shtml>>

59 *Decision of the Standing Committee of the National People's Congress on Amending the "Patent Law of the People's Republic of China*, NPC, 18th October 2020, viewed 12th of April 2021 <http://www.gov.cn/xinwen/2020-10/18/content_5552102.htm>

60 *Report on the Implementation of China's Amended Trademark Law*, International Trade Mark Association, November 2021, viewed 13th May 2022, <https://www.inta.org/wp-content/uploads/public-files/advocacy/committee-reports/CHINA-TRADEMARK-LAW-REPORT_120121.pdf>

61 *Draft Amendments to the Trademark Law*, CNIPA, 13th January 2023, viewed 26th April 2023 <https://www.cnipa.gov.cn/art/2023/1/13/art_75_181410.html>

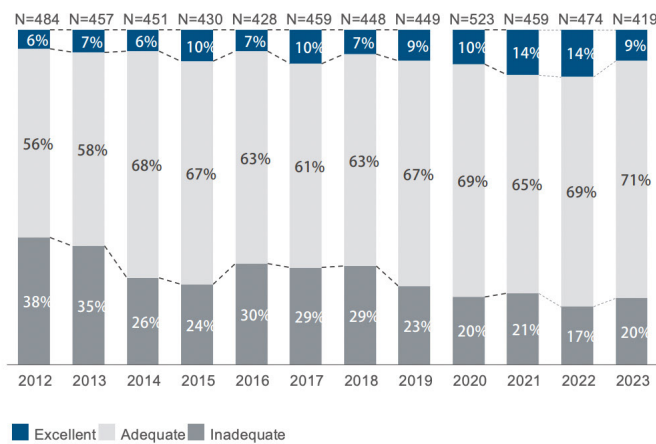
62 *CNIPA Approved the First Batch of EU GI Products in GI Agreement*, China National Intellectual Property Strategy Network, 16th March 2021, viewed 18th June 2022, <<http://www.chinaipmagazine.com/en/news-show.asp?id=11932>>

63 *China joins the Hague System*, CNIPA, 17th February 2022, viewed 26th April 2023 <http://english.cnipa.gov.cn/art/2022/2/17/art_1340_173309.html>

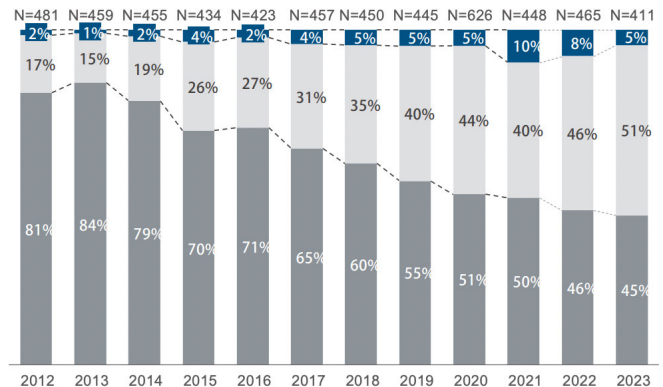
64 *Brazil joins the Hague agreement: spotlight on the benefits it brings to EU/SMP SMEs*, European Commission, 19th June 2023, viewed 23rd July 2023, <<https://intellectual-property-helpdesk.ec.europa.eu/news-events/news/brazil-joins-hague-agreement-spotlight-benefits-it-brings-eusmp-smes-2023-06-19>>

Figure 11 BCS 2023: Almost half find enforcement of IPR laws and regulations inadequate

How does your company rate the effectiveness of China's written intellectual property (IP) protection laws and regulations?



How does your company rate the enforcement of China's IPR laws and regulations?



accession to the *Hague Convention on Abolishing the Requirement of Legalisation for Foreign Public Documents* will potentially make the costly and time-consuming process of document authentication abroad easier and cheaper with the apostille, slashing the time required to complete procedures by 90 per cent. Foreign companies investing or exporting into China will no longer need to seek consular legalisation for commercial documents. However, whether this will reduce IP-enforcement costs for EU SMEs depends on whether China considers enforcement-related documents, such as the Power of Attorney, legal representative statements and company incorporation certificates, as public documents under internal law. Only public documents under internal law will be covered by the apostille convention.⁶⁵ This will help foreign business tremendously.

Looking at the European business experience with IPR protection and enforcement in China, European companies have observed an improvement in the past years. For instance, in the BCS 2020, half of respondents viewed IPR enforcement as adequate or excellent, and in BCS 2023 a new record high of 56 per cent was achieved. At the same time, one in five report that China's written IPR laws and regulations are inadequate (20 per cent, +3pp).

Although it is a widespread recognition – including from European companies – that the IP environment has generally improved throughout the past few years, there is also room for improvement in terms of strengthening of laws and regulations and implementation. For instance, according to a joint report by the EU Commission and EUIPO from December 2022, China is still the main country of provenance (70 per cent) for suspected IPR infringing goods.⁶⁶ The OECD-EUIPO report on the *Risks of Illicit Trade in Counterfeits to Small and Medium-Sized Firms*⁶⁷ from January 2023 also confirms that counterfeit goods infringing SMEs' IP mostly come from China.

In addition, 17 per cent of respondents of the BCS 2023 still report experiencing forced technology transfer and/or trade secrets in exchange for market access, with 53 per cent reporting that it happened within the previous year or was still taking place at the time of the survey. Over half of the respondents mention that the forced transfer was carried out as part of a commercial agreement or joint venture requirements, while 23 per cent reported that it happened due to written policy requirements or verbal pressure from government officials. Although this is an 8pp y-o-y improvement, it indicates that the 2020 Foreign Investment Law – which prohibits technology transfers by administrative means – is not being fully enforced.

65 van Malenstain, Reiunout, *China joins Apostille Convention - no legalization for public documents*, HFG Law & Intellectual Property, 14th March 2023, viewed 27th June 2023, <<https://www.hfgip.com/news/china-joins-apostille-convention-no-legalization-public-documents>>

66 *EU enforcement of intellectual property rights: results at the EU border and in the EU internal market 2021*, European Commission/EUIPO, 16th December 2022, viewed 27th June 2023, <https://euiipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/reports/2022_EU_enforcement_of_IPRs_2021/2022_EU_enforcement_of_IPRs_results_2021_FullR_en.pdf>

67 *Risks of Illicit Trade in Counterfeits to Small and Medium-Sized Firms*, OECD/EUIPO, 6th January 2023, viewed 27th June 2023, <https://euiipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/reports/Risks_of_Illicit_Trade_in_Counterfeits_to_SMEs/Risks_of_Illicit_Trade_in_Counterfeits_to_SMEs_FullR_en.pdf>

2.6 INNOVATION AND ENTREPRENEURSHIP

In the past few years, China has made significant progress in globally recognised rankings such as the World Intellectual Property's Global Innovation Index. According to the 2022 index, China moved up to 11th place, overtaking France. In addition, the report stated that for the first time, China has as many top 100 science and technology clusters as the United States. Also, its R&D spending exceeded CNY 3 trillion for the first time – higher than the average R&D spending in the EU.⁶⁸

Looking at the start-up environment in China, although Start-up Genome's *Global Start-up Ecosystem Rankings 2023* still puts Beijing and Shanghai in the top 10, it also notes that all major Chinese ecosystems continue to experience drops in the global ranking, with Shanghai moving down one place and Shenzhen dropping 12 places.⁶⁹

From a policy perspective, the revised SME Promotion Law supports this push for innovation through a series of provisions, some of which include establishing preferential tax policies for enterprises and investors in technological innovation, encouraging SMEs to develop new technologies with independent IP, and fostering cooperation between SMEs, universities and R&D centres.

In January 2022, the Ministry of Science and Technology rolled out a *Notice on Creating a Better Environment to Support R&D of Technology-based SMEs*,⁷⁰ with a series of measures such as allocating a specific budget for SMEs in national key R&D programmes, supporting scientists to work in both academia and SMEs, increasing the participation of SMEs in smart city application scenarios and project, and including SMEs' R&D activities as a key evaluation index for the administrations in sci-tech parks and high-technology zones.

On 13th October 2022, the MIIT and CNIPA jointly released a *Notice on Several Measures for Intellectual Property Rights to Help the Innovation and Development of Specialized and Specialized Small and Medium-sized Enterprises*.⁷¹ The document proposed measures concerning the creation, implementation and protection of intellectual property

"Little giants"

After the entry into force of the SME Promotion Law, the focus on bolstering the innovative capabilities of SMEs only increased, particularly as Chinese authorities zeroed into the idea of developing hidden champions in key sectors – the so-called 'little giants'. For instance, in February 2021 the MOF announced that the central government would allocate more than RMB 10 billion (USD 1.55 billion) from 2021 to 2025 to support the growth of more than 1,000 'little giants'. As mentioned in Chapter 2, the 14FYP for SMEs also contained a strong innovation component, with some of the key measures for the next five year including increasing of average corporate spending on R&D by 15 per cent or above, and creating 1 million innovative SMEs, 100,000 SMEs that specialise in niche sectors and 10,000 'little giants'. On 1st June 2022, the MIIT released a *Notice on Printing and Distributing the Interim Measures for the Management of Gradient Cultivation of High-quality Small and Medium-sized Enterprises*. The document allocates roles and responsibilities and outlines processes and timelines for the assessment of the different categories of SMEs (innovative, specialised and new SMEs and 'little giants'). It also establishes a platform where SMEs can voluntarily register to obtain the designations of specialised and new SMEs and 'little giants'.

As of July 2023, China has already cultivated more than 8997 national-level 'little giants', about 90 per cent of its goal to have 10,000 such companies by 2025. Among these, Shenzhen topped the list with an increase of 310 companies in the fifth batch of 'little giants' selected by the MIIT, surpassing Beijing (243), Suzhou (230) and Shanghai (206), almost reaching the same number as the entire province of Zhejiang. The city has consistently strengthened its efforts in nurturing specialised and sophisticated enterprises in recent years, by releasing local policies such as the *List of Practical Measures for Assisting Specialized and Sophisticated SMEs* and the *Implementation Rules for the Graded Cultivation of High-Quality SMEs in Shenzhen*.

68 *Global Innovation Index 2022*, Cornell University, INSEAD, and the World Intellectual Property Organization, 2022, viewed 28th June 2023, <https://www.wipo.int/global_innovation_index/en/2022/>

69 *Global Startup Ecosystem Rankings 2023*, Startup Genome, 23th June 2023, viewed 28th June 2023, <<https://startupgenome.com/reports/gser2023>>

70 *Notice on Creating a Better Environment to Support R&D of Technology-based SMEs*, Ministry of Science and Technology, 11th January 2022, viewed 24th July 2023, <https://www.gov.cn/zhengce/zhengceku/2022-01/13/content_5668067.htm>

71 *Notice of the Ministry of Industry and Information Technology and China National Intellectual Property Administration on Several Measures for Intellectual Property Rights to Help the Innovation and Development of Specialized and Specialized Small and Medium-sized Enterprises*, 13th October 2022, viewed 28th June 2023, <https://www.cnipa.gov.cn/art/2022/10/24/art_75_179782.html>

rights to enhance the enterprises' innovation ability and improve their core competitiveness.

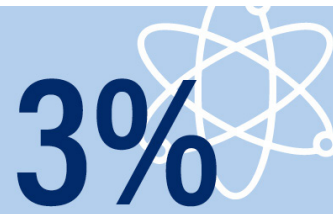
On 3rd November 2022, the MIIT issued a *Digital Transformation Guide for SMEs*.⁷² The Guide calls for the creation of digital applications for instant communication, long-distance collaboration and project management. Digital service providers and internet platforms have been asked to develop more convenient, customised products and solutions for the issues faced by SMEs in advancing digital transformation, and relevant departments to offer more guidance, increase financial assistance, expand pilot programs and improve services.

On 29th March 2023, the MIIT released a *Notice on Carrying out 2023 "Together to Benefit the Enterprise" Service Action for Small and Medium-sized Enterprises*.⁷³ The document calls for giving full play to the leading role of public service agencies at all levels, public service demonstration platforms, entrepreneurship and innovation demonstration bases, and characteristic industrial clusters for SMEs to meet their practical needs, pooling quality resources and carrying out service

activities to boost confidence, accelerate recovery, and achieve high-quality development for SMEs.

On 22nd May 2023, 10 departments published a *Notice on Special Action for Scientific and Technological Achievements Empowering Small and Medium-sized Enterprises (2023-2025)*.⁷⁴ The Notice seeks to enhance the capabilities of SMEs in technological innovation, digitalisation, networking and intelligence.

From a European business perspective, the European Chamber-MERICs joint report *China's Innovation Ecosystem: The Localisation Dilemma* from April 2023 showcases some differences between SMEs and MNCs when engaging in R&D in China.⁷⁵ A third of SME respondents reported no R&D spending in China, while only 10 per cent of MNCs said the same. Collaboration patterns also differed significantly – SMEs were more than twice as likely as MNCs to exclusively do R&D



3%

Among 650+ business enquiries received by the EU SME Centre since October 2020 (beginning of phase III), **less than 3 per cent involved R&D-related aspects**; while inquiries on other aspects (such as legal or standards) involving technology-related companies is around 20 per cent.



44

To date, a total of **44 Horizon Europe projects** feature the participation of Chinese entities – mostly through universities and research structures. See, for instance, the projects:

- RECONMATIC (ID: 101058580)
- ADOPT-IPM (ID: 101060430)

(searchable via the EU's CORDIS platform: <https://cordis.europa.eu/>)

Figure 12
EU SME Centre

⁷² *Digital Transformation Guide for SMEs*, MIIT, 3rd November 2022, viewed 28th June 2023, <https://www.gov.cn/zhengce/zhengceku/2022-11/09/content_5725642.htm>

⁷³ *Notice of the Ministry of Industry and Information Technology on Carrying out 2023 "Together to Benefit the Enterprise" Service Action for Small and Medium-sized Enterprises*, 29th March 2023, viewed 28th June 2023, <https://wap.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2023/art_3add1c40c998461da8354f0509da679a.html>

⁷⁴ *Notice of Ten Departments on Special Action for Scientific and Technological Achievements Empowering Small and Medium-sized Enterprises (2023-2025)*, State Council, 22nd May 2023, viewed 28th June 2023, <https://wap.miit.gov.cn/jgsj/kjs/wjfb/art/2023/art_28bf8e5e5a6549319194d799eff7d2b0.html>

⁷⁵ *China's Innovation Ecosystem: The Localisation Dilemma*, European Union Chamber of Commerce in China and MERICs, 21st April 2023, viewed 9th May 2023, <https://www.eurochamber.com.cn/en/publications-archive/1077/China_s_Innovation_Ecosystem_the_localisation_dilemma>

in-house (without external partners), due to the risk of technology leakage. Echoing this, an EU SME Centre article indicates that the number of EU SMEs with active R&D operations in China is low: among 650+ business enquiries received by the EU SME Centre since phase III, less than 3 per cent involved R&D-related aspects.⁷⁶ For EU SMEs, keeping R&D activities at home or in close proximity, while selling in the Chinese market through importers, distributors, representative offices or sales teams in the country, is just less risky and more profitable in the short-term. Even among those SMEs with active R&D in China, the majority are dedicated to improvement of existing products and technologies, or adaptation to meet local market or regulatory needs – that is, an R&D approach more focused on the ‘D’ rather than the ‘R’. Despite this, there are still opportunities for foreign SMEs in certain areas, thanks to China’s large pool of science, technology, engineering and mathematics graduates; and a pro-innovation attitude among local administrations, especially in Shanghai and Guangdong. Local funding schemes are generally open to foreign companies from any country, though some are exclusively designed for certain countries – such as Finland, one of the EU’s pioneers in promoting joint innovation projects in China involving SMEs.

From an institutional perspective, EU-funded initiatives such as the China Innovation Funding platform have in the past proved useful to navigate the complex and in many cases opaque world of Chinese funding for innovation and R&D.⁷⁷ At the bilateral level, targeted cooperation in areas where European and Chinese interests align has also been carried out – for instance, the administrative arrangement to co-fund projects in the fields of agriculture, food and beverage and climate change which was signed.⁷⁸ However, Horizon Europe – EU’s programme for financing European research and innovation projects – has limited the scope of funding for investments in China, and at the time of writing discussions on an EU-China Joint Roadmap for the Future of Science, Technology and Innovation Cooperation are currently stalled, significantly increasing the costs of innovation for businesses.

2.7 SME GREEN DEVELOPMENT

In September 2020, during a speech at the United Nations General Assembly, President Xi Jinping announced China’s pledge to peak carbon emissions before 2030 and to become carbon neutral by 2060. As a result, measures to support this overarching goal have begun to permeate most of China’s major plans and strategies and have filtered into sector and topic-specific laws, regulations, and standards. SMEs have a major role to play in meeting net-zero targets: they contribute to 60 to 70 per cent of industrial emissions, with a combined carbon footprint five times greater than large corporates.⁷⁹ Thus, taking the SME component into account in policy considerations will be key to achieving climate goals.

The 14FYP for SMEs includes considerations about supporting the green transition for SMEs – in particular, measures to support green technology innovation and green transformation of SMEs, as well as supporting policies and services for the green development of SMEs.

At the 2023 “Two Sessions”,⁸⁰ the Chinese People’s Political Consultative Conference (CPPCC) added a new working group on “Energy and Resources”, for the first time in 30 years. At least 27 representatives of private companies in the clean tech and energy industries were appointed as delegates, up from 21 in 2018. This implies more political importance attached to green industries and supply chains in China’s overall industrial policy design. For the green transition, currently Beijing’s plan is to keep in place monetary tools through the People’s Bank of China (PBOC) that encourages investment in decarbonisation. The PBOC provides 60 per cent of the loan principal to financial institutions for qualified carbon emission reduction facility projects and 100 per cent for the clean coal special re-lending projects at an interest rate of 1.75 per cent, which in theory could be very attractive for SME businesses. However, the majority of renewable energy developments are conducted by SOEs, so it remains to be seen if these two mechanisms have truly opened doors for SMEs to access lower cost borrowing for green projects.⁸¹ In

⁷⁶ *Little Giants: European SMEs in China’s R&D Environment*, EU SME Centre, 26th April 2023, viewed 23rd July 2023, <<https://www.eusmecentre.org.cn/publications/little-giants/>>

⁷⁷ China Innovation Funding homepage, 2018, viewed 25th June 2022, <<http://chinainnovationfunding.eu/>>

⁷⁸ *The EU and China have signed an administrative arrangement to support cooperation*, European Commission, 26th April 2022, viewed 22nd June 2022, <https://ec.europa.eu/info/news/eu-and-china-have-signed-administrative-arrangement-support-cooperation-2022-apr-26_en>

⁷⁹ *Why big business must support SMEs to achieve economic growth and get to net zero*, World Economic Forum, 6th January 2023, viewed 29th June 2023. <<https://www.weforum.org/agenda/2023/01/why-big-businesses-must-support-smes-growth-net-zero/>>

⁸⁰ Annual plenary meetings of the National People’s Congress (NPC) and the Chinese People’s Political Consultative Conference (CPPCC).

⁸¹ *China 30/60: Tracking the Financing of China’s Green Transition*, Rhodium Group, 13th March, 2023, viewed 29th June 2023,

fact, there is a limited range of financing products that fit the needs of SMEs in such a niche green market. For instance, corporate finance is structured in such a way that makes lending to SMEs for green projects risky and unprofitable. Further, the SMEs themselves might not see the economic benefits of going green, as most national policies in China monitor big companies' carbon emissions in specific industries. China's national carbon market, launched in 2021, so far only covers companies in the power sector – almost all of them SOEs – leaving most of the SMEs unregulated.⁸²

European companies are generally well-positioned to contribute to the achievement of China's carbon neutrality goals. According to the BCS 2023, 95 per cent of respondents are currently pursuing carbon neutrality aim to decarbonise their China operations by 2050.⁸³ As showcased in several EU SME Centre case studies, European SMEs offering innovative green solutions have been successfully operating in China for years, and in some cases were pioneers in their respective fields – from emissions monitoring systems to green building and green energy.⁸⁴

At the same time, according to the European Chamber report *Carbon Neutrality: The Role of European Business in China's Race to 2060*, European businesses encounter a number of challenges to their decarbonisation efforts.⁸⁵ These include limited access to renewable energy, a lack of clear policy guidance, the need for China to reform its energy system, a lack of necessary technology and issues relating to China's emissions trading system. One of the barriers the report points at is the limited purchasing power of smaller companies. Another hurdle for SMEs when it comes to accessing renewable energy is that the power purchase agreements usually require a certain amount on consumption volume. While large companies can obtain long-term commitments with grid companies, companies with smaller carbon footprint in China are currently not eligible to participate in this type of agreements. European SMEs have also pointed out to EU SME Centre representatives that in many cases they face pressure from the lack of resources to follow the fast-paced regulatory changes and develop and implement strategies to green their operations, and from their larger clients, which require them to provide

information on their carbon footprint. Small European businesses have also reported difficulties to guarantee that their supply chain is green. These issues clearly signal the need for further policy guidance and support from the Government in order to ensure that SMEs are not left behind in the race towards carbon neutrality.

<<https://rhg.com/research/china-30-60-tracking-the-financing-of-chinas-green-transition>>

82 *Help Chinese SMEs make green transition to hit carbon neutrality goal*, South China Morning Post, 23rd September 2022, viewed 24th July 2023, <<https://www.scmp.com/comment/letters/article/3193261/help-chinese-smes-make-green-transition-hit-carbon-neutrality-goal>>

83 *Business Confidence Survey 2023*, European Chamber, 21st June 2023, viewed 29th June 2023, <https://www.europeanchamber.com.cn/en/publications-archive/1124/Business_Confidence_Survey_2023>

84 For more information on these case studies, please check the EU SME Centre's publications page, <<https://www.eusmecentre.org.cn/publications/>>

85 *Carbon Neutrality: The Role of European Business in China's Race to 2060*, European Chamber, 25th May 2022, viewed 29th June 2023, <<https://www.europeanchamber.com.cn/en/publications-carbon-neutrality-report>>

CONCLUSION

The SME Policy Environment Report 2023 shows that the policy and regulatory push to improve the operating conditions for SMEs in China continued in the past year. At a macro level, the 14FYP for SMEs sets the strategy that will guide the development of SME-focused policies and regulations in the next half a decade. At a more granular level, measures to advance the 14FYP and to address ad hoc challenges experienced by SMEs have also been rolled out. According to studies by the Chinese government such as the *SME Development Environment Assessment Report 2022*, conditions for SMEs have improved across China.

Although the Chinese Government ended its 'zero-COVID' policy in late 2022, a robust economic recovery is yet to materialise fully. Data from *BCS 2023* shows that Chinese and global economic slowdowns replace COVID-19 as top challenges faced by business, followed by the US-China trade war.

Faced with growing risks and a more volatile, politicised operating environment, European SMEs experience additional obstacles that hinder their healthy development in the Chinese market. Some of these challenges are long-standing, such as market access issues, red tape and lack of a level playing field. Others, like the exodus of foreign employees, and general difficulties attracting and retaining talent, were exacerbated during the pandemic and continue after China's reopening. Finally, small businesses also have to deal with the challenges associated with carrying out the green transition in their China operations.

The 14FYP for SMEs establishes ambitious goals to foster the healthy development of SMEs. With China now 'reopening' to the world, following three years of isolation, it will be important that the Government 'walks the talk' by implementing supporting measures that target and address the key roadblocks – both old and new – encountered by both domestic and foreign SMEs.

Finally, considering the vulnerability of European small businesses and their need for support in an attractive yet increasingly challenging market such as China, the work of European institutions, business associations and EU-funded projects such as the EU SME Centre and the IP SME Helpdesk remains indispensable in order to continue giving voice to these SMEs and better equip them to do business in China. Deepening cooperation with the international business community in China would help to swiftly restore the Chinese market's efficiency, reliability and predictability, and provide a strong foundation for sustainable, long-term economic recovery.

ABBREVIATIONS

14FYP	14th Five-Year Plan
BCS	Business Confidence Survey
CASME	China Association for SMEs
CBIRC	China Banking and Insurance Regulatory Commission
CIT	Corporate Income Tax
CNIPA	National Intellectual Property Administration
CPPCC	Chinese People's Political Consultative Conference
EU	European Union
EUR	Euro
GDP	Gross Domestic Product
GI	Geographical Agreement
IP	Intellectual Property
IPR	Intellectual Property Rights
MIIT	Ministry of Industry and Information Technology
MOF	Ministry of Finance
NBS	National Bureau of Statistics
NDRC	National Development and Reform Commission
NEEQ	National Equities Exchange and Quotations
NPC	National People's Congress
PBOC	People's Bank of China
R&D	Research and Development
RMB	Renminbi
STA	State Taxation Administration
SME	Small and Medium-sized Enterprise
SMEDI	SME Development Index
SOE	State-owned enterprise
USD	United States Dollar
VAT	Value-added Tax

About the EU SME Centre

The EU SME Centre helps European SMEs get ready for China by providing them with a range of information, advice, training and support services.

To find out more, visit our website: www.eusmecentre.org.cn

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