



SMEs in China Policy Environment Report

2024 UPDATE



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SMEs in China: Policy Environment Report

2024 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 SMEs 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 23rd 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 revising 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 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 late June 2024.⁴

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 innovation. In 2022, the total number of micro, small and medium-sized enterprises in China exceeded 52 million, with specialised SMEs accounting 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

As in China, SMEs are the backbone of the European Union's (EU) economy. In 2022 there were around 24.3 million SMEs active in the EU representing 99.8 per cent of all enterprises in the non-financial business sector. These SMEs accounted for just under two-thirds of employment and slightly more than half of the value added in the EU.⁷

1 *Law of the People's Republic of China on the Promotion of Small and Medium-sized Enterprises (2017)*, National People's Congress (NPC), 1st September 2017, viewed 20th June 2024, <http://www.npc.gov.cn/npc/c2/c30834/201907/t20190702_292996.html>

2 *Statistical criteria for the classification of large, medium, and small micro-enterprises (2017)* [CN], NBS, 3rd January 2018, viewed 20th June 2024, <https://www.stats.gov.cn/zs/tjws/tjbz/202301/t20230101_1903367.html>

3 *Notice of Public Consultation on the Regulations on SME Classification Criteria (Revised Draft for Comments)*, MIIT, 23rd April 2021, viewed 20th June 2024, <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 2024, <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 2024, <<https://ec.europa.eu/docsroom/documents/42921>>

7 *SME Annual Report - 2022/2023*, European Commission, 27th June 2023, viewed 20th June 2024, <https://single-market-economy.ec.europa.eu/document/download/b7d8f71f-4784-4537-8ecf-7f4b53d5fe24_en?filename=Annual%20Report%20on%20European%20SMEs%202023_FINAL.pdf>

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 China is important when analysing their respective ecosystems, as some

companies considered 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

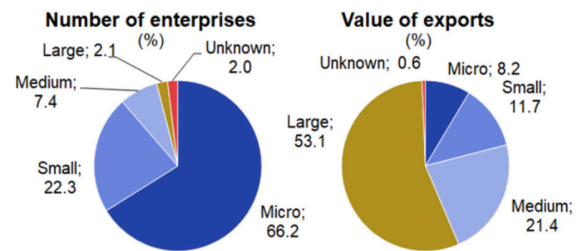
The European Commission estimates that, as of 2021, micro, small and medium-sized enterprises represented 93.6 per cent of exporting enterprises for extra-EU exports and accounted for 30.4 per cent of the value of extra-EU exports.

Although this does not constitute a comprehensive overview of European SMEs either doing business or looking to do business in China, the data provides an indication of what types of companies are looking into the country as a potential export or investment market.

In absolute numbers, the most recent available estimates indicate that around 600,000 SMEs are engaged in exports of goods. While most of these SMEs tend to trade within the Single Market (that is, between EU Member States), 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

Enquiry data from the EU SME Centre’s Phase IV (starting from July 2022 and as of late June 2024) shows a predominance of businesses in food and beverages, machinery, cosmetics, information technology and retail looking to benefit from Centre services. The top six countries of origin for SME enquiries were Italy, Belgium Spain, Germany, Poland, and France.

Extra-EU exports of goods by size class, 2021



Average exports per enterprise (€)

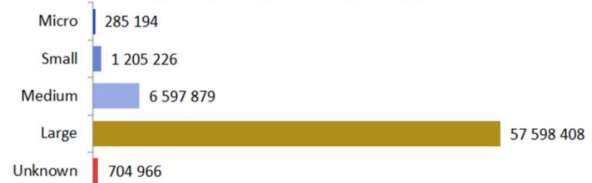


Figure 1 Eurostat⁹

Breakdown of enquiries by sector

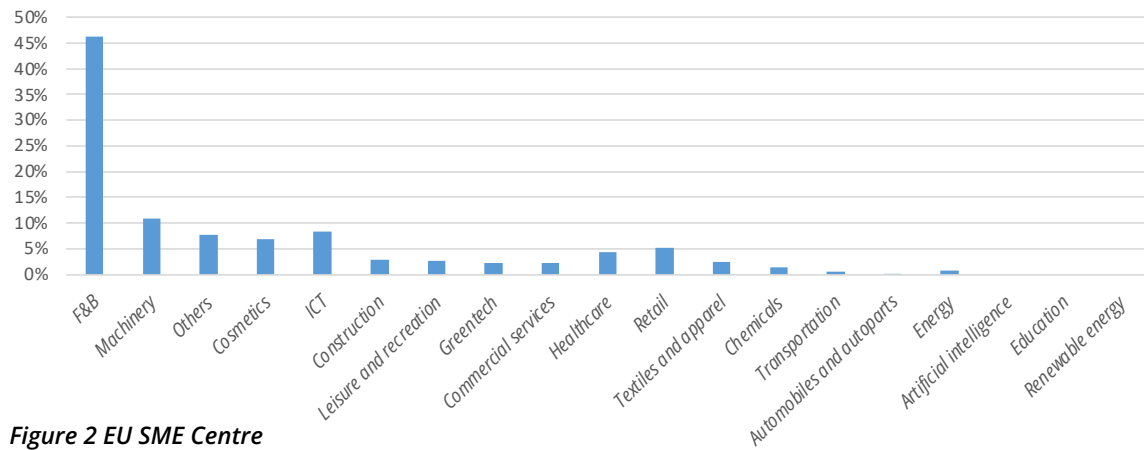


Figure 2 EU SME Centre

⁸ SMEs, start-ups, scale-ups and entrepreneurship, European Commission, September 2020, viewed 20th June 2024, <<https://europa.eu/eurobarometer/surveys/detail/2244>>

⁹ International trade in goods by enterprise size, Eurostat, data from October 2023, viewed 20th June 2024 <https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_trade_in_goods_by_enterprise_size&oldid=582467#Share_of_SMEs_in_total_trade_28intra-EU_2B_extra-EU.29>

2. ANALYSIS OF THE CURRENT POLICY ENVIRONMENT FOR SMES IN CHINA

2023 began with the relaxation of zero-COVID measures by the Chinese government and the re-opening of the country. However, recovery throughout the year proved to be fragile, with weak demand, muted investment levels, deflation and a challenging property market outlook as some of the key obstacles to a strong rebound.¹⁰ In 2024, economic momentum has so far picked up, mostly thanks to robust exports that offset moderating demand, and policy adjustments in a variety of sectors.¹¹ The strong export momentum in China in the past few years has exacerbated concerns from some economic partners over growing trade imbalances and distortions to the domestic markets caused by cheap and subsidised products. This has led to an increase in trade tensions, with actors like the US, Turkey, and the EU initiating a series of trade defence investigations over products like electric vehicles.

China's fragile recovery has broadly been reflected in SME performance indicators such as the China Association for SMEs' (CASME) SME Development Index. The latest numbers indicate that, although there has been a clear upward trend since the relaxation of zero-COVID measures, the numbers are still not back to pre-pandemic levels.¹² This is reflected in other SME

performance indices such as the Standard Chartered SME Confidence Index.¹³ In the case of this survey, data for May 2024 stood at 51.3, whereas the recorded data for that month between 2016 and 2019 was never below 56. According to the Beijing University *China Micro and Small Business Operators Survey Q1 2024 Report*, the economic environment – particularly low demand and intense competition – together with burdensome operating costs, remained the main pressures felt by SMEs throughout the first quarter of 2024.¹⁴

Looking at European business performance and sentiment, according to the European Union Chamber of Commerce in China's (European Chamber) *Business Confidence Survey 2024* (BCS 2024), 68 per cent of respondents indicated that doing business had become more difficult in 2023, with China's economic slowdown cited as a top concern. The lowest level of respondents on record also reported increases in revenues – with SMEs as the group with the highest percentage of decreased revenues and negative profits (35 per cent and 19 per cent respectively).¹⁵ This, coupled with a perception of some positive but overall limited improvements in terms of market opening and the prevalence of regulatory barriers, has impacted European companies'

SME Development Index

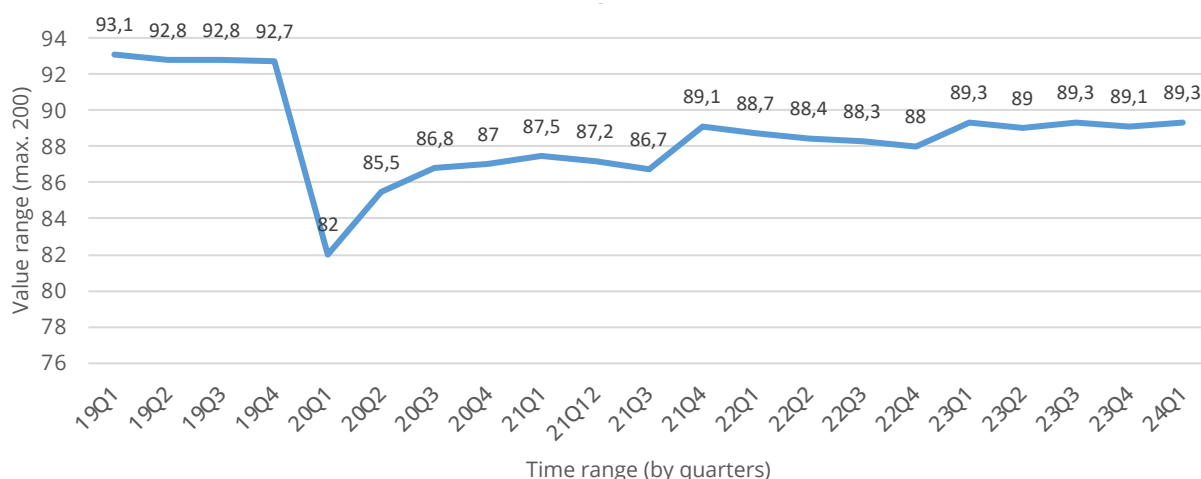


Figure 3 CASME SME Development Index, EU SME Centre

10 *Which Way Forward? Navigating China's Post-Pandemic Growth Path – China Economic Update December 2023*, the World Bank Group, 11th January 2024, viewed 20th June 2024 <<https://documents1.worldbank.org/curated/en/099558301102431321/pdf/IDU15f4627e615ee214d211b2e116f327def61a4.pdf>>

11 *Growing Beyond Property: Cyclical Lifts and Structural Challenges – China Economic Update June 2024*, 16th June 2024, viewed 20th June 2024 <<https://www.worldbank.org/en/news/press-release/2024/06/14/-structural-reforms-needed-to-sustain-growth-momentum-world-bank-report>>

12 Association News, CASME, viewed 20th June 2024 <<https://www.ca-sme.org/category/Category/index/cid/285>>

13 *China SME Confidence Index*, Standard Chartered, viewed 20th June 2024 <<https://www.sc.com/cn/en/business-sme/smei-report/>>

14 *Survey of Chinese Small and Micro Business Operators Q1 2024 Report and China Small and Micro Business Operator Confidence Index Q2 2024 Report*, Beijing University Enterprise Big Data Research Center, 31st May 2024, viewed 20th June 2024 <<https://cer.gsm.pku.edu.cn/info/1013/1220.htm>>

15 Unpublished data extracted from the BCS 2024. For the full report, please see *European Business in China Business Confidence Survey 2024*, 10th May 2024, viewed 20th June 2024 <<https://www.europeanchamber.com.cn/en/publications-business-confidence-survey/>>

confidence in the Chinese market and their investment plans in China. According to the BCS 2024, although European companies still consider China as a potential investment destination, the lowest percentage on record of respondents now rank China as their top one.¹⁶

Aware of the macroeconomic pressures impacting the post-pandemic recovery and confidence levels among industry players, the Chinese government has rolled out several announcements aimed at supporting the private sector and foreign investors. These include, among others, the *Opinions of the Communist Party of China Central Committee and the State Council on Promoting the Development and Growth of the Private Economy*,¹⁷ the *Opinions of the State Council on Further Optimising the Foreign Investment Environment and Intensifying Efforts to Attract Foreign Investment* (commonly known as the '24 measures');¹⁸ the *Letter from the General Office of the Ministry of Commerce on the Special Clean-up of Unreasonable Differential Treatment of Domestic and Foreign Investment*;¹⁹ and the State Council's *Action Plan for Solidly Promoting High-Level Opening-up and Attracting and Utilising Foreign Investment with Greater Efforts*.²⁰ Throughout late 2023 and early 2024, the Chinese leadership unveiled its technology and innovation-driven model for economic development, conceptualised under the term "New Quality Productive Forces".²¹ The long-anticipated Third Plenary Session of the Chinese Communist Party (the Third Plenum) in July 2024 is widely expected to further develop the direction of China's economic strategy. Meanwhile, SME policy in 2023 and 2024 has been largely underpinned by the State Council's *Several Measures to Assist Small and Medium-sized Enterprises in Stable Growth, Structural Adjustment and Strong Capacity*, published on 11th January 2023, and subsequent policies and regulations that will be discussed in the coming chapters.²²

16 Ibid.

17 *Opinions of the Communist Party of China Central Committee and the State Council on Promoting the Development and Growth of the Private Economy*, State Council, 14th July 2023, viewed 20th June 2024 <https://www.gov.cn/zhengce/202307/content_6893055.htm>

18 *Opinions of the State Council on Further Optimising the Foreign Investment Environment and Intensifying Efforts to Attract Foreign Investment*, State Council, 13th August 2023, viewed 20th June 2024 <https://www.gov.cn/zhengce/content/202308/content_6898048.htm>

19 *Letter from the General Office of the Ministry of Commerce on the Special Clean-up of Unreasonable Differential Treatment of Domestic and Foreign Investment*, Ministry of Commerce, 3rd November 2023, viewed 20th June 2024 <<http://www.mofcom.gov.cn/article/zwgk/gkzcfb/202311/20231103452139.shtml>>

20 *Action Plan for Solidly Promoting High-Level Opening-up and Attracting and Utilising Foreign Investment with Greater Efforts*, State Council, 19th March 2024, viewed 20th June 2024 <https://www.gov.cn/zhengce/content/202403/content_6940154.htm>

21 *Understanding New Quality Productive Forces and Accelerating Their Development*, Qiushi Journal, 11th May 2024, viewed 20th June 2024 <http://en.qsttheory.cn/2024-05/11/c_985265.htm>

22 *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 2024 <http://www.gov.cn/zhengce/zhengceku/2023-01/15/content_5737024.htm>

23 *Administrative Measures for Special Funds for the Development of Small and Medium-Sized Enterprises*, Ministry of Finance, 17th June 2021, viewed 28th June 2024, <http://jjs.mof.gov.cn/zhengcefagui/202106/t20210617_3720730.htm>

24 *Notice of the Ministry of Finance on Issuing the 2023 Budget for Special Funds for the Development of Small and Medium Enterprises (Direction of Digital Transformation of Small and Medium Enterprises)*, MOF, 28th September 2023, viewed 20th June 2024 <http://jjs.mof.gov.cn/zxzyzf/zxqfzxxzj/202310/t20231017_3911502.htm>

25 *Announcement of the Second Batch of Pilot Cities for Digital Transformation of Small and Medium-sized Enterprises*, MIIT, 16th June 2024, viewed 20th June 2024 <https://www.miit.gov.cn/zwgk/wjgs/art/2024/art_c304ea6b00e74f28b2679e42fc08c287.html>

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, with a focus on micro and small enterprises. 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 Ministry of Finance (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.²³ On 17th October 2023, under the umbrella of the aforementioned *Administrative Measures*, the Ministry of Finance allocated RMB 301.04 billion for the first batch of pilot cities for SME digital transformation, with a second batch of pilot cities announced on 21st June 2024.^{24&25} According to the *SME*

Development Environment Assessment Report 2023 these funds supported more than 15,000 SMEs.²⁶

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.

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.²⁷ 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 was established in 2019, and a Beijing Board with a similar premise of supporting innovative companies was launched in 2021.²⁸ One of the goals of the 14th Five-Year Plan for the Development of SMEs (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.²⁹

On indirect financing, the SME Promotion Law allows for the usage of movable property and accounts receivable as collaterals for chattel secured financing, and it provides for the encouragement of credit guarantee issuance.³⁰ The 14FYP for SMEs mandates 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, the China Banking and Insurance Regulatory Commission (CBIRC) proposed to form a financial service system for micro- and small 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.³¹

The National Development and Reform Commission's (NDRC) and other key ministries' *Notice on Public Financing Measures to Promote the Development of the Private Economy* includes measures such as facilitating easier access to capital markets and larger projects for SMEs. The Notice also includes measures such as tailored financial products, strengthened financing guarantees, and support improving the listing readiness of SMEs.³² Similarly, the MIIT's and Ministry of Finance's (MOF) *"One Chain, One Policy, One Batch" financing action for SMEs* includes measures such as developing customised financial products, strengthening government financing guarantees, fostering bank collaborations, and encouraging venture capital and private equity investments in innovative SMEs, alongside promoting diversified financial services like Supply Chain Finance (SCF) and receivable financing.^{33&34} In October 2023, the State Council issued the *Notice on Promoting the High-Quality Development of Inclusive Finance* which focuses on optimising financial resource allocation, enhancing digital financial services,

26 *2023 SME Development Environment Assessment Report*, China Center for the Development Promotion of SMEs, 3rd June 2024, viewed 20th June 2024 <<https://huanping.chinasmc.org.cn/report/>>

27 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.

28 *The New Beijing Stock Exchange for SMEs – What You Need to Know*, China Briefing, 18th November 2021, viewed 28th June 2024, <<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 2024, <<http://www.sse.com.cn/aboutus/publication/yearly/documents/c/5641852.pdf>>

29 *The 14th Five-Year Plan for the Promotion of Small and Medium-Sized Enterprises*, MIIT, 6th July 2022, viewed 20th June 2024 https://wap.miit.gov.cn/jgsj/ghs/zlygh/art/2022/art_fcae6ac1cde74344be8e1cc073f873dc.html

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

31 *Notice on Strengthening the Quality of Financial Services for Small and Micro Enterprises in 2023*, CBIRC, 27th April 2023, viewed 28th June 2024, <<http://www.cbirc.gov.cn/cn/view/pages/governmentDetail.html?docId=1106034>>

32 *Notice on Public Financing Measures to Promote the Development of the Private Economy*, NDRC, 1st August 2023, viewed 20th June 2024, <https://sme.com.cn/cms/show.action?code=publish_8a8380b9645fe4f50164d3e2cdee543a&siteid=100000&newsid=0352008edbbc4aa58c36d192a6a462ca&channelid=0000000700>

33 *'One Chain, One Policy, One Batch' Financing Action for SMEs*, MIIT, 2nd August 2023, viewed 27th June 2024 <https://sme.com.cn/cms/show.action?code=publish_8a8380b9645fe4f50164d3e2cdee543a&siteid=100000&newsid=2c5b3d6a92f44f02946977007418ac9e&channelid=0000000700>

34 SCF is a technology-based solution that lowers financing costs and improves efficiency by automating invoice approval and settlement. It provides short-term credit, leveraging the buyer's credit rating to offer suppliers better financing terms, thus enhancing liquidity, extending payment terms, and stabilising the supply chain. Bloomenthal, Andrew, *Supply Chain Finance: What You Should Know*, Investopedia, 2019, viewed 27th June 2024 <https://www.investopedia.com/terms/s/supply-chain-finance.asp>

and mitigating risks.³⁵ Key measures include expanding agricultural insurance, supporting green development, and increasing direct financing for SMEs through capital markets. The Notice also encourages the development of tailored financial products, first-time loans, and long-term credit for SMEs. In April 2024, the State Council issued the *Implementation Programme for Coordinating the Construction of Financing and Credit Service Platforms to Enhance the Facilitation of Financing for Micro-, Small- and Medium-sized Enterprises*, which develops measures to improve the infrastructure for financing and credit services for small businesses.³⁶ Finally, in June 2024, the State Council published a notice on *Issuing Several Policy Measures to Promote the High-Quality Development of Venture Capital*, with among others the goal of developing a sound venture capital framework where institutions can guide the development of innovative SMEs.

From the perspective of direct financing, since its inception in 2021, the Beijing Stock Exchange has gone from 10 to 240 listed companies as of June 2024, with a total market capitalisation of RMB 309 billion.³⁷ Similarly, since it was set up in 2019, the STAR Board in Shanghai has grown to have 573 listed companies and a market capitalisation of RMB 4.8 trillion. Meanwhile, the NEEQ continues to decline, with 6,611 listed companies in June 2024 and RMB 2.01 trillion in market capitalisation compared to 9,921 in June 2019 and RMB 3.24 trillion in market capitalisation.

Looking at indirect financing, in 2023 inclusive loans to micro and small businesses increased from RMB 23.8 trillion to RMB 29.06 trillion a year-on-year rise of more than 23 per cent.³⁸ Meanwhile, recent data from CBIRC shows that inclusive loans for small businesses in the first quarter of 2024 grew by 21.1 per cent y-o-y.³⁹ At the province/city level, the *SME Development Environment Assessment Report 2023* indicates that Shanghai, Beijing,

Shenzhen, Ningbo and Nanjing ranked in the top 5 in terms of overall scores in the financing environment.⁴⁰

From the perspective of European business sentiment on access to financing, the European Chamber's BCS 2024 shows that 9 per cent of respondents reported it was one of their top three issues. However, difficulties with access to financing remain challenging for a number of European small businesses: those from Southwest China report financing difficulties due to being perceived as high-risk, while SMEs in Shanghai and also South China report they struggle to obtain loans from Chinese banks due to the lack of collateral or, in the case of South China, due to banks not accepting movable assets as collateral.^{41&42}

2.1.2 Reduction of financial burden

Tax relief measures

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

In 2023, China implemented substantial tax cuts, fee reductions, and refunds totalling RMB 2.22 trillion yuan, with 64 per cent of the total directed towards SMEs. A significant portion of the relief came from the exemption of value-added tax (VAT) for small-scale taxpayers, which alone accounted for RMB 650.98 billion in savings. Additionally, income tax reductions for small and micro enterprises yielded RMB 178.88 billion. Further supporting technological advancement, the government introduced additional VAT deductions totalling RMB 120.85 billion for advanced manufacturing, industrial machinery, and integrated circuit enterprises.⁴³

35 *Notice on Promoting the High-Quality Development of Inclusive Finance*, State Council, 11th October 2023, viewed 20th June 2024, <https://www.gov.cn/zhengce/content/202310/content_6908495.htm>

36 *Notice on the Issuance of the Implementation Programme for Coordinating the Construction of Financing and Credit Service Platforms to Enhance the Facilitation of Financing for Micro-, Small- and Medium-Sized Enterprises*, State Council, 2nd April 2024, viewed 20th June 2024, <https://www.gov.cn/zhengce/content/202404/content_6943103.htm>

37 Beijing Stock Exchange, Beijing Stock Exchange, viewed 20th June 2024 <https://www.bse.cn/index.html?ivk_sa=1024320u>

38 *China extends more inclusive loans to small businesses in 2023*, State Council, 26th January 2024, viewed 20th June 2024 <https://english.www.gov.cn/archive/statistics/202401/26/content_WS65b2eccbc6d0868f4e8e3844.html>

39 *Inclusive Loans to Micro and Small Enterprises by Banking and Financial Institutions in 2023 (Quarterly)*, CBIRC, 19th May 2023, viewed 25th June 2024, <<https://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1109311>> and *Inclusive Loans to Micro and Small Enterprises by Banking and Financial Institutions in 2024 (Quarterly)*, CBIRC, 19th May 2023, viewed 25th June 2024, <<https://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1164261&itemId=954&generaltype=0>>

40 *2023 SME Development Environment Assessment Report*, China Center for the Development Promotion of SMEs, 3rd June 2024, viewed 20th June 2024 <<https://huanping.chinasme.org.cn/report/>>

41 *Southwest China Position Paper 2021/2022*, European Chamber, 20th April 2022, viewed 25th June 2024, <https://www.europeanchamber.com.cn/en/publications-archive/971/Southwest_China_Position_Paper_2021_2022>

42 *Shanghai Position Paper 2023/2024*, European Chamber, 14th February 2023, viewed 25th June 2024, <https://www.europeanchamber.com.cn/en/publications-archive/1073/Shanghai_Position_Paper_2023_2024>

43 *In 2023, the newly added tax reduction, fee reduction, and tax refund deferral for small and medium-sized enterprises exceeded RMB 1.4*

Since August 2023, the MOF and the State Taxation Administration (STA) have introduced several tax policies to support SMEs. Among them is *Announcement No. 13 [2023] on Tax Policies Supporting the Financing of SMEs*, which incentivises financial institutions to provide small loans to SMEs by having their interest income exempt from VAT, provided they maintain relevant documentation and separate accounting.⁴⁴ Further support includes *Announcement No. 18 [2023] on the Extension of VAT Policies for Financing Guarantees for Small and Micro Enterprises*, which exempts guarantee fee income from VAT until 31st December 31, 2027.⁴⁵ *Announcement No. 16 [2023] on VAT Exemption Policy for Interest Income from Loans to Small and Micro Enterprises by Financial Institutions* allows financial institutions to opt for VAT exemption on interest income from loans with a credit limit under RMB 1 million with rates not exceeding 150 per cent of the loan market quoted rate.⁴⁶ *Announcement No. 19 [2023] on VAT Reduction and Exemption Policy for Small-Scale Taxpayers* extends VAT reduction and exemption policies for SMEs and individual businesses until 31st December 2027.⁴⁷ Under this policy, small-scale VAT taxpayers with monthly sales of RMB 100,000 or less are exempt from VAT. In addition, taxable sales revenue, typically subject to a 3 per cent VAT rate are taxed at a reduced rate of 1 per cent, and VAT prepayment items are also reduced to 1 per cent.

In early 2024, the MOF and the STA released the *Guide to Tax and Fee Preferential Policies Supporting the Development of Small and Micro Enterprises and Individual Businesses (2.0)*.⁴⁸ This guide consolidates 50

preferential tax and fee policies implemented since 2023, significantly reducing the tax burdens on SMEs and individual businesses. Key measures include VAT exemptions on interest income from small loans provided to SMEs and individual businesses, with small and micro enterprises benefiting from new tax and fee reductions and deferrals amounting to RMB 1.1 trillion in the first 11 months of 2023.⁴⁹

One of the major positive developments in the realm of taxation in 2023 from the perspective of European businesses was the further extension of the current Individual Income Tax regime for foreigners until 2027. The extension means that certain expenses—including housing, children's education and language training—will continue to be treated as non-taxable.⁵⁰ Terminating the existing regime would have brought prohibitive extra costs to European and other foreign employees and enterprises, which would have hampered the attraction and retention of foreign talent and impacted negatively foreign investment into China.⁵¹

Reduction of administrative charges

Throughout 2023, several ministries developed initiatives to optimise the framework related to administrative charges. The MIIT, MOF and other relevant departments published the 2023 version of the enterprise-related deposit catalogue.⁵² Meanwhile, the State Administration for Market Regulation (SAMR) investigated the rectification of irregular charges and improved the long-term mechanism for fee supervision.⁵³ In January 2024, the NDRC published an updated list of government-priced business services charges.⁵⁴

trillion, People's Daily, hosted at Sme.com.cn, 26th January 2024, viewed 20th June 2024, <<https://www.sme.com.cn/cms/news/100000/0000000033/c351e8c7953a49bd87084aeb9907b1.shtml>>

44 *Announcement on Tax Policies Supporting the Financing of Small and Micro Enterprises*, MOF and STA, 16th August 2023, viewed 20th June 2024, <<http://beijing.chinatax.gov.cn/bjswj/c104560/202308/c02196c4f8ce4453ad29dad3e1c1a10a.shtml>>

45 *Announcement on the Extension of VAT Policies for Financing Guarantees for Small and Micro Enterprises*, STA and MOF, hosted at sme.com.cn, 2nd August 2023, viewed 20th June 2024, <https://sme.com.cn/cms/show.action?code=publish_8a8380b9645fe4f50164d3e2cdee543a&siteid=100000&newsid=2ffb433377641c5bef9d26107053996&channelid=0000000700>

46 Ibid.

47 *Announcement on VAT Reduction and Exemption Policy for Small-Scale Taxpayers*, STA and MOF, hosted at sme.com.cn, 2nd August 2023, viewed 20th June 2024 <https://sme.com.cn/cms/show.action?code=publish_8a8380b9645fe4f50164d3e2cdee543a&siteid=100000&newsid=a10398f9421840ca8abb6e33069b1c34&channelid=0000000700>

48 *Guide to Tax and Fee Preferential Policies Supporting the Development of Small and Micro Enterprises and Individual Businesses (2.0)*, STA, State Council, 20th December 2023, viewed 20th June 2024, <https://www.gov.cn/lianbo/bumen/202312/content_6921390.htm>

49 *Combined Tax and Fee Reductions to Support Small and Micro Enterprises*, Economic Daily, State Council, 1st January 2024, viewed 20th June 2024, <https://www.gov.cn/zhengce/202401/content_6923701.htm>

50 *European Chamber Statement on The Extension Of China's IIT Policy For Foreign Nationals*, European Chamber, 28th August 2023, viewed 20th June 2024 <<https://www.eurochamber.com.cn/en/press-releases/3553>>

51 *Finance and Taxation Working Group Position Paper 2023/2024*, European Chamber, 20th September 2023, viewed 20th June 2024 <https://www.eurochamber.com.cn/en/publications-archive/1150/Finance_and_Taxation_Working_Group_Position_Paper_2023_2024>

52 *Announcement on Optimising and Adjusting the List of Guarantee Funds Related to Enterprises of State Council Departments*, MIIT and MOF, State Council, 30th November 2023, viewed 20th June 2024 <https://www.gov.cn/zhengce/zhengceku/202312/content_6917961.htm>

53 *General Administration of Market Supervision Mobilises to Rectify Enterprise-Related Illegal Fees and Charges in 2023*, SAMR, 29th April 2023, viewed 21st June 2024 <https://www.samr.gov.cn/xw/zj/art/2023/art_c24b8f4d137b48f7bc78de584410efa3.html>

54 *Catalogue of Operating Service Fees Set by the Government (2024 Edition)*, NDRC, 30th January 2024, viewed 21st June 2024 <https://www.gov.cn/zhengce/zhengceku/202402/content_6931244.htm>

At the local level, in March 2024 the Shanghai Municipal Development and Reform Commission published, as part of a broader initiative to reduce the burden of enterprises, a notice on the *Phased Reduction of Some Administrative and Institutional Fees*, which introduces reductions of fees on for special equipment inspection and testing and drug registration in some cases to up to 50 per cent.⁵⁵

As of the first quarter of 2024, the government's non-tax revenue – which is composed of the revenues from administrative fees, government funds, fines and confiscations among others – stood at RMB 1.1 trillion, a year-on-year increase of 10.1 per cent.^{56&57}

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.

In August 2023, the SAMR issued *the Implementing Regulations for Administrative Licensing* with the goal of streamlining administrative processes and enhancing transparency and efficiency in approval and supervision

processes.⁵⁸ The Regulations detail 100 sub-items and 329 business handling items across 31 administrative licensing categories. The document also standardises procedures and responsibilities across market supervision departments at all levels.

In January 2024, the State Council rolled out its *Guiding Opinions on Further Optimising Government Services, Improving Administrative Efficiency and Promoting "Efficient Completion of One Thing"*.⁵⁹ The goal is to establish by 2027 a streamlined and accessible government service system that is smart, convenient, fair, and inclusive. Key measures in the Opinions include promoting unified 'one-stop' offline services through comprehensive and specialised service windows at local government points, integrating dispersed service windows into unified management structures, and expanding convenience service centres in communities and villages. The Opinions also establish measures to enhance the 'one-stop' online service network via the national government platform.

Looking at SME-focused policies, the MIIT and 18 other departments' *Notice on Launching the 2024 "Benefiting Enterprises Together" Service Action for Small and Micro Enterprises* provides guidance to the different ministries on actions and initiatives geared at enhancing the existing services offered to SMEs.⁶⁰ Some of these include further developing 'one-stop windows' for administrative procedures and integrating customer and Q&A services with processes related to electronic invoicing, among others.

Although 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. In this respect,

55 *Notice of the Municipal Development and Reform Commission and others on the phased reduction of some administrative fees and charges*, Government Online-offline Shanghai, 29th March 2024, viewed 21st June 2024 <<https://www.shanghai.gov.cn/nw12344/20240329/c75eaf8c36774966b1d902957912c484.html>>

56 *Policy effectiveness is accelerating and the economy continues to recover and improve - fiscal revenue and expenditure in the first quarter operated smoothly*, 23rd April 2024, Guangming Daily, hosted in State Council page, viewed 21st June 2024 <https://www.gov.cn/zhengce/202404/content_6947003.htm>

57 Non-tax revenue includes administrative and institutional fee revenue, government fund revenue, fines and confiscations revenue, paid use of state-owned assets, state-owned capital income, lottery public welfare fund revenue, franchise revenue, central bank revenue, donations received in the name of the government, centralised revenue of competent departments, interest income of government revenue, and others. Extracted from the *Measures for the Administration of Government Non-tax Revenue*, MOF, 9th March 2016, viewed 22nd June 2024 <https://www.gov.cn/gongbao/content/2016/content_5086359.htm>

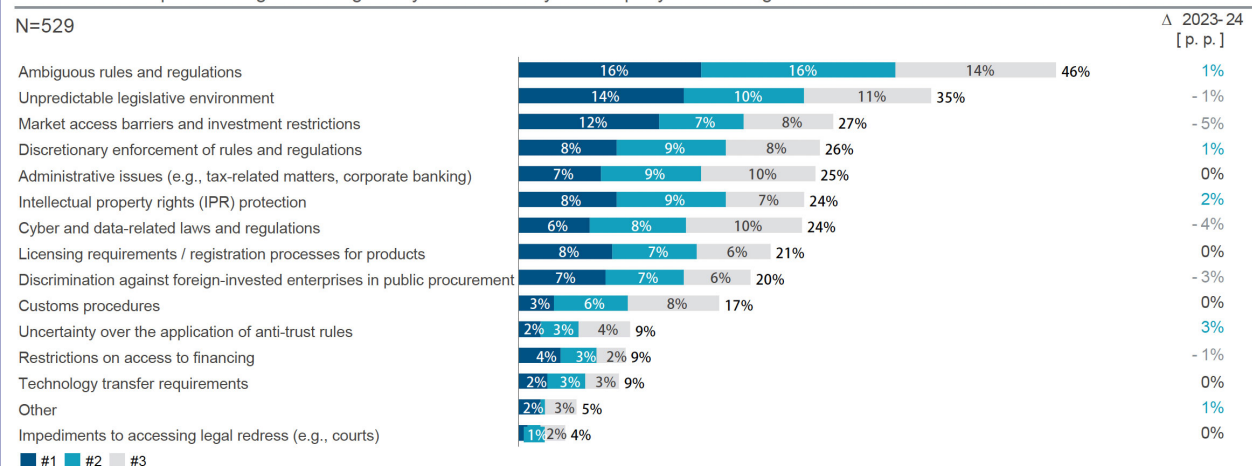
58 *The State Administration for Market Regulation has Formulated and Issued Administrative Licensing Implementation Regulations*, SAMR, 28th August 2023, viewed 22nd June 2024 <https://www.samr.gov.cn/xw/zj/art/2023/art_5773892bbdc44026805fa453c21e226c.html>

59 *Guiding Opinions of the State Council on Further Optimizing Government Services, Improving Administrative Efficiency and Promoting "Efficient Completion of One Thing"*, State Council, 16th January 2024, viewed 22nd June 2024 <https://www.gov.cn/zhengce/content/202401/content_6926255.htm>

60 *Notice of the General Offices (Departments) of the Ministry of Industry and Information Technology and 18 other departments on launching the 2024 "Benefiting Enterprises Together" Service Action for Small and Micro Enterprises*, MIIT, 8th March 2024, viewed 25th June 2024 <https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2024/art_c304338d10054a039cd8f798011f5b63.html>

Ambiguity and unpredictability are top issues of regulatory environment

Which are the top 3 most significant regulatory obstacles for your company when doing business in Mainland China?*



*Figures represent the proportion of respondents who rated each issue as their #1-3 most significant regulatory obstacle; percentages divided by the total respondents

Figure 4 Business Confidence Survey 2024

the best practices from cities like Tianjin or Haikou in developing 'one-stop windows' can serve as examples for implementation in other cities.⁶¹

From the perspective of European businesses, data from the BCS 2024 shows that administrative procedures and licensing issues remained among the top ten regulatory obstacles listed by European companies. Indirect barriers—including complex and time-consuming administrative approval requirements and de facto obstacles to obtaining operating licences—are encountered by 25 and 21 per cent of respondents respectively.

The process for approval of the business scope and granting of licenses and permits for foreign-invested companies in particular is still subject to extensive scrutiny, particularly for some key sectors. BCS 2024 data shows that licensing requirements/registration processes are a significant problem for sectors like medical devices and cosmetics.

2.3 SME MARKET DEVELOPMENT

2.3.1 Talent acquisition and retention

The 14th Five-Year Plan for the Promotion of Employment, published in 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.⁶²

The State Council's *Several Measures to Assist Small and Medium-sized Enterprises in Stable Growth, Structural Adjustment and Strong Capacity* 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'.^{63&64} 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.

61 *SME Development Environment Assessment Report 2023*, China Centre for the Promotion of SMEs, MIIT, 21st February 2023, viewed 24th June 2024, <<https://huanping.chinasme.org.cn/report/>>

62 *Notice of the State Council on Printing and Distributing the "14th Five-Year" Employment Promotion Plan*, State Council, 27th August 2021, viewed 20th June 2024 <http://www.gov.cn/zhengce/content/2021-08/27/content_5633714.htm>

63 *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 2024 <http://www.gov.cn/zhengce/zhengceku/2023-01/15/content_5737024.htm>

64 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.

Nearly 40% struggle to attract or retain international talent

Is your company currently facing any challenges attracting / retaining international talent in China?

N= 529

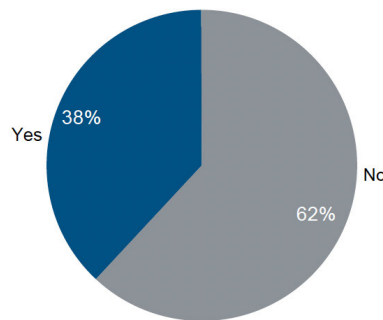


Figure 5 BCS 2024

From the supply-side perspective, urban youth unemployment – which has been rising since data was first made available in 2018 – spiked in early 2020. In June 2023 it hit a record high at 21.3 per cent, although since then the NBS has changed its calculation methods to exclude students and as of May 2024 it stands at 14.7.^{65&66} Meanwhile, overall urban unemployment as of May 2024 was 5.1 per cent.

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 2024 shows that even after the relaxation of zero-COVID measures and the re-opening of the country, 40 per cent of respondents still face challenges attracting or retaining international talent in China, with 70 per cent identifying a lack of willingness to relocate by potential candidates as a key issue.

In this respect, one of the major positive developments in 2023 and 2024 has been the relaxation of visa requirements for entry into China. As of June 2024 and until the end of 2025, 12 European countries are allowed visa-free entry into China for 15 days.⁶⁷ In addition, the State Council's *Action Plan for Solidly Promoting*

High-Level Opening-up and Attracting and Utilizing Foreign Investment with Greater Efforts includes provisions such as extending the validity period of visas for managers and technicians of foreign-invested enterprises and their accompanying spouses and children to two years and optimising the management of work permits for foreign employees. These and other measures simplifying travel within China such as facilitating payments with foreign cards are essential to increasing the number of business visitors and restoring investor confidence.⁶⁸

2.3.2 Competition and procurement

Procurement in China is governed by the Bidding Law and by the Government Procurement Law. The Bidding Law went through a round of public consultation through the State Council in 2019-2020, and the Government Procurement Law underwent two rounds of revision in the State Council in 2020 and 2022.⁶⁹ While the 2024 National People's Congress' (NPC) Legislative Workplan makes no mention of the Government Procurement Law, it does mention a revision of the Bidding Law is planned for this year.⁷⁰ Meanwhile, in April 2024 the NDRC released the *Rules on Fair Competition Review in the Bidding and Tendering Fields*, which aim to prevent

65 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>>

66 National Data – Monthly, NBS, viewed 23rd June 2024 <<https://data.stats.gov.cn/english/easyquery.htm?cn=A01>>

67 Symons, Angela, *China extends visa-free entry to Poland along with 11 other European countries*, Euronews, 25th June 2024, viewed 26th June 2024 <<https://www.euronews.com/travel/2024/06/25/china-aims-to-boost-tourism-by-giving-visa-free-entry-to-these-five-european-countries>>

68 Le, Kelly, *China's Alipay and WeChat Pay ease the way for foreign travellers to make payments in world's largest cashless society*, South China Morning Post, 8th March 2024, viewed 25th June 2024 <<https://www.scmp.com/tech/big-tech/article/3254710/chinas-alipay-and-wechat-pay-ease-way-foreign-travellers-make-payments-worlds-largest-cashless>>

69 *Legislation: 14th National People's Congress*, NPC Observer, 28th June 2024, viewed 28th June 2024 <<https://npcobserver.com/legislation/14th/>>

70 Wei, Changhao, *China's National Legislature Releases 2024 Legislative Plan*, NPC Observer, 8th May 2024, viewed 25th June 2024 <<https://npcobserver.com/2024/05/china-npc-2024-legislative-plan/>>

unfair policies, rules and practices preventing or excluding businesses from participating in bidding activities.⁷¹ Also in April 2024, the MOF published the *Interim Measures for the Administration of Innovative Procurement Methods in Government Procurement Cooperation*, which establishes a framework for cooperative innovation procurement through measures such as transparency in project management, inclusive participation from various players and intellectual property rights (IPR) management.⁷²

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*, which was followed on 30th May 2022 by the publication of the *Notice on Further Strengthening Government Procurement Support for SMEs*.⁷³ Starting from 1st July 2022, the discount rate for purchases of goods and services from SMEs was raised to 10-20 per cent, while consortia composed of SMEs and large companies, as well as projects where large companies outsource to SMEs were set to get a 4-6 per cent discount. In addition, procurement projects of less than RMB 4 million were reserved for qualifying SMEs. For procurement projects exceeding RMB 4 million but still within the capacity of SMEs, the quota for SMEs would be gradually increased to more than 40 per cent.⁷⁴ The State Council's notice in January 2023 and later the *Notice on the Implementation of Several Recent Measures to Promote the Development of the Private Economy* in August of that year confirmed the extension of this quota increase until the end of 2023.^{75&76} The *Interim Measures for the Administration of Innovative Procurement Methods in Government Procurement Cooperation* include articles mandating purchasers to develop procurement packages suitable for SMEs and to subcontract portions of projects to SMEs.

As part of changes made to the Foreign Investment Law in 2020, on paper, no discrimination against foreign parties is permitted in several areas, including procurement. More recent measures such as the State Council's 24 Measures and the *Action Plan for Solidly Promoting High-Level Opening-up and Attracting and Utilising Foreign Investment with Greater Efforts* reiterate the pledges from the authorities to eliminate discriminatory treatment against foreign businesses in procurement.⁷⁷ However, European businesses in some industries continue to experience discriminatory treatment. According to the BCS 2024, one-fifth of respondents indicated that discrimination against foreign-invested enterprises in public procurement was among their top three regulatory hurdles, with companies in the medical devices, civil engineering, maritime manufacturing and IT and telecommunications sectors particularly affected. The lack of substantially positive progress in this area has contributed to the souring of EU-China trade relations and, in April 2024, it led the EU to open an investigation on the access to China's procurement practices in the area of medical devices under the International Procurement Instrument.⁷⁸

Therefore, it is imperative that Chinese authorities continue to work towards facilitating the participation of SMEs in the public/government procurement market, as well as providing equal access to both domestic and foreign companies. In this respect, the implementation of policies such as the 24 Measures both at national and local levels, together with China's accession to the Government Procurement Agreement, will be key.

71 *Rules on Fair Competition Review in the Field of Bidding and Tendering Order No. 16 of 2024*, NDRC, 3rd April 2024, viewed 25th June 2024 <https://www.ndrc.gov.cn/xxgk/zcfb/fzggwl/202404/t20240403_1365443.html>

72 *Notice on Issuing the Interim Measures for the Administration of Innovative Procurement Methods in Government Procurement Cooperation*, MOF, 24th April 2024, viewed 25th June 2024 <https://www.gov.cn/zhengce/zhengceku/202404/content_6947953.htm>

73 *Administrative Measures for Government Procurement to Promote the Development of SMEs (2021)*, EU SME Centre, 14th January 2021, viewed 27th June 2024, <<https://www.eusmeccentre.org.cn/publications/administrative-measures-for-government-procurement-to-promote-the-development-of-smes-2021/>>

74 *Notice on Further Strengthening Government Procurement Support for Small-and-Medium-Sized Enterprises*, CCGP, 31st May 2022, viewed 27th June 2024, <http://www.ccg.gov.cn/zcfg/mof/202205/t20220531_17999872.htm>

75 *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 2024 <http://www.gov.cn/zhengce/zhengceku/2023-01/15/content_5737024.htm>

76 *Notice on the Implementation of Several Recent Measures to Promote the Development of the Private Economy*, NDRC, 1st August 2023, viewed 25th June 2024 <https://www.ndrc.gov.cn/xwdt/tzgg/202308/t20230801_1359008.html>

77 *Opinions of the State Council on Further Optimising the Foreign Investment Environment and Intensifying Efforts to Attract Foreign Investment*, State Council, 13th August 2023, viewed 20th June 2024 <https://www.gov.cn/zhengce/content/202308/content_6898048.htm>

78 *Commission launches first investigation under EU International Procurement Instrument*, European Commission, 24th April 2024, viewed 25th June 2024 <https://ec.europa.eu/commission/presscorner/detail/en/ip_24_2044>

2.4 PROTECTION OF THE RIGHTS OF SMES AND SUPERVISION MECHANISMS

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 2.4.1).
- 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, on 1st September 2020 the State Council's *Regulations on Ensuring Payments to Small and Medium-Sized Enterprises* went into effect. 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.⁷⁹ This was followed by several other measures such as the State-owned Assets Supervision and Administration Commission's 2021 *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; and the MIIT's *Interim Measures for Handling Complaints on Safeguarding Payments to SMEs*.⁸⁰ In April 2024, the MIIT released a public consultation on the *Regulations on Ensuring Payments to Small and Medium Enterprises (Draft for Comments on the Revision)*.⁸¹

Official data from the NBS shows that in 2023 there was an increase in the average collection period of accounts receivable to 60.6 days, 4.4 days more on average compared with the previous year.⁸² Other surveys

such as Coface's annual survey of 1,000 companies in China showed longer average payment delays in 2023 and more reports of late payments, but also improvements compared to 2022 (a drop to 70 days from 81).⁸³ Meanwhile, the Beijing University *China Micro and Small Business Operators Survey Q1 2024 Report* indicated that the average accounts receivable held by respondents stood at RMB 87,000, a decrease of RMB 16,000 compared to the previous quarter.

Percentage of respondents reporting payment delays

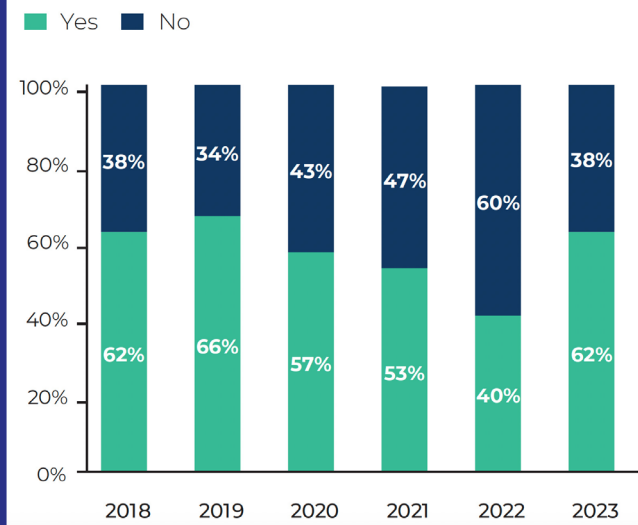


Figure 6 Coface China Payment Survey 2024

As of 27th June 2024, the MIIT's official complaint platform for SMEs had 50,457 creditors registered (almost double y-o-y) and 170,934 complaints logged in.⁸⁴

Meanwhile, the Chinese authorities have recently put a strong focus in ensuring fair competition, with Premier Li identifying it as a priority in the 2024 Work Plan.⁸⁵ The NPC is set to review the *Anti-Unfair Competition Law* this year, and on 13th June Premier Li signed an order to

79 *Regulations on Ensuring Payments to Small and Medium-Sized Enterprises*, State Council, 14th July 2020, viewed 24th June 2024 <http://www.gov.cn/zhengce/content/2020-07/14/content_5526768.htm>

80 *Interim Measures for Handling Complaints on Safeguarding Payments to SMEs*, MIIT, 30th December 2021, viewed 24th June 2024, <http://www.gov.cn/zhengce/zhengceku/2021-12/30/content_5665561.htm>

81 *Public Consultation on the Regulations on Ensuring Payments to Small and Medium Enterprises (Draft for Comments on the Revision)*, MIIT, 18th April 2024, viewed 26th June 2024, <https://www.miit.gov.cn/jgsj/qyj/gzdt/art/2024/art_7472c8dd0a7f4cf292af829105ba11d8.html>

82 *The Profit of Industrial Enterprises above Designated Size Dropped 2.3 per cent in 2023*, NBS 27th January 2024, viewed 27th June 2024, <https://www.stats.gov.cn/sj/zxfb/202401/t20240126_1946914.html>

83 *Payment delays in China continued to shorten, but corporates increasingly cautious*, Coface, 19th March 2024, viewed 26th June 2024, <<https://www.coface.co.in/news-economy-and-insights/payment-delays-in-china-continued-to-shorten-but-corporates-increasingly-cautious>>

84 Official complaint platform for SMEs, viewed 27th June 2024, <<https://sme-dj.miit.gov.cn/#/>>

85 Report on the Work of the Government, State Council, 5th March 2024, viewed 26th June 2024 <https://npcobserver.com/wp-content/uploads/2024/03/2024-Government-Work-Report_EN.pdf>

promulgate the *Fair Competition Review Regulations*.⁸⁶ If properly developed and implemented, these measures can contribute to ensuring equal treatment for SMEs and preventing larger entities or government bodies from imposing unreasonable conditions to smaller companies.

2.4.1 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.^{87,88&89}

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.⁹⁰ 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. Throughout the year, the China National Intellectual Property Administration (CNIPA) further released several measures regulating trademarks, including the *Guidelines on the Application for Registration and*

Use of Trademarks Containing Geographical Name, the Guidelines on the Proper Understanding of the Classification of Goods and Services for Trademark Registration and trial measures for the credit evaluation of trademark agencies.^{91,92&93}

On the patent front, in September the Ministry of Justice issued the *Opinions on Strengthening the Work of Administrative Adjudication of Patent Infringement Disputes in the New Era*, and in October the State Council issued the *Special Action Plan for Patent Transformation and Utilisation (2023-2025)*.^{94&95} The CNIPA's *Implementing Rules of the Patent Law* were revised for the third time at the end of 2023.⁹⁶

Looking to IP protection and enforcement in the context of international cooperation, since the entry into force of the EU-China Agreement on Geographical Indications (GIs) in March 2021 the EU and China continued to work on the publication of lists of GI products under the Agreement. In January 2024, CNIPA representatives said they would promote the entry into effect of the second batch of 350 products in the agreement as soon as possible.⁹⁷ In addition, China's accession in March 2023 to the *Hague Convention on Abolishing the Requirement of Legalisation for Foreign Public Documents* was broadly welcomed, as it could potentially make the process of document authentication abroad easier, faster and cheaper with the apostille.

Recent SME-specific regulations are in line with the Government's broad focus on promoting innovation and technology-driven development. Following the issuance

86 Li Qiang Signed the State Council Order to Promulgate the "Fair Competition Review Regulations", State Council, 13th June 2024, viewed 26th June 2024 <https://www.gov.cn/yaowen/liebiao/202406/content_6957073.htm>

87 Trademark Law, NPC, 7th May 2019, viewed 14th June 2024, <http://www.npc.gov.cn/npc/c2/c30834/201906/t20190608_298036.html>

88 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 June 2024, <<http://www.npc.gov.cn/npc/c30834/202011/272b72cdb759458d94c9b875350b1ab5.shtml>>

89 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 2024 <http://www.npc.gov.cn/npc/c2/c12435/c12488/201905/t20190522_65828.html>

90 Draft Amendments to the Trademark Law, CNIPA, 13th January 2023, viewed 26th June 2024 <https://www.cnipa.gov.cn/art/2023/1/13/art_75_181410.html>

91 Guidelines on the Application for Registration and Use of Trademarks Containing Geographical Names, CNIPA, 19th January 2023, viewed 12th June 2024, <https://www.cnipa.gov.cn/art/2023/1/19/art_66_181566.html>

92 Guidelines on the Correct Understanding of the Classification of Goods and Services for the Purposes of Trademark Registration, CNIPA, 29th December 2023, viewed 12th June 2024, <https://www.gov.cn/lianbo/bumen/202312/content_6923221.htm>

93 Administrative Measures for Credit Evaluation of Trademark Agency (Trial), CNIPA, 27th December 2023, viewed 25th June 2024, <https://www.cnipa.gov.cn/art/2023/12/27/art_551_189249.html>

94 Opinions on Strengthening the Work of Administrative Adjudication of Patent Infringement Disputes in the New Era, CNIPA, 11th September 2023, viewed 12th April 2024, <https://www.gov.cn/zhengce/zhengceku/202309/content_6904162.htm>

95 Notice of the General Office of the State Council on Issuing the Special Action Plan for Patent Transformation and Utilisation (2023-2025), State Council, 19th October 2023, viewed 26th June 2024 <https://www.gov.cn/zhengce/content/202310/content_6910281.htm>

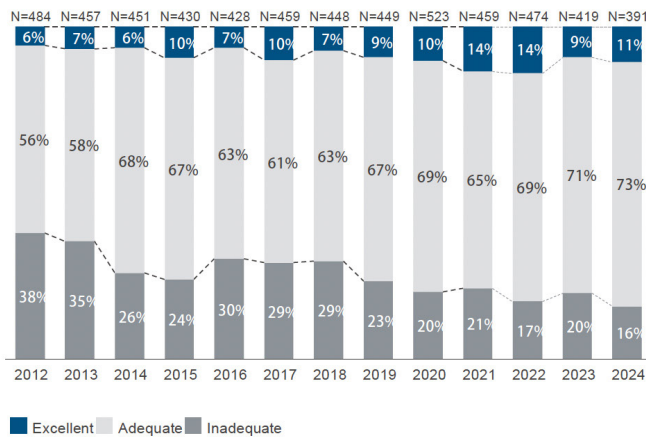
96 Implementing Rules of the Patent Law, CNIPA, 21st December 2023, viewed 25th June 2024, <https://www.cnipa.gov.cn/art/2023/12/21/art_98_189197.html>

97 Sun, Zifa, National Intellectual Property Administration: Promote the early entry into force of the second batch of 350 China-EU geographical indication product lists, China News, 16th January 2024, viewed 26th June 2024 <<http://www.chinanews.com.cn/cj/2024/01-16/10147044.shtml>>

Almost half find enforcement of IPR laws and regulations inadequate

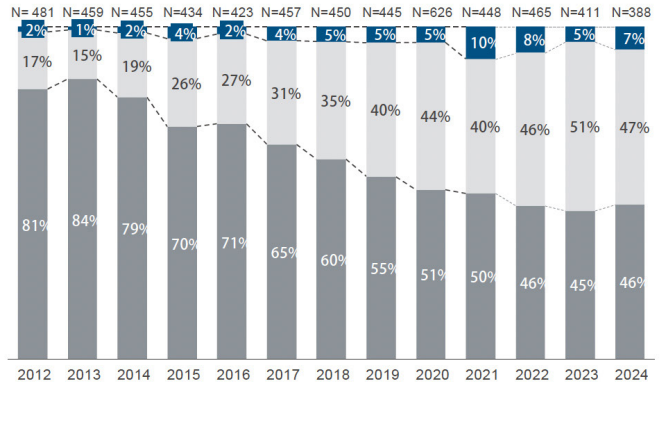
How does your company rate the effectiveness of China's IP protection and enforcement system?¹⁾

Written laws and regulations



How does your company rate the effectiveness of China's IP protection and enforcement system?¹⁾

Enforcement of laws and regulations



Excludes respondents that selected "Not applicable"

Figure 7 BCS 2024

of the *Special Action Plan for Patent Transformation and Utilisation (2023-2025)*, in March 2024, the CNIPA, together with four other ministries, published a notice on the issuance of the *Implementation Plan for the Patent Industrialisation Plan to Promote the Growth of Small and Medium Enterprises*.⁹⁸ The Plan aims to improve SME capabilities in patent industrialisation, foster a competitive market for patent-intensive products, and develop a supportive IP ecosystem conducive to SME innovation and growth.

European companies recognise the positive progress in terms of the drafting of IP-related laws and regulations in the past few years, with 84 per cent of respondents of the BCS 2024 reporting that written laws and regulations were excellent or adequate. At the same time, there is clearly still room for improvement when it comes to the effectiveness of the IP protection and enforcement system. IPR protection was ranked as a top-three regulatory challenge by 24 per cent of respondents, with companies in the food and beverage, and civil engineering and construction industries ranking it as their top regulatory challenge.

Insufficient enforcement of IPR in China also has negative spillovers into the EU Single Market. According

to a joint report by the EU Commission and EUIPO from November 2023, China remained the main country of provenance for suspected IPR infringing goods – with 74 per cent of the articles detained at the EU borders coming from China.⁹⁹

98 Notice of the State Intellectual Property Office, the Ministry of Industry and Information Technology, the People's Bank of China, the State Financial Supervision and Administration Bureau, and the China Securities Regulatory Commission on the issuance of the *Implementation Plan for the Patent Industrialisation Plan to Promote the Growth of Small and Medium Enterprises*, CNIPA, 18th March 2024, viewed 26th June 2024 <https://www.cnipa.gov.cn/art/2024/3/18/art_3401_192678.html>

99 *EU enforcement of intellectual property rights: results at the EU border and in the EU internal market 2022*, European Commission/EUIPO, October 2022, viewed 27th June 2024, <https://euiipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/reports/2023_EU_enforcement_of_IPRs_2022/2023_EU_enforcement_of_IPRs_results_at_EU_border_and_in_EU_internal_market_2022_FullR_en.pdf>

2.5 INNOVATION AND ENTREPRENEURSHIP

Fostering innovation – and in particular indigenous innovation – has long been one of the main goals of the Chinese government. Throughout the period after China's accession to the World Trade Organization, starting with the *Medium- and Long-Term Plan for Science and Technology Development* in 2006, technological transformation through industrial policy has been part of the Chinese government's policy agenda.¹⁰⁰ Major strategic documents such as China Manufacturing 2025 and the 14th Five-Year Plan attest to the increasing importance the Government attributes to boosting innovation.^{101&102}

The roll-out of the concept of 'new quality productive forces' has, now more than ever, put innovation as the key driver of economic growth, and this is trickling down to policymaking across ministries and at all levels. At the organisational level, this is exemplified by the establishment in 2023 of a Central Science and Technology Commission, which has a coordinating role among different ministries and government bodies.

SME-driven innovation: China's 'little giants' and other hidden champions

The evolution of China's innovation strategy has put SMEs in an increasingly central role. After the entry into force of the SME Promotion Law, the focus on bolstering the innovative capabilities of SMEs only increased. In 2018, and inspired by the German model of highly specialised SMEs, the MIIT zeroed into the idea of developing hidden champions in key China Manufacturing 2025 sectors – the so-called 'little giants' – by funnelling resources and

support, financial and otherwise to them.^{103 &104} The 14FYP for SMEs also included references to 'little giants' in the broader context of developing a classification of innovation-driven companies, with 1 million innovative SMEs, 100,000 SMEs that specialise in niche sectors and 10,000 'little giants'. As per reports in the second half of 2023, this target had already been surpassed, with 12,000 companies holding the 'little giant' label.¹⁰⁵

In terms of output, as of late 2023, 'little giants' had 200,000 invention patents and were key contributors in developing industrial standards, with around 40,000 standards formulated and revised by these enterprises.¹⁰⁶

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)*.¹⁰⁷ The Notice seeks to enhance the capabilities of SMEs and fostering innovation-driven growth through measures like improving financing offerings, coordinating government support efforts, and improving incentive mechanisms for SMEs.

On 14th June 2024, the MIIT and the MOT published the *Notice on Further Supporting the High-Quality Development of Specialised, Refined, Special and Innovative Small and Medium-sized Enterprises*.¹⁰⁸ The Notice promotes the use of central fiscal funds to boost local government innovation initiatives and support 'little giants' through fiscal incentives and subsidies. Local governments are also encouraged to develop tailored policies to cultivate specialised and innovative SMEs. Meanwhile, the State Council's 15th June *Notice on Issuing Several Policy Measures to Promote the High-Quality Development*

100 *Outline of the National Medium- and Long-Term Science and Technology Development Plan (2006-2020)*, State Council, 20th December 2005, viewed 26th June 2024 <https://www.most.gov.cn/xgk/xinxfenlei/fdzdgnr/gjkjgh/200811/t20081129_65774.html>

101 *Notice of the State Council on Issuing "Made in China 2025"*, 8th May 2015, viewed 26th June 2024 <https://www.gov.cn/zhengce/content/2015-05/19/content_9784.htm>

102 *Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Term Objectives for 2035*, State Council, 13th March 2021, viewed 26th June 2024 <https://www.gov.cn/xinwen/2021-03/13/content_5592681.htm>

103 *Notice of the General Office of the Ministry of Industry and Information Technology on the Cultivation of Specialised, Refined, Special and New "Little Giant" Enterprises*, MIIT, 26th November 2018, viewed 26th June 2024 <https://www.miit.gov.cn/zwgg/zcwj/wjfb/zh/art/2020/art_9dee-2248b9244816a2820f91f7886ecb.html>

104 Brown, Alexander, *The accelerator state: Small firms join the fray of China's techno-industrial drive*, Mercator Institute for China Studies, 29th April 2024, viewed 26th June 2024 <<https://www.merics.org/en/report/accelerator-state-small-firms-join-fray-chinas-techno-industrial-drive>>

105 *12,000: "Little Giants" Unleashing Great Energy of Innovation*, Xinhuanet, 15th December 2023, viewed 26th June 2024 <http://www.news.cn/fortune/2023-12/15/c_1130028497.htm>

106 *Chinese Specialized "Little Giant" Companies Support High-quality New Economic Development*, Global X by Mirae Asset, 6th November 2023, viewed 26th June 2024 <<https://www.globalxetfs.com/hk/research/chinese-specialized-little-giant-companies-support-high-quality-new-economic-development/>>

107 *Notice of Ten Departments on Special Action for Scientific and Technological Achievements Empowering Small and Medium-sized Enterprises (2023-2025)*, State Council, 25th May 2023, viewed 28th June 2024, <https://wap.miit.gov.cn/jgsj/kjs/wjfb/art/2023/art_28bf8e5e5a-6549319194d799eff7d2b0.html>

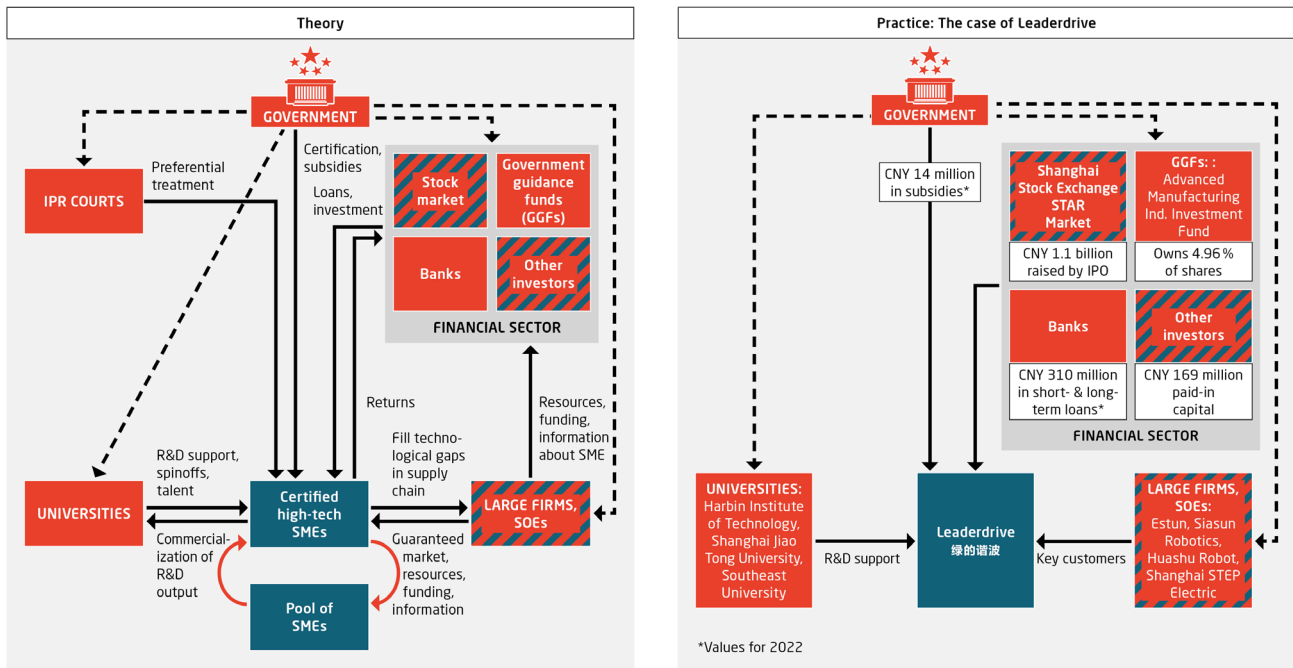
108 *Notice on Further Supporting the High-Quality Development of Specialized, Refined, Special and Innovative Small and Medium-sized Enterprises*, MOF and MIIT, 14th June 2024, viewed 27th June 2024 <https://www.gov.cn/zhengce/zhengceku/202406/content_6958188.htm>



Beijing orchestrates state-connected actors to support high-tech SMEs

Key actors in China's SME support ecosystem and their respective roles

■ Party state entity ■ Private entity ↔ Guides → Provides



Sources: MERICS based on MIIT, Leaderdrive annual reports and website, industry reporting and Wind Financial Terminal

Figure 8 MERICS

of *Venture Capital* aims to improve the existing venture capital framework so that it can, among other things, support and foster innovative SMEs.¹⁰⁹

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 multinationals when engaging in research and development (R&D) activities in China.¹¹⁰ A third of SME respondents reported no R&D spending in China, while only 10 per cent of big companies said the same. Collaboration patterns also differed significantly – SMEs were more than twice as likely as multinationals to exclusively do R&D 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: less than 3 per cent of the enquiries received in Phase III of the EU SME Centre

involved R&D-related aspects.¹¹¹ For EU SMEs, keeping R&D activities at home or nearby, while selling in the Chinese market through importers, distributors, representative offices or sales teams in the country, is less risky and more profitable in the short term. Even among those SMEs with active R&D in China, the majority are dedicated to improving existing products and technologies or adapting them to meet local market or regulatory needs. 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.

When it comes to challenges experienced by European companies conducting R&D activities in China, the European Chamber's *2023/2024 Research and Development Working Group Position Paper* cites overly

109 Notice of the General Office of the State Council on Issuing Several Policy Measures to Promote the High-Quality Development of Venture Capital, State Council 19th June 2024, viewed 25th June 2024 <https://www.gov.cn/zhengce/content/202406/content_6958230.htm>

110 *China's Innovation Ecosystem: The Localisation Dilemma*, European Union Chamber of Commerce in China and MERICS, 21st April 2023, viewed 26th June 2024, <https://www.eurochamber.com.cn/en/publications-archive/1077/China_s_Innovation_Ecosystem_the_localisation_dilemma>

111 *Little Giants: European SMEs in China's R&D Environment*, EU SME Centre, 26th April 2023, viewed 26th June 2024, <<https://www.eusmecentre.org.cn/publications/little-giants/>>

stringent cross-border data transfer regulations, lack of access to open data sources and requirements for foreign companies to establish databases in China as barriers hindering their innovation activities.¹¹² In this respect, the publication in March 2024 of the Cybersecurity Administration of China's *Provisions on Regulating and Promoting Cross-border Data Flows* in March 2024 (which relaxes some previously stringent requirements for transfers) has been seen as a first step towards an optimised cross-border data flow framework.¹¹³ Limited access to incentives such as the High and New Technology Enterprise status, as well as difficulties linked to the mobility of researchers and insufficient protection of R&D (particularly R&D IP), are some of the other key challenges experienced by European businesses in China.¹¹⁴

Looking at EU-China innovation-related engagement, 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.¹¹⁵ However, Horizon Europe, the 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.

2.6 DIGITAL TRANSFORMATION OF SMES

The 14FYP for SMEs emphasises the importance of digital transformation of SMEs as a key driver of development and competitiveness and encourages the adoption of digital technologies such as artificial intelligence (AI), cloud computing, blockchain and the Internet of Things.¹¹⁶ The plan also calls for the development of digital infrastructure to support the transformation of SMEs, as well as measures to improve the digital literacy of SMEs and nurture talent, and policy measures and incentives to encourage the digital transformation of small businesses.

Several policies and regulations have subsequently been rolled out in order to foster SME digital transformation, including the *Guidelines for Promoting the Transformation and Upgrading of SMEs in the Digital Economy Era* and the *Guidelines for the Digital Transformation of SMEs*, among others.¹¹⁷

In November 2023, the MIIT and MOF launched a pilot program for the digital transformation of SMEs. This program entails identifying pilot cities to take the lead in exploring effective models to support the digital transformation of SMEs.¹¹⁸ As of June 2024, two batches of pilot cities had been announced in the context of this project.¹¹⁹

According to the China Industrial Internet Research Institute's *SME Digital Transformation Development Report (2023)*, more than 70 per cent of the enterprises have entered the stage of local optimisation and above in terms of digitalisation levels – 80 per cent in the case of innovative SMEs and 'little giants'. Meanwhile, China's SME digital development index in 2023 stood

112 *Research and Development Working Group Position Paper 2023/2024*, European Chamber, 20th September 2023, viewed 26th June 2024 <https://www.eurochamber.com.cn/en/publications-archive/1131/Research_and_Development_Working_Group_Position_Paper_2023_2024>

113 *Provisions to Facilitate and Regulate the Cross-Border Flow of Data*, CAC, 22nd March 2024, viewed 26th June 2024 <https://www.cac.gov.cn/2024-03/22/c_1712776611775634.htm>

114 "A High and New-Technology Enterprise (HNTE) is a business in China that has been certified by the Ministry of Science and Technology, allowing it to gain a reduced corporate income tax (CIT) rate of 15% and carry forward losses for up to 10 years to lower your taxable income." *Tax Incentives in China for High and New-Technology Enterprises (HNTE)*, HSBC, 15th September 2023, viewed 27th June 2024 <<https://www.businessgo.hsbc.com/en/article/hnte-china>>

115 *The EU and China have signed an administrative arrangement to support cooperation*, European Commission, 26th April 2022, viewed 22nd June 2024, <https://research-and-innovation.ec.europa.eu/news/all-research-and-innovation-news/eu-and-china-have-signed-administrative-arrangement-support-cooperation-2022-04-26_en>

116 *The 14th Five-Year Plan to Promote the Development of Small and Medium-sized Enterprises*, State Council, 6th July 2022, viewed 27th June 2024 <https://wap.miit.gov.cn/jgsj/ghs/zlygh/art/2022/art_fc6e6ac1cde74344be8e1cc073f873dc.html>

117 *Notice of the General Office of the Ministry of Industry and Information Technology on Issuing the Guidelines for Digital Transformation of Small and Medium-sized Enterprises*, MIIT, 3rd November 2022, viewed 27th June 2024 <https://www.gov.cn/zhengce/zhengceku/2022-11/09/content_5725642.htm>

118 *Notice of The Ministry of Finance and The Ministry of Industry and Information Technology on Launching a Pilot Program for Digital Transformation of Small and Medium-Sized Enterprises*, MIIT, 25th September 2023, viewed 27th June 2024 <<https://zjtx.miit.gov.cn/szhzx/szhzxindex/tzggView?id=27a9f23caba4475bb6e437e8126a45a9>>

119 *Announcement of the Second Batch of Pilot Cities for Digital Transformation of Small and Medium-sized Enterprises*, MIIT, 16th June 2024, viewed 27th June 2024 <https://www.miit.gov.cn/zwgk/wjgs/art/2024/art_c304ea6b00e74f28b2679e42fc08c287.html>

at 44.3.¹²⁰ At the same time, according to the Beijing University *China Micro and Small Business Operators Survey Q1 2024 Report*, the degree of digitalisation of micro and small businesses contracted, with the share of small and micro-operators with online sales in the surveyed sample, as well as the share of SMEs operating in multiple online platforms, declining. In addition, the SME utilisation rate of electronic information also decreased slightly compared with the previous quarter.

2.7 SME GREEN DEVELOPMENT

Since the September 2020 announcement by President Xi of China's pledge to peak carbon emissions before 2030 and to become carbon neutral by 2060, measures to support this goal have begun to filter into both major strategic plans and also sector and topic-specific laws, regulations, and standards.

Some of the recently released overarching policy documents include the State Council's *Notice on Issuing the 2024-2025 Energy Conservation and Carbon Reduction Action Plan*, which focuses on implementing energy-saving and carbon-reduction initiatives in crucial industries and high-energy-consuming sectors through practical measures;¹²¹ the NDRC's *Green and Low-Carbon Transformation Industry Guidance Catalogue (2024 Edition)* (thereafter *Green Industry Catalogue*) which provides a reference for the industry to move towards green and low-carbon development;¹²² and the People's Bank of China and other departments' *Guidance on Further Strengthening Financial Support for Green and Low-Carbon Development*, which aims to establish a leading green finance system by 2035 through robust financial infrastructure, enhanced environmental information disclosure, and coordinated policies to support green and low-carbon development across industries,

as well as through international cooperation and stringent regulatory frameworks.¹²³

SMEs have a major role in meeting net-zero targets, as they globally contribute to 60 to 70 per cent of industrial emissions, with a combined carbon footprint five times greater than large corporates.¹²⁴ In China, according to the *2023 China Small and Medium-sized Enterprises Green and Low-carbon Development Path Research Report*, SMEs account for 46 per cent of the country's industrial emissions.¹²⁵ At the same time, according to a survey from the 2022/2023 joint United Nations Development Programme, China International Chamber of Commerce and PwC report *Tracking the Low-Carbon Transition of Enterprises in China*, SMEs are lagging behind their bigger counterparts when it comes to the development and implementation of low-carbon transition plans in corporate strategies – sometimes by as much as 16 per cent.¹²⁶ In addition, SMEs also experience different challenges compared to big companies when it comes to advancing their green transition (see *Figure 9*).

Thus, taking the SME component into account in policy considerations will be key to achieving climate goals.

In this respect, 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. The MIIT, NDRC and Ministry of Ecology and Environment's 2022 *Notice on the Implementation Plan for Carbon Peak in the Industrial Sector* mandates different departments to support the green transition of SMEs through measures such as guidance to improve their carbon emission reduction capabilities, implementing green development promotion projects for SMEs, carrying out diagnosis services for small businesses and supporting the development of innovative

120 "Digital Transformation Development Report of Small and Medium Enterprises (2023)" released, Sohu, 9th November 2023, viewed 27th June 2024 <https://www.sohu.com/a/734955720_120658388>

121 *Notice of the State Council on Issuing the 2024-2025 Energy Conservation and Carbon Reduction Action Plan*, State Council, 29th May 2024, viewed 27th June 2024 <https://www.gov.cn/zhengce/zhengceku/202405/content_6954323.htm>

122 *Green and Low-Carbon Transformation Industry Guidance Catalogue (2024 Edition)*, NDRC and nine other ministries, 2nd February 2024, viewed 28th June 2024 <https://www.gov.cn/zhengce/zhengceku/202403/content_6935418.htm>

123 *The People's Bank of China, the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Finance, the Ministry of Ecology and Environment, the State Administration of Financial Supervision, and the China Securities Regulatory Commission Issued a Guidance on Further Strengthening Financial Support for Green and Low-carbon Development*, several ministries, 27th March 2024, viewed 27th June 2024 <https://www.gov.cn/zhengce/zhengceku/202404/content_6944452.htm>

124 *Why big business must support SMEs to achieve economic growth and get to net zero*, World Economic Forum, 6th January 2023, viewed 27th June 2024. <<https://www.weforum.org/agenda/2023/01/why-big-businesses-must-support-smes-growth-net-zero/>>

125 *Beijing University School of Economics and Management's Two Sessions Discussion | Ji Xi: In promoting China's green development, small and medium-sized enterprises cannot be ignored*, Beijing University, 29th March 2024, viewed 27th June 2024 <<https://news.pku.edu.cn/xwzh/31b-1c71ba840466da720fb0c0e61b3f5.htm>>

126 *Tracking the Low-Carbon Transition of Enterprises in China, Business and Sustainability in China 2022/2023*, UNDP, CCOIC, PwC, 6th September 2023, viewed 27th June 2024 <<https://www.undp.org/china/publications/tracking-low-carbon-transition-enterprises-china-business-and-sustainability-china-2022/2023>>

Challenges and difficulties faced in a low-carbon transition – SMEs and large enterprises

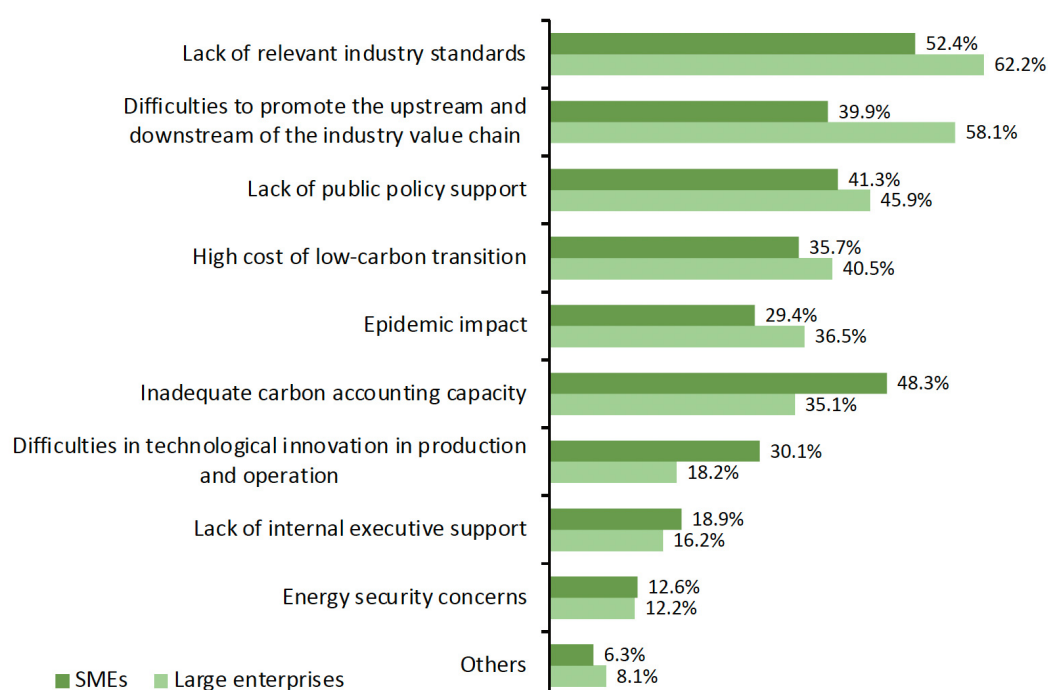


Figure 9 UNDP, CCOIC, PwC

and specialised ‘little giants’ in the fields of low-carbon product development.¹²⁷ Meanwhile, the MIIT’s *Interim Measures for Promoting the Development of Characteristic Industrial Clusters of SMEs* include measures on accelerating the green and low-carbon transformation of the various clusters.¹²⁸

Financing the green transition for SMEs

One of the main challenges for SMEs when it comes to advancing their green transition and decarbonisation plans is the associated costs and difficulties with financing these processes.¹²⁹ A 2023 analysis by the Academy of Financial Inclusion of 140,000 loan records from county-level cities in an eastern province found that SMEs faced several access issues.¹³⁰ The reasons for this include:

- lack of coverage in the *Green Industry Catalogue* (which serves as a guide identify loans directed towards green investments) of industries with high SME representation;
- lack of credit information that SMEs can provide to get loans;
- lack of relevant ESG products in working capital loans and supply chain loans; and
- lack of incentives for banks to offer green financial services to SMEs.

In addition, China’s national carbon market, launched in 2021, so far only covers companies in the power sector – almost all SOEs – leaving most of the SMEs unregulated.¹³¹

¹²⁷ *The Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Ecology and Environment issued a Notice on the Implementation Plan for Carbon Peak in the Industrial Sector*, MIIT, NDRC, Ministry of Ecology and Environment, 7th July 2022, viewed 27th June 2024, <https://www.gov.cn/gongbao/content/2022/content_5717004.htm>

¹²⁸ *Notice of the Ministry of Industry and Information Technology on Issuing the “Interim Measures for Promoting the Development of Characteristic Industrial Clusters of Small and Medium-sized Enterprises”*, MIIT, 13th September 2022, viewed 27th June 2024 <https://www.gov.cn/zhengce/zhengceku/2022-09/14/content_5709725.htm>

¹²⁹ *Beijing University School of Economics and Management’s Two Sessions Discussion | Ji Xi: In promoting China’s green development, small and medium-sized enterprises cannot be ignored*, Beijing University, 29th March 2024, viewed 27th June 2024 <<https://news.pku.edu.cn/xwzh/31b-1c71ba840466da720fb0c0e61b3f5.htm>>

¹³⁰ *Financing SMEs for Sustainability in China: Status Quo, Issues and Reflections*, China Association for Financial Institutions, 25th June 2024, viewed 27th June 2024 <<https://www.cafi.org.cn/en/portal/article/index/cid/7/id/612.html>>

¹³¹ *Help Chinese SMEs make green transition to hit carbon neutrality goal*, South China Morning Post, 23rd September 2022, viewed 24th June 2024, <<https://www.scmp.com/comment/letters/article/3193261/help-chinese-smes-make-green-transition-hit-carbon-neutrality-goal>>

Limited access to renewable energy stands out as top challenge

What are the top three issues / challenges that may prevent your company from achieving its decarbonisation goals in China?¹⁾

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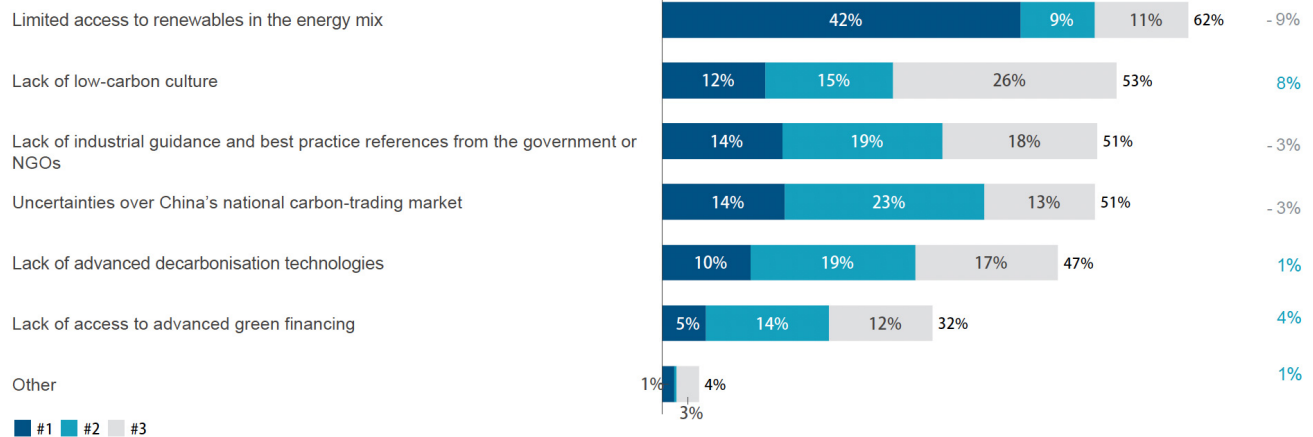


Figure 10 BCS 2024

European companies are generally well-positioned to contribute to the achievement of China's carbon neutrality goals. According to the BCS 2024, 54 per cent of respondents are actively taking measures to become carbon neutral, and 7 per cent report having already or nearly achieved carbon neutrality.¹³² 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.¹³³

At the same time, European businesses encounter a number of challenges to their decarbonisation efforts. These include limited access to renewable energy, a lack of clear policy guidance, insufficient low-carbon culture, a lack of necessary technology, issues relating to China's emissions trading system and a lack of access to advanced green financing.

According to the European Chamber report *Carbon Neutrality: The Role of European Companies in China's Race to 2060*, one of the barriers is the limited purchasing power of smaller companies. Another hurdle for European SMEs when it comes to accessing renewable energy is that the power purchase agreements usually require a certain amount of consumption volume.¹³⁴

¹³² *European Business in China Business Confidence Survey 2024*, 10th May 2024, viewed 20th June 2024 <<https://www.eurochamber.com.cn/en/publications-business-confidence-survey>>

¹³³ For more information on these case studies, please check the EU SME Centre's publications page, <<https://www.eusmecentre.org.cn/publications/>>

¹³⁴ *Carbon Neutrality: The Role of European Business in China's Race to 2060*, European Chamber, 25th May 2022, viewed 29th June 2024, <<https://www.eurochamber.com.cn/en/publications-carbon-neutrality-report>>

3. CONCLUSION

One year and a half after the relaxation of zero-COVID restrictions, the Chinese economy is still on a fragile recovery path. Weak consumption, low overall levels of investment and real estate woes have impeded a faster economic come-back. The state of the Chinese economy is now firmly perched as the top issue for European businesses operating in China. The strong export performance in some sectors has also led to increased European industry and government concerns about excess capacity flowing into their home markets, exacerbating trade tensions between China and its partners. European business confidence remains as a result at an all-time low.

Faced with the pressures of a slowing down economy with its associated spillovers and increased competition, European SMEs experience additional obstacles that hinder their healthy development in the Chinese market. Some of these long-standing challenges include market access issues, access to financing, and red tape. In addition, small businesses also have to deal with the challenges associated with carrying out the green transition in their China operations and navigating the emerging market and regulatory digitalisation landscape.

In view of the current economic environment and as part of its shift to an innovation-driven growth model, throughout 2023 and 2024 the Chinese government has rolled out measures to support the private sector in general and SMEs in particular. The Government has also launched initiatives aimed at increasing the confidence of foreign investors in China by pledging to improve their market access and operating conditions within the country. While these are positive steps, their effectiveness in boosting business confidence is entirely contingent on the industry experiencing actual improvements on the ground as a result of proper implementation.

Considering the vulnerability of European small businesses and their need for support in a still interesting 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 informing, advising and giving voice to these SMEs and better equip them to do business in China.



ABBREVIATIONS

14FYP	14th Five-Year Plan
BCS	Business Confidence Survey
CASME	China Association for SMEs
CBIRC	China Banking and Insurance Regulatory Commission
CNIPA	National Intellectual Property Administration
EU	European Union
GDP	Gross Domestic Product
GI	Geographical Agreement
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
R&D	Research and Development
RMB	Renminbi
STA	State Taxation Administration
SME	Small and Medium-sized Enterprise
SOE	State-owned enterprise
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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