SMES IN CHINA: POLICY ENVIRONMENT REPORT

2021 UPDATE

JULY 2021

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Abstract

In recent years, the policy environment for small and medium-sized enterprises (SMEs) in the People's Republic of China has undergone a significant transformation. The present report sets out to provide an overview of the most significant developments affecting SMEs operating in the country. The structure of the report consists of an introduction to SMEs in China, an analysis of the current policy environment of SMEs in China in various areas and a conclusion.

1. Introduction to SMEs in China

1.1. Definition and classification of SMEs in China

SMEs in China are defined, according to the *Law of the People's Republic of China on the Promotion of Small and Medium-sized Enterprises (2017)* (SME Promotion Law), as companies that "have a relatively small size in personnel and scope of business."[1] The standards for classifying small and medium enterprises are formulated by the relevant departments of the State Council, and the identification of a company as a micro, small or medium-sized enterprise is dependent on a series of variables such as the industry it belongs to, its operating income, its total assets and its number of employees.[2]

On 23rd April 2021, the Ministry of Industry and Information Technology (MIIT) and the Bureau of Statistics, along with relevant departments, carried out research and revision of the Regulations on SME Classification Criteria, and formed a revised draft for public comments.[3] This draft reassesses the division standard of enterprises with few employees but high business income or large total assets that used to be considered as SMEs, and it also simplifies the industry classification of SMEs from 16 to 9 categories. The final version of the notice has not yet been released as of mid-July 2021.[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 responsible

[1] *Law of the People's Republic of China on the Promotion of Small and Medium-sized Enterprises (2017)*, National People's Congress, 1st September 2017, viewed 12th July 2021, <http://www.npc.gov.cn/npc/c12435/201709/700912e2aeed405f815485892d935e16.shtml>

[2] *Statistical criteria for the classification of large, medium, and small micro-enterprises (2017)* [CN], NBC, 1st March 2018, viewed 12th July 2021, <http://www.stats.gov.cn/tjsj/tjbz/201801/t20180103_1569357.html>

[3] *Notice of Public Consultation on the Regulations on SME Classification Criteria (Revised Draft for Comments),* MIIT, 23rd April 2021, viewed 17th June 2021, <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.

for 70 per cent of technology innovation and 80 per cent of urban employment in China.[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).[6]

According to the European Commission's 2020 revised user guide to the current definition of SME, an SME is an enterprise that employs less than 250 persons and has an annual turnover not exceeding EUR 50 million, and/or total assets of EUR 43 million. If an enterprise has access to significant additional resources it might not be eligible for SME status.[7]

Similar to China, SMEs are also the backbone of the EU's economy. In the non-financial business sector, they account for 99.8 per cent of all enterprises, 65 per cent of total employment, and 53 per cent of overall value added. Micro SMEs (companies employing less than 10 people and whose annual turnover or annual balance sheet total does not exceed EUR 2 million) are the most prevalent type.[8]

European Commission review of the definition of SMEs

On 6th February 2018, the Commission launched a public consultation on the review of what the definition of an SME should be, which closed on May 5th of that same year. On 4th July 2018, the European Parliament voted and approved a resolution stating, among other things, that while the 2003 definition of SMEs should be preserved, more attention should be paid to the different types of structure encompassed within the definition (e.g. start-ups, micro enterprises etc.), as well as to start-up and scale-up initiatives and to structures such as Midcaps, which do not quite fit into the SME definition. The Commission, which on 11th November 2018 provided a response to the Parliament's resolution, has preserved the EU recommendation 2003/361 as the sole authentic basis for determining the conditions regarding qualification as an SME, and released in 2020 a revised guide for using the SME definition.

The information presented above shows that SMEs are key contributors to economic growth and development both in China and in the EU. However, in terms of definition and classification, the tools used to determine the type of SME for each category are different for the EU and

[5] Ma, Si, *Small firms recovering steadily,* China Daily, 2nd June 2021, viewed 16th June 2021, <https://www.chinadaily.com.cn/a/202106/02/WS60b6de27a31024ad0bac2fb0.html>
[6] *User guide to the SME Definition*, European Commission, 8th September 2020, viewed 16th June 2021, <https://ec.europa.eu/docsroom/documents/42921>
[7] Ibid.
[8] *SME Annual Report - 2020/2021*, European Commission, 30th June 2021, viewed 9th July 2021, <https://ec.europa.eu/docsroom/documents/46062>

China (in accordance, on the other hand, to each actor's size of economy and population). Thus, some companies considered as SMEs in China would not have this denomination in Europe due to their larger size in terms of employees and/or annual turnover.

1.3. Challenges that European SMEs face in China

F China (in accordance, on the other hand, to each actor's size of economy and population). Thus, some companies considered as SMEs in China would not have this denomination in Europe due to their larger size in terms of employees and/or annual turnover.

In particular, the most important issues faced by European SMEs in China are related to information and support networks, access to financing, administrative and financial burden, talent acquisition and retention, and shortage of key technologies and skills among others.

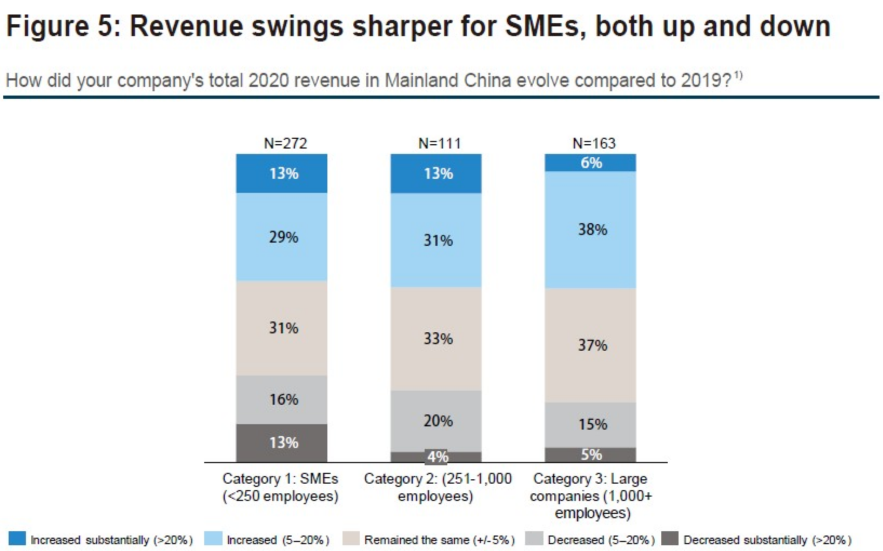

Figure 1 Source: European Union Chamber of Commerce in China

2. Analysis of the current policy environment of SMEs in China

The past years have seen an increased government focus on SME growth that has been translated into a number of developments in SME legislation and regulations. One of the key pieces of legislation issued in recent years was the revised SME Promotion Law, which came into force on 1st January 2018. Throughout 2020 and 2021, events like the outbreak of the

COVID-19, the subsequent lockdown and travel restrictions prompted several policies and regulations to help companies resume normal operations.

COVID-related SME support policies

China's SMEs were particularly exposed to the negative impacts of the outbreak, and, due to their limited reserves and heavy reliance on steady business, they were among the hardest hit groups.[9]

The pandemic-induced lockdowns throughout 2020 had major impacts on production, imports and exports. Halted production lines eventually caused supply chain disruptions and lower business revenues led to temporary or permanent layoffs, affecting demand and creating a vicious cycle.[10] Some SMEs were particularly vulnerable to the disruption of business networks and supply chains due to their connections with larger operators and the outsourcing of many business services critical to their performance. The disruption of supply chains and the establishment of new alliances and contracts by former partners are likely to result in increased difficulties for many SMEs to re-build connections with former networks in the long term.[11]

Measures to reduce the administrative and financial burden of SMEs were particularly important in helping SMEs to weather the pandemic. Within the first ten days after China's Spring Festival of 2020, 600 policies in support of smaller firms were launched, including preferential taxes, cuts in rental and insurance costs, deferrals in electricity payments, etc. Data from the China Association for SMEs' (CASME) SME Development Index (SMEDI) shows that these government initiatives have been relatively successful. The SMEDI, based on a survey of 3,000 SMEs, increased by 0.5 points to 87.5 in the first quarter of 2021 and hit its peak since the same period of 2020. However, as of the second quarter of 2021, numbers had still not returned to 2019 levels and in fact had slightly fallen compared to the first quarter, showing that there is still a need for further policies that support SME recovery. The sector that saw the most SMEs affected by the pandemic and with the slowest recovery was hospitality and catering.

[9] Holzmann, Anna and Kärnfelt, Maximilian. *Supporting China's SMEs affected by Covid-19 is crucial to avoid a socioeconomic disaster,* Mercator Institute for China Studies, 12th May 2020, viewed 30th May 2021, <https://merics.org/en/analysis/supporting-chinas-smes-affected-covid-19-crucial-avoid-socioeconomic-disaster>

[10] *SME Competitiveness Outlook 2020 - COVID-19: the Great Lockdown and its Effects of Small Business*, International Trade Centre, 19th June 2020, viewed 11th June 2021, <https://www.intracen.org/publication/smeco2020/>

[11] *Coronavirus (COVID-19): SME policy responses*, OECD, 15th July 2020, viewed 12th July 2021, <https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>

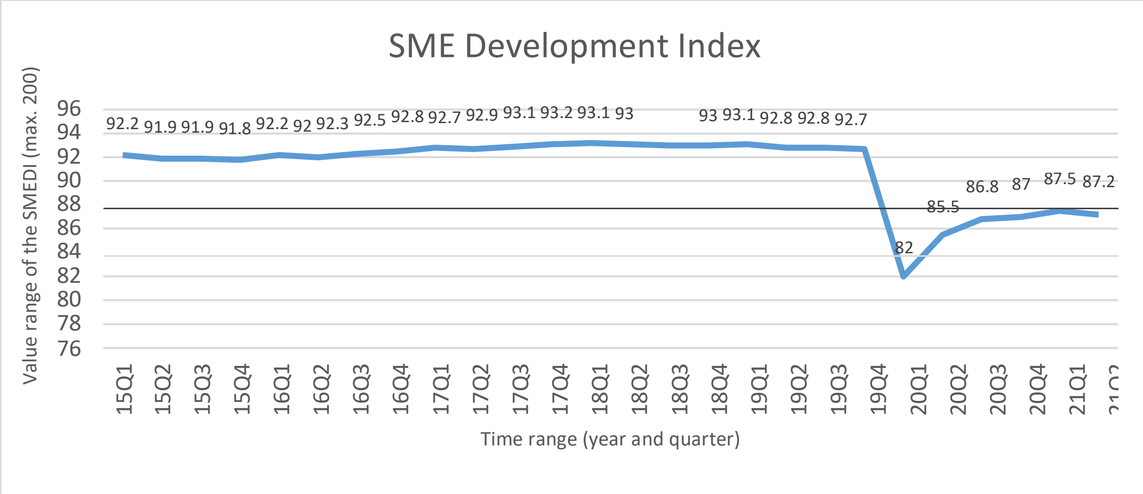

Figure 2 Sources: CASME, European Chamber

SME policies in the 2021 Government Work Report and the 14th Five-year Plan

The 2021 plenary sessions of the National People's Congress and the Chinese People's Political Consultative Conference (Two Sessions) took place from the 4th to 11th March. The 2021 Government Work Report announced a number of relevant measures targeted at SMEs to provide continuity in terms of reducing financial burdens, streamlining administrative procedures and financing.[12] The 14th Five-year Plan (14FYP) and the long-term goals for 2035 were also launched and included commitments to improving the policy and business environment for small businesses, increasing tax concessions and credit support, as well as creating a long-term mechanism for preventing and resolving arrears in payments to SMEs.[13]

The following sections will be dedicated to analysing the recent SME policy developments in China in the areas of finance and reduction of the financial burden, SME market development, administrative procedures and protection of the rights of SMEs.

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

[12] *Government Work Report,* State Council, 12th March 2021, viewed 14th April 2021 <http://www.gov.cn/premier/2021-03/12/content_5592671.htm>

[13] *The Fourteenth Five-Year Plan for the National Economic and Social Development of the People's Republic of China and the Outline of the Long-term Goals for 2035*, State Council, 13th March 2021, viewed 15th April 2021 <http://www.gov.cn/xinwen/2021-03/13/content_5592681.htm>

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

These framework policies have been accompanied by implementing regulations issued by various ministries. Looking at more recent measures, in June 2021 the Ministry of Finance 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.[14]

Private financing

Private financing is as a rule not easy to obtain for SMEs in China, as they are usually seen as a high-risk and low-return investment, and Chinese authorities are well aware of this issue.

What is the NEEQ?

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 Chinese SMEs that cannot list on the Main Board market. As of December 2020, the total number of listed companies was 8,187, a 23.4 per cent drop from 2018 numbers.

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. Over the past few years, other boards encouraging the listing of SMEs have appeared – for instance the Nasdaq-style Shanghai Science and Technology Innovation Board (also known as STAR), which targets innovative start-ups and which was established in 2019. In order to improve SME financing, the MIIT along with 16 other departments jointly announced in July 2020 *Several Opinions on Improving the System for Supporting the Development of Small and Medium Enterprises* (*2020 Opinions*), which included measures aimed at improving direct financing such as guiding angel investors, private equity and venture capital investors to expand equity financing of SMEs; encouraging SMEs to list on the capital market

[14] *Measures for the Administration of the Special Funds for the Development of Small and Medium-Sized Enterprises*, Ministry of Finance, 17th June 2021, viewed 22nd June 2021, <http://jjs.mof.gov.cn/zhengcefagui/202106/t20210617_3720730.htm>

through mergers, acquisitions and restructuring; developing a wider range of bonds suitable for SMEs; and pushing forward the reform of the New Third Board and the transfer to another board for listing of companies quoted on the NEEQ.[15]

On **indirect financing**, the SME Promotion Law allows for the usage of movable property and accounts receivable as collaterals for chattel secured financing[16], and also provides for the encouragement of credit guarantee issuance. In April 2021, the China Banking and Insurance Regulatory Commission (CBIRC) issued a circular on further promoting high-quality development of financial services to SMEs. The circular includes measures such as encouraging the five largest banks to increase the rate of inclusive loans granted to micro and small enterprises by more than 30 per cent; optimising services to SMEs borrowing for the first time and increasing the number of new first-time borrowers; and promoting cooperation between banking and insurance institutions to offer innovative products to SMEs.[17]

Looking at the outcomes of these slew of policies aiming at increasing SME financing, in spite of repeated efforts by the government banks remain wary of the risks involved in lending to smaller firms. While the total amount of loans issued by banks increased considerably in the past decade, as of December 2019, only 23.3 per cent of outstanding loans went to smaller companies.[18]

[15] *Several Opinions on Improving the System for Supporting the Development of Small and Medium Enterprises*, MIIT, 24th July 2020, viewed 21st June 2021, <http://www.gov.cn/zhengce/zhengceku/2020-07/24/content_5529741.htm>

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

[17] *Notice by the General Office of the China Banking and Insurance Regulatory Commission of Further Promoting the High-quality Development of Financial Services for Micro and Small Enterprises in 2021*, CBIRC, 9th April 2021, viewed 21st June 2021, <http://www.gov.cn/zhengce/zhengceku/2021-04/26/content_5602140.htm>

[18] Holzmann, Anna and Kärnfelt, Maximilian. *Supporting China's SMEs affected by Covid-19 is crucial to avoid a socioeconomic disaster,* Mercator Institute for China Studies, 12th May 2020, viewed 30th May 2021, <https://merics.org/en/analysis/supporting-chinas-smes-affected-covid-19-crucial-avoid-socioeconomic-disaster>

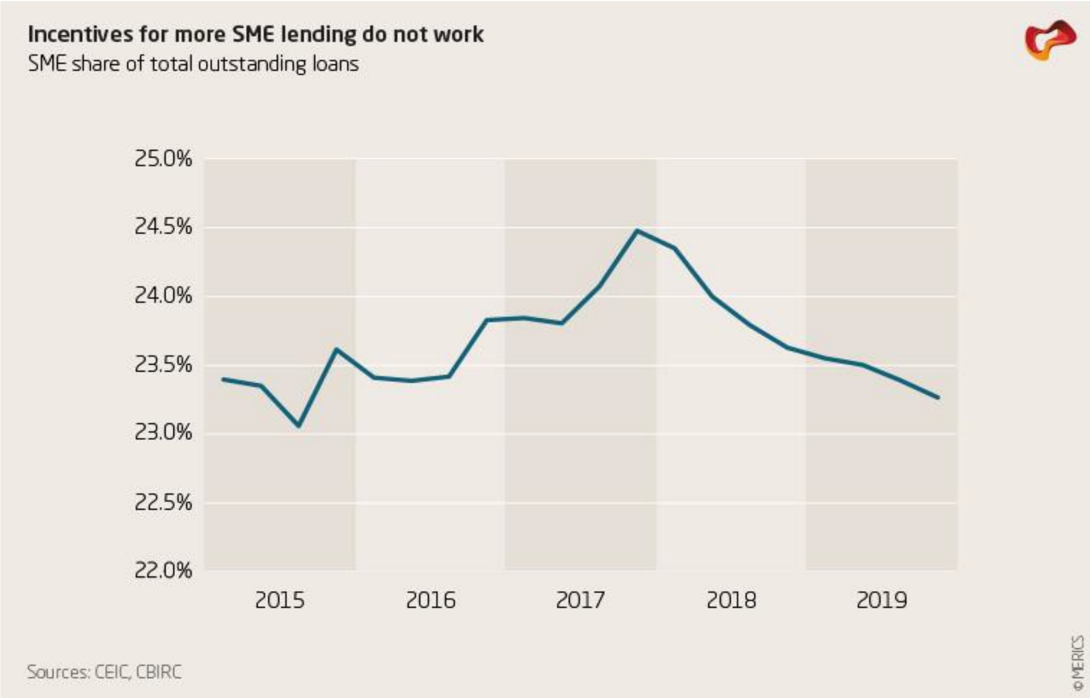

Figure 3 Source: MERICS

Throughout the COVID-19 outbreak, the government recognised the plight of SMEs and acted quickly by rolling out a slew of measures to support them. However, the lack of in-depth and effective implementation of SME financing policies remains a big issue. The *SME Development Environment Assessment Report 2020*, released by the China Centre for Promotion of SME Development under the MIIT in March 2021, indicates that SME financing support has yet to be effectively strengthened.[19]

Alternative forms of financing could potentially help ease the financing difficulties of SMEs. The fintech sector in China has undergone a major change, from mainly engaging in peer-to-peer lending to leveraging fintech to reduce financing costs, especially for small businesses.[20] The newly emerging blockchain technology is another promising solution, with the potential to increase transparency and fostering trust between lenders and borrowers.[21]

Given the role of SMEs in promoting innovation and trade, it will be important for both the EU and China to engage in a productive discussion that creates opportunities for concrete deliverables in terms of measures to support the financing of European SMEs going to China and vice versa.

[19] *SME Development Environment Assessment Report 2020*, China Centre for Promotion of SME Development, 31st March 2021, viewed 17th June 2021, <https://www.miit.gov.cn/jgsj/qyj/zcfg/art/2021/art_6d9b19918def4480bbb60d67acca484d.html>
[20] *Fintech creates better environment for SMEs*, China Daily, 23rd September 2020, viewed 31st May 2021, <https://www.chinadaily.com.cn/a/202009/23/WS5f6ab083a31024ad0ba7b366.html>
[21] Isler, Renzo. *Blockchain and SME Financing*, 8th December 2020, viewed 17th June 2021, <https://www.eurobiz.com.cn/blockchain-and-sme-financing>

2.1.2. Reduction of financial burden

As a rule, measures to reduce the financial burden have proven beneficial for SMEs, particularly during the COVID-19 outbreak, when disruptions to operations resulted in considerable cashflow issues.

Tax relief measures

Throughout the years, China has accommodated a number of favourable tax policies for SMEs. Some of the taxes where reduction or exemption is going to be applied are corporate income tax (CIT) or value-added tax (VAT) among others. In addition, local governments may in some cases provide subsidies on taxes paid. The *2020 Opinions* included a number of such tax relief measures, including the establishment of a long-term mechanism for easing tax and fee burdens on small and micro enterprises; the deferment, reduction, and exemption of CIT and VAT for eligible SMEs; and the implementation of preferential policies such as reducing or exempting administrative fees.

In 2021, the Government Work Report proposed to extend some tax policies issued during the pandemic, e.g. by increasing the VAT threshold for small-scale taxpayers from monthly sales of RMB 100,000 to RMB 150,000; and reducing income tax by half on top of the existing preferential policies for small and micro enterprises and individual entrepreneurs with annual taxable income of less than one million RMB. Following the proposal, in April 2021, the State Taxation Administration (STA) released *Announcement [2021] No.8* and clarified a preferential CIT policy for small and low-profit enterprises and individual businesses.[22]

Preferential Corporate Income Tax Policy for Small and Low-Profit Enterprises

Taxable income	CIT liability	Effective CIT rate	Effective period
The portion of taxable income not exceeding RMB 1 million	The taxable income amount of this portion x 12.5% x 20%	2.5%	From January 1, 2021 to December 31, 2022
The portion of taxable income between RMB 1 million to RMB 3 million	The taxable income amount of this portion x 50% x 20%	10%	From January 1, 2019 to December 31, 2021

Figure 4 Source: Dezan Shira & Associates, Asia Briefing

Postponement in loan repayments

To cushion the economic hit caused by the COVID-19 outbreak, the CBIRC released a circular about *Implementing Provisional Postponement in Principal and Interest Repayment for Loans to SMEs and Micro Enterprises* in March 2020.[23] SMEs hit by the epidemic could make

[22] Zhang, Zoey, *China Lowers Corporate Income Tax Liability for Small and Low-Profit Enterprises*, Dezan Shira & Associates, 20th April 2021, viewed 18th June 2021, <https://www.china-briefing.com/news/china-lowers-corporate-income-tax-liability-for-small-and-low-profit-enterprises/>

[23] *Implementing Provisional Postponement in Principal and Interest Repayment for Loans to SMEs and Micro Enterprises*, CBIRC, 1st March 2020, viewed 12th July 2021, <http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=892278&itemId=926>

applications with banks to defer repayment of principal and interest expenses payable from January to June 2020, and overdue loan repayments in the period were exempted from penalties. In April 2021, the Chinese government decided to further extend the implementation period of the policy on deferment of principal and interest repayment for inclusive loans granted to micro and small enterprises and the policy on supporting unsecured loans until the end of 2021.[24]

Reduction of administrative charges

Another way to cut down costs for SMEs during the crisis was the reduction of administrative charges. Electricity cost reductions, social security exemptions and deferred payment of insurance premiums have all played a positive role in speeding up the resumption of production.

In February 2020, the STA published the *Notice on the Phased Reduction of Social Insurance Premiums for Enterprises*.[25] This new policy exempted or reduced all employers' social insurance burden on three types of social insurance (pension, unemployment, and work injury insurance), and allowed them to defer payments to their mandatory housing fund. According to calculations by authorities these measures had the potential to enable companies to save between 10 to 15 per cent in compensation and benefits pay-outs during the period of February to June 2020.[26] Similarly, in the same month, electricity charges were cut for industrial and commercial companies not from high energy-consuming industries.[27]

Additionally, in June 2020, the State-owned Assets Supervision and Administration Commission of the State Council introduced a circular stating that central enterprises must cut property rents for SMEs that lease their properties for business purposes.[28]

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. In the World Bank's *Ease of Doing Business Index* 2006, businesses in

[24] *Issues Concerning Further Extending the Implementation Period of the Policy on Deferment of Principal and Interest Repayment for Inclusive Loans Granted to Micro and Small Enterprises and the Policy on Supporting Unsecured Loans*, PBOC, CBIRC, MOF, NDRC, and MIIT, 2nd April 2021, viewed 21st June 2021, <https://www.miit.gov.cn/xwdt/gxdt/art/2021/art_aa6ab683abe442989f1a7c7367a95a6b.html>

[25] *Notice on the Phased Reduction of Social Insurance Premiums for Enterprises*, State Taxation Administration, 20th February 2020, viewed 13th July 2021, <http://www.chinatax.gov.cn/chinatax/n810219/n810744/n4016641/n4016661/c5144713/content.html>

[26] Wong, Dorcas, *China to Reduce Corporate Social Insurance Premiums, Defer Housing Provident Fund Payment*, Dezan Shira & Associates, 21st February 2020, viewed 13th July 2021, <https://www.china-briefing.com/news/china-reduce-social-insurance-commitments-smes-short-term-coronavirus-impact/>

[27] *Notice on Phased Reduction of Electricity Cost of Enterprises to Support the Work Resumption*, NDRC, 22nd February 2020, viewed 13th July 2021,<https://www.ndrc.gov.cn/xxgk/zcfb/tz/202002/t20200222_1220993.html>

[28] *Circular about Waiving and Reducing Property Rents to Support the Development of Small, Medium, and Micro Enterprises and Individual Industrial and Commercial Households*, SASAC, 3rd June 2020, viewed 13th July 2021, <http://www.sasac.gov.cn/n2588030/n2588939/c14767666/content.html>

Shanghai spent 832 hours per year on average to prepare, file, and pay taxes, and they had to make 37 payments. As of 2020, these metrics had been reduced to just 138 hours per year and 7 payments.[29] This improvement owes much to the major regulatory overhaul that has taken place in the past years at the national level.

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 through documents like the September 2020 State Council *Notice on Deepening the Reform of the Business System to Further Alleviate the Burdens on Enterprises and Stimulate the Vitality of Enterprises,* which sets the following measures*:*

- promoting the streamlining of business registration, and further shortening the registration time to four working days or less;
- encouraging the use of electronic business licenses, electronic invoices, and electronic seals;
- sticking to the 'one-application-form' and 'one single window' principles;
- facilitating the acquisition of licenses.[30]

During the 2021 Two Sessions, Premier Li Keqiang stated that the government will devote major efforts to streamline processes for conducting review of applications made by enterprises and simplify the system for deregistering SMEs, thus signalling continuity in the policy direction on improving the business environment. In addition, the *2020 Opinions* state that regulatory procedures and entrepreneurship approval processes shall be simplified, and a credit-based supervision shall be comprehensively carried out for SMEs.

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. Regarding the former, the *SME Development Environment Assessment Report 2020* shows that the development and implementation of SME policies is not uniform across provinces, with a huge gap between the best (Shanghai, Shenzhen and Nanjing) and the worst performers (Urumqi, Haikou and Lhasa). On the latter, looking at the link between administrative procedures and market access, almost half of BCS 2021 respondents reported that they faced either direct barriers, such as the negative list, or indirect barriers, such as complex and time-consuming administrative approval requirements, and *de facto* barriers like obtaining operating licences. The number of survey

[29] *Doing Business 2020: Comparing Business Regulation in 190 Economies*, World Bank Group, 2020, viewed 13th July 2021, <https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>

[30] *Notice by the General Office of the State Council of Deepening the Reform of the Business System to Further Alleviate the Burdens on Enterprises and Stimulate the Vitality of Enterprises*, 10th September 2020, viewed 23rd June 2021, <http://www.gov.cn/zhengce/content/2020-09/10/content_5542282.htm>

respondents reporting that they face direct barriers fell slightly in 2020 by three percentage points, while the number facing indirect ones rose by four per cent, which shows that nominal opening does not necessarily equal *de facto* opening. This leaves foreign companies in a situation of being able to access the market in theory but in practice not having the possibility to operate in that same market.

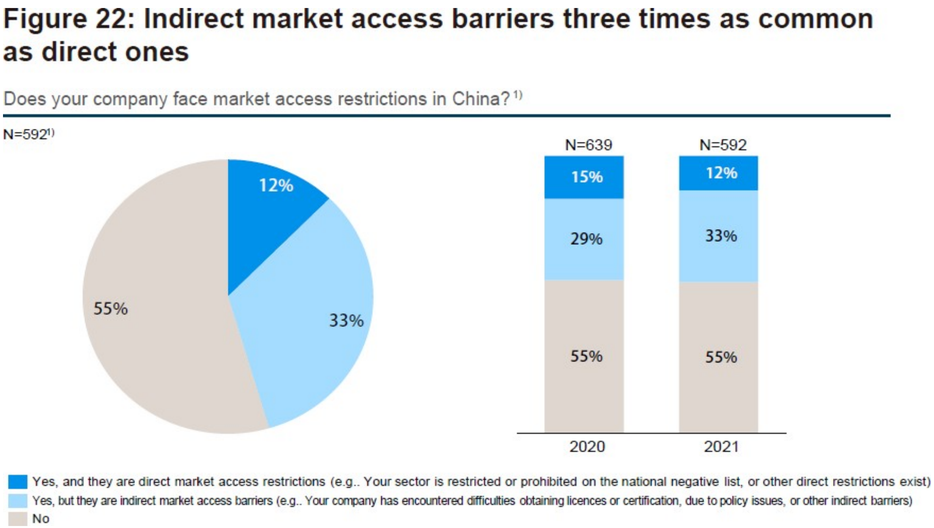

Figure 6 Source: European Chamber

The process for approval of the business scope and granting of licenses and permits for FIEs is also still subject to extensive scrutiny. According to BCS 2021, the slower processing of drug review and approvals for pharmaceuticals developed abroad compared with the relatively expedient process applied to domestic companies has resulted in some foreign companies feeling that they have missed out on business opportunities. In the case of SMEs, this long process can create additional costs for them, such as the payment of office rental with pending licence applications. Furthermore, the COVID-19 outbreak, which left many SME legal representatives and managers stranded abroad for months, highlighted the need to digitalise certain administrative procedures that require the physical presence of a legal representative or signatory.

2.3. SME market development

2.3.1. Talent acquisition and retention

During 2020, many SMEs had to suspend new hiring or even downsize staff to cut labour costs and survive financial difficulties. [31] Chinese government regulations with a focus on maintaining employment included readjustments of pension contributions, unemployment

[31] *Recruiting in China After COVID-19: HR Planning and Talent Acquisition for SMEs*, Dezan Shira & Associates, 15th June 2020, viewed 20th June 2021, <https://www.china-briefing.com/news/recruiting-china-covid-19-hr-planning-talent-acquisition-smes>

insurance and worker compensation payments plus RMB 53.9 billion of direct subsidies for employment.[32]

The *Opinions of the General Office of the State Council on the Implementation Measures to Strengthen Stable Employment in Response to the Impact of the COVID-19* also encouraged talent attraction for start-ups and smaller enterprises through encouraging graduate students to seek employment in SMEs through incentives such as one-time employment subsidies; simplifying the administrative procedures for independent entrepreneurship; and providing large-scale vocational skills training and special training for key groups such as migrant workers.[33]

While some of these measures could be beneficial for SMEs, there are still significant obstacles for attracting senior and technical talents, as well as foreign professionals. Given their limited resources, foreign-invested SMEs may not be familiar with the local labour market, such as the talent pool situation, the salary range, the employment cost, etc. This can potentially result in added difficulties when developing a reasonable strategy. Information asymmetry is also common in the recruitment process: foreign SMEs normally lack effective talent assessment tools and means of selection. Also, it is difficult for SMEs to attract talents considering their employer brand hasn't been well recognised in the domestic talent market.[34]

Another key obstacle to talent attraction is the travel restrictions that were imposed as pandemic control measures, a situation that is still problematic as of June 2021. Prior to the outbreak, China had a history of being more restrictive towards foreign talent than EU countries, with the number of foreign workers in China standing at just 0.07 per cent of the population.[35] According to the BCS 2021, 35 per cent of European companies witnessed a decrease in the number of foreign workers at their company in the past five years. Unsurprisingly, COVID-related entry restrictions topped the list of challenges to attracting and retaining international talent in 2020. While some employees are still attempting to return, many have simply given up and moved on, and there is a concern that China's foreign talent pool may never fully recover.

[32] Blair, David, *Policies should focus on upgrading SMEs, not just emergency relief,* China Daily, 17th July 2020, viewed 31st May 2021, <https://www.chinadaily.com.cn/a/202007/17/WS5f110591a31083481725a223.html>
[33] *Implementing Opinions of the General Office of the State Council on Strengthening Employment Stabilization Measures in Response to the Impact of the COVID-19*, State Council, 20th March 2020, viewed 24th June 2021 <http://www.gov.cn/zhengce/content/2020-03/20/content_5493574.htm>
[34] *Recruiting in China After COVID-19: HR Planning and Talent Acquisition for SMEs*, Dezan Shira & Associates, 15th June 2020, viewed 20th June 2021, <https://www.china-briefing.com/news/recruiting-china-covid-19-hr-planning-talent-acquisition-smes>
[35] Xing, Yi, Shanghai Home to Largest Foreign Worker Population, China Daily, 16th January 2019, viewed 8th April 2021, <https://www.chinadaily.com.cn/a/201901/16/WS5c3ed0a9a3106c65c34e4d2a.html>

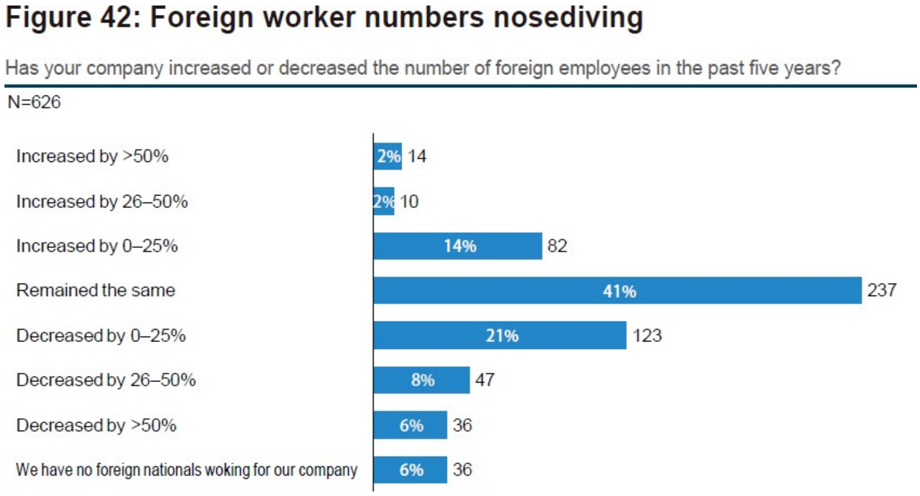

Figure 7 Source: European Chamber

Meanwhile, the ending of exemptions on certain taxable benefits for expats, like education, housing and language training, at the start of 2022 will also constitute a major barrier to bringing in foreign talent, as HR costs will increase considerably as a result. This policy change could result in some expatriate employees facing a reduction of up to 13 per cent in their net take-home pay. In some circumstances, enterprises may need to compensate foreign employees for their increased tax burden. The burden could be significant for SMEs, especially those that are already struggling to cover the costs of multiple expatriates in China out of operating profit. Currently, some regions of China have been introducing preferential Individual Income Tax policies to reduce the tax burden on foreign talents, like Greater Bay Area and Hainan Free Trade Port. Other regions may also consider similar policies so as to stay competent in attracting talents.[36]

2.3.2. International development

Since its inception, China's 'Going Global' policy and its derived measures have mainly supported the internationalisation of domestic SOEs and bigger companies. However, in the past years a number of regulations have also pushed for the international development of Chinese SMEs. Articles 41 and 42 of the SME Promotion Law support the development of SMEs in foreign markets through measures such as facilitating the use of foreign exchange, easing personnel entry and exit procedures for SMEs going abroad, providing subsidies for the establishment of research and development (R&D) labs abroad, and encouraging national policy-based financial institutions to develop their import-export credit business. In addition, other regulations such as the *Notice of the Two Departments on Carrying out the Special Action for Supporting the Participation of SMEs in the Belt and Road Initiative* in 2017 outline a series

[36] Zhang, Zoey, *Some Tax-Exempt Fringe Benefits for Expats in China to Expire Next Year: Prepare for Possible Transition*, Dezan Shira & Associates, 14th April 2021, viewed 20th June 2021, <https://www.china-briefing.com/news/some-tax-exempt-benefits-for-expats-in-china-to-expire-next-year-prepare-for-possible-transition>

of specific measures. These include the creation of a "Belt and Road Initiative SME Cooperation Platform", and the promotion of two-way investment through the creation of a cooperative zone for SMEs in China and partner countries.[37]

Looking at European industry involvement in the BRI, however, the experiences of European businesses show that the BRI remains a highly opaque and non-inclusive initiative, which hinders the ability of these companies to participate in projects. According to a survey conducted as part of the European Chamber's report on the BRI, *The Road Less Travelled: European Involvement In China's Belt And Road Initiative*, more than half of respondents said that there is insufficient information available to companies seeking to make bids, while nearly 40 per cent reported that procurement systems for BRI-related projects were not transparent enough.[38] As of late 2019, a very small number of European companies in China reported being involved in the BRI itself: of the 132 respondents to the survey, just 20 indicated that they had bid on at least one BRI-related project, with the more successful bidders being those who had bid in several projects. Participants were also overwhelmingly MNCs, with only five identifying themselves as SMEs.

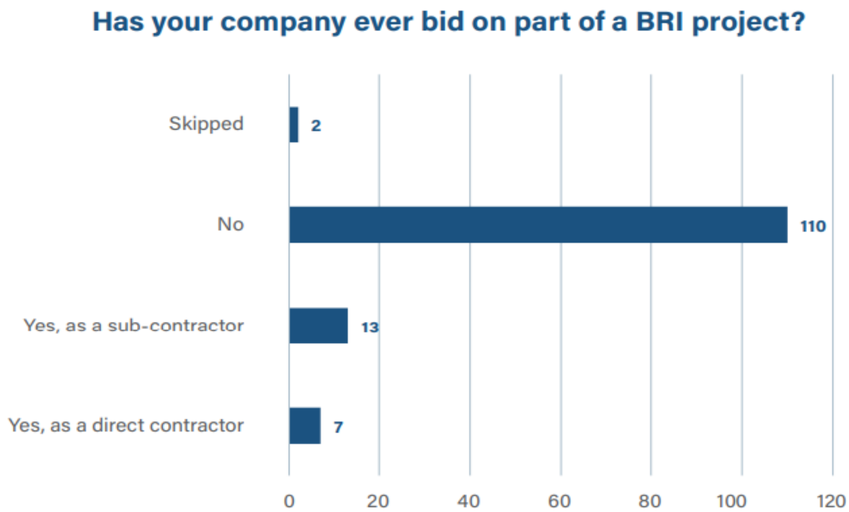

Figure 8 Source: The Road Less Travelled: European Involvement In China's Belt And Road Initiative

In 2020, BRI project planning and implementation stalled due to travel restrictions and economic disruption and both Beijing and recipient countries were forced to re-evaluate high profile infrastructure plans.[39] On the 28th February 2020, the MOFCOM and the China Development Bank (CDB) jointly released a notice which included measures such as collecting

[37] *Notice of the Two Departments on Carrying out the Special Action for Supporting the Participation of SMEs in the Belt and Road Initiative*, Ministry of Industry and Information Technology and China Council for the Promotion of International Trade, 27th July 2017, viewed 20th June 2021, <http://www.scio.gov.cn/xwfbh/xwbfbh/wqfbh/39595/40268/xgzc40274/Document/1652298/1652298.htm>

[38] *The Road Less Travelled: European Involvement In China's Belt And Road Initiative*, European Chamber, 16th January 2020, viewed 20th June 2021 <https://www.europeanchamber.com.cn/en/publications-archive/762/The_Road_Less_Travelled_European_Involvement_in_China_s_Belt_and_Road_Initiative>

[39] Kratz, Agatha, and Mingey, Matthew, *China's Belt and Road: Down but not Out*, Rhodium Group, 4th January 2021, viewed 13th July 2021, <https://rhg.com/research/bri-down-out/>

information regarding overseas projects and enterprises affected, and transferring their financing needs to the CDB.[40] The circular by the General Office of the Ministry of Culture and Tourism on *Soliciting the 2020 Belt and Road Key International Cooperation Projects in Cultural and Tourism Industries*[41] was aimed at helping SMEs integrate into the international market while promoting cooperation in the cultural and tourism industries between China and countries along the BRI. Likewise, some of the main measures outlined in the 14FYP include deepening and expanding the BRI financial cooperation network, promoting the interconnection of financial infrastructure, and supporting the joint participation of multilateral and national financial institutions in investment and financing. This demonstrates that, in spite of the COVID-19 and although it might be coming back in a different form, the BRI is far from dead.[42]

2.3.3. Competition and procurement

European institutions and organisations have long been sounding the alarm bells regarding the unequal access to procurement contracts in China that European companies experience. As part of recent changes made to its *Foreign Investment Law* in 2020, on paper no discrimination against foreign parties is permitted in a number of areas, including procurement.[43] Nevertheless, according to BCS 2021, foreign access to public procurement in China remains a big issue. Procurement is still used as an instrument through which domestic champions are favoured, often through closed bids or extremely short periods between posting a procurement tender and the deadline for bid submission. European companies report that their local competition is given the details ahead of time, allowing them to assemble a highly competitive bid by the submission deadline. For instance, looking at specific sectors European ICT companies often find themselves blocked from procurement for telecommunications and network infrastructure as their technology is not deemed 'secure' until a security review is completed.[44]

In the past there were efforts by the government to increase the engagement of domestic SMEs in government procurement activities – for instance through the implementation of the *Interim Measures for Government Procurement to Promote the Development of SMEs* in 2011, which establishes quotas for budget and contracts dedicated to SMEs. However, due to the lack of

[40] *Notice from the Ministry of Commerce and the China Development Bank regarding Responding to the COVID-19 Outbreak, Maximizing the Role of Development-oriented Finance, and Supporting High-quality Co-construction of the "Belt and Road"*, MOFCOM, 3rd March 2020, viewed 13th July 2021, <http://www.mofcom.gov.cn/article/jiguanzx/202003/20200302941314.shtml>

[41] *Soliciting the 2020 Belt and Road Key International Cooperation Projects in Cultural Industry and Tourism Industry*, Ministry of Culture and Tourism, 19th June 2020, viewed 13th July 2021, <http://zwgk.mct.gov.cn/zfxxgkml/cyfz/202012/t20201206_916975.html>

[42] Kratz, Agatha, and Mingey, Matthew, *China's Belt and Road: Down but not Out*, Rhodium Group, 4th January 2021, viewed 13th July 2021, <https://rhg.com/research/bri-down-out/>

[43] *Improved Tax Assistance for China SME's Belt & Road Procurement Contract Bids*, Dezan Shira&Associates, 22nd April 2021, viewed 13th July 2021, <https://www.silkroadbriefing.com/news/2021/04/22/improved-tax-assistance-for-china-smes-belt-road-procurement-contract-bids/>

[44] *Foreign Drug Giants Undercut by up to 95 per cent in China Bidding War*, Bloomberg, 20th August 2020, viewed 20th April 2021, <https://www.bloomberg.com/news/articles/2020-08-20/foreign-drug-giants-undercut-by-up-to-95-in-china-bidding-war>

concrete measures to reserve quotas, as well as the unclear responsibility of procuring entities, until recently there were still a number of obstacles that the participation of even domestic small businesses in procurement activities.[45]

On 18th December 2020, the MOF and the MIIT jointly released the *Administrative Measures for Government Procurement to Promote the Development of SMEs*, with refined provisions for reserving procurement quotas, improved evaluation method of price concessions for government procurement projects, provisions for supporting SMEs in terms of fund disbursements and credit guarantee, as well as four specific ways to urge the budget units to better implement the policies.[46] In April 2021, China's STA released a circular requiring the implementation of the Measures. According to the Circular, local tax authorities should grant deductions for quotes from small and micro enterprises in accordance with the provisions of the Measures, and then conduct the procurement evaluation with the reduced quotes.

While the outlook for the participation of foreign SMEs in public procurement in China is bleak – especially given the difficulties MNCs with more leverage and resources still face – it is important that Chinese authorities continue to work towards opening up its public procurement market. In this respect, China's accession to Government Procurement Agreement will be essential. The EU can also take steps to ensure reciprocity when it comes to the openness of third country procurement markets by accelerating the work on its International Procurement Instrument.

2.4. Intellectual Property

China's laws and regulations around IPR protection have slowly but steadily improved over the years. According to the BCS 2021, in 2020, for the first time half of European companies viewed IPR enforcement as adequate or excellent.[47]

[45] *Administrative Measures for Government Procurement to Promote the Development of SMEs (2021*), 15th January 2021, viewed 19th June 2021, <https://www.eusmecentre.org.cn/press-article/administrative-measures-government-procurement-promote-development-smes-2021>
[46] *Administrative Measures for Government Procurement to Promote the Development of SMEs (2021)*, 15th January 2021, viewed 19th June 2021, <https://www.eusmecentre.org.cn/press-article/administrative-measures-government-procurement-promote-development-smes-2021>
[47] *Business Confidence Survey 2021*, European Union Chamber of Commerce in China, 8th June 2021, viewed 20th June 2021 <https://www.europeanchamber.com.cn/en/publications-business-confidence-survey>

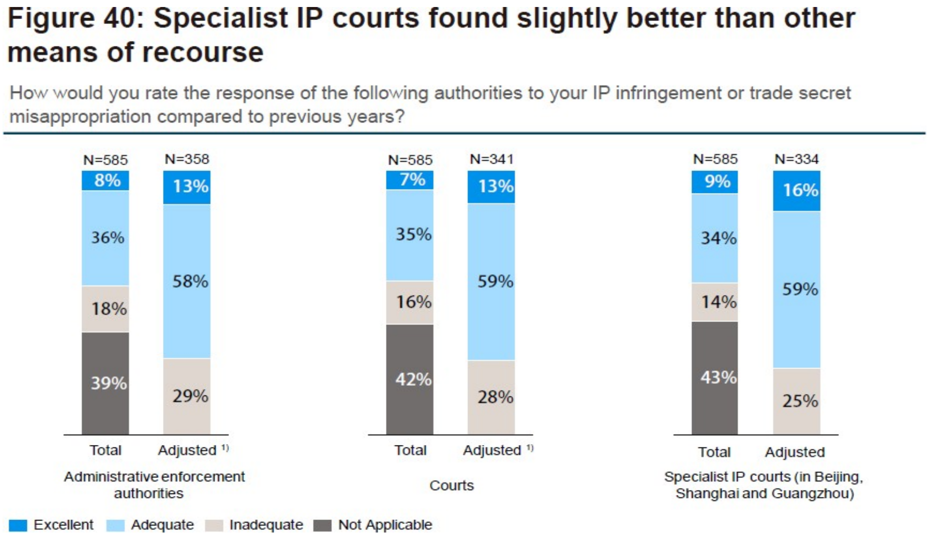

Figure 9 Source: European Union Chamber of Commerce in China

In February 2021, the Supreme People's Court of China awarded its highest amount of compensation to date in a trade secret case. While this case did not involve foreign companies, and EU SMEs should not expect exceptionally high awards of damages or easy trade secret litigation cases, the fact that cases of trade secret infringement can be successfully won in Chinese courts is an encouraging sign.[48]

Copyright and patent protection are also to be strengthened with the amended Copyright Law and Patent Law,[49&50] which have both came into effect in June 2021, bringing along substantial changes such as the creation of the patent linkage system, the introduction of the open license system and the extension of copyrightable works. Under this new system, a guilty party may face a fine one to five times higher than the ordinary damages awarded.

Looking at recent SME-specific policies on IP, the *2020 Opinions* proposed several measures in order to improve the IP protection system for SMEs, e.g. by establishing a sound system of punitive damages, increasing the amount of statutory compensation, building a diversified mechanism for resolving IPR disputes, improving the efficiency of IPR examination and reducing the cost burden on SMEs in applying for and maintaining IPR.

Finally, with regards to international cooperation and dialogues, China has been collaborating with several IP offices around the world to facilitate inventors with patent applications to go to

[48] *Infringement of Trade Secrets Case Sentenced with the Highest Compensation in the History of the Supreme People's Court*, European Commission, viewed 16th June 2021, <https://ec.europa.eu/newsroom/eismea/items/706895/en>

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

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

China. This includes, for instance, the Patent Cooperation Treaty Collaborative Search and Examination (PCT CSE) program with the European Patent Office. [51] Another landmark achievement in terms of IP protection is the EU-China Agreement on Geographical Indications (GIs), which entered into force in March 2021. The first batch of GI products approved by the China National Intellectual Property Administration (CNIPA) included 96 European products, and another 175 EU GIs will be considered by the CNIPA in the next four years.[52] This is good news for the SMEs producing GI products, as these goods will now have another layer of protection in China. Through intellectual property protection, the agreement will also help the entry of medium and high-end European agricultural products in the Chinese market, which is in line with China's consumption upgrade.

The aforementioned initiatives showcase the considerable progress made in terms of the development of a sound regulatory framework for IPR protection in China. Moving forward, however, Chinese authorities will have to step up their efforts on policy design and more importantly implementation. From the EU side, EU-funded projects like the China IP SME Helpdesk have proved to be useful resources for European small businesses looking for information, advice and other relevant IP-related services.[53]

2.5. Protection of the rights of SMEs and supervision mechanisms

Chapter 8 of the SME Promotion Law addresses the protection of the rights of SMEs and includes many articles that did not appear in the 2003 SME Promotion Law. Some of the measures set to ensure the protection of the rights of SMEs include improving the feedback mechanisms for SMEs; ensuring government units, public institutions and large enterprises refrain from abusing the rights of SMEs; and standardising administrative fees and publishing a detailed catalogue to counter the charging of excessive fees.

The *2020 Opinions* proposed to establish a long-term mechanism for protecting the legitimate rights and interests of SMEs and entrepreneurs, through measures such as punishing illegal and criminal acts that infringe on SMEs' property rights and interests; introducing a regulation on ensuring payments to SMEs; and building a sound emergency rescue and relief mechanism for SMEs, to help them cope with incidents such as natural disasters, public health crisis and social security events.

One of the areas that has seen positive progress in 2020 in terms of developing a regulatory framework is late payments. In July 2020 the State Council issued the *Regulations on Ensuring*

[51] *International Cooperation in Order to Facilitate Patent Application*, CNIPA, 8th March 2021, viewed 18th June 2021, <https://english.cnipa.gov.cn/art/2021/3/8/art_1340_157418.html>
[52] *CNIPA Approved the First Batch of EU GI Products in GI Agreement*, China National Intellectual Property Strategy Network, 16th March 2021, viewed 18th June 2021, <http://www.chinaipmagazine.com/en/news-show.asp?id=11932>
[53] *About Us,* China IP SME Helpdesk, viewed 19th July 2021, <http://www.china-iprhelpdesk.eu/content/about-hd>

Payments to Small and Medium-Sized Enterprises, [54] which went into effect on 1st September 2020. The regulation aims 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. The issuing of this regulation – the first of its kind in China – represents a step forward in ensuring timely payments to SMEs, and effective implementation will be key.

2.6. Innovation and Entrepreneurship

In the past few years, China has made significant progress in globally recognised rankings such as the Bloomberg Innovation Index or the World Intellectual Property's Global Innovation Index (GII). According to the GII 2020, China is currently 14th among 131 countries in terms of total innovation score – the only middle-income economy in the GII top 30. China also maintains its world leadership in several key output indicators, including patents by origin, utility models, trademarks, industrial designs, and creative goods exports.[55] Looking at the start-up environment in China, Start-up Genome's *Global Start-up Ecosystem Rankings 2020* puts Beijing and Shanghai in the top 10 Global start-up ecosystems. [56] All of the above indicators demonstrate that China is an increasingly attractive destination for R&D and for innovative companies thanks to the combination of its dynamic and competitive ecosystem, a huge consumer base and policies supporting innovation.

Looking at the latter, the revised SME Promotion Law supports this push for innovation through a series of provisions, some of which include establishing preferential tax policies for enterprises and investors in technological innovation, encouraging SMEs to develop new technologies with independent IP, and fostering cooperation between SMEs, universities and R&D centres. On entrepreneurship, one of the ways through which the revised SME Promotion Law encourages the creation of businesses is reducing the administrative and financial burden. One example of the several funds established or supported by the MOF was the China SME Development Fund Co Ltd, which was recently set up in Shanghai with 15 national ministries, state-owned business giants and leading companies in various fields holding stakes.[57]

Furthermore, in February 2021, the MOF said that the central government would allocate more than RMB 10 billion (USD 1.55 billion) from 2021 to 2025 to support the growth of more than

[54] *Regulations on Ensuring Payments to Small and Medium-Sized Enterprises*, State Council, 5th July 2020, viewed 4th July 2021 <http://www.gov.cn/zhengce/content/2020-07/14/content_5526768.htm>
[55] *Global Innovation Index 2020*, Cornell University, INSEAD, and the World Intellectual Property Organization, 2020, viewed 14th July 2021, <https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2020.pdf>
[56] *Global Startup Ecosystem Rankings 2020*, Startup Genome, 25th June 2020, viewed 14th July 2021, <https://startupgenome.com/reports>
[57] Yu, Cheng, *Special financial platform to support SMEs*, China Daily, 6th August 2020, viewed 31st May 2021, <http://epaper.chinadaily.com.cn/a/202008/06/WS5f2b5d8da3107831ec75412f.html>

1,000 “little giants”, or SMEs that focus on a market niche and master key technologies with strong innovation capacity.[58] It is important to note, however, that one of the key eligibility criteria for the “little giant” status is having a high sustained revenue growth compared to previous years, which means that only rapidly growing SMEs are eligible for the little giant status In March, the MOF and the CNIPA jointly launched a three-year plan to offer monetary incentives to provincial-level regions that have made achievements in fostering patent technology transfers from SMEs, in order to support SME innovation, help promote the utilisation of their patented technologies and prevent them from lying dormant.[59] The monetary incentives can be used to further help SMEs acquire and materialise patent technologies and carry out IP pledge financing.

The role of innovation remains crucial in the upcoming years. The country's 14FYP clearly indicates that China will “encourage private enterprises to reform and innovate”, and “support private enterprises to carry out basic research and innovation in science and technology.” Although the specific plan for SMEs has yet to be released, the outline already contains references to improving the innovation environment for small businesses. However, the potential of European SMEs to benefit from this ecosystem remains unclear, as they may lack the sufficient resources to map out the complex innovation ecosystem in China and identify opportunities. In that respect, past EU-funded initiatives such as the China Innovation Funding platform proved very useful as they provided a multiplicity of resources and information on innovation policies and funding.[60] Moving forward the conclusion of a bilateral EU-China roadmap for cooperation on innovation will also be very important, as it should establish a clear framework for cooperation based on reciprocity and a level-playing field from which innovative SMEs will be able to benefit.

[58] Si, Ma, *Innovative SMEs to get policy boost in financing*, China Daily, 4th February 2021, viewed 31st May 2021, <https://www.chinadaily.com.cn/a/202102/04/WS601b2d2aa31024ad0baa71c7.html>

[59] *Regarding the Implementation of the Special Plan for Patent Transformation to Assist in the Innovative Development of Small and Medium-sized Enterprises*, MOF, 25th March 2021, viewed 23rd June 2021, <http://jjs.mof.gov.cn/tongzhigonggao/202103/t20210324_3675394.htm>

[60] China Innovation Funding homepage, 2018, viewed 5th July 2021, <http://chinainnovationfunding.eu/>

3. Conclusion

As seen throughout the whole report, the policy environment for SMEs in China has undergone a significant transformation in the pasts years. There has been progress in most of the key areas, from access to financing to reduction of administrative and financial burden. In the meantime, China's push for innovation and entrepreneurship has led to a steady improvement in IPR enforcement.

At the same time, China's SME ecosystem is still lagging. Data from the SMEDI shows that even before the pandemic the index of SME development was consistently below average, and data shows that implementation of SME policies across provinces is also very uneven. Adding to this pervasive underperformance in terms of SME development in China, the outbreak of the COVID-19 pandemic in 2020 dealt a heavy blow to business operations of Chinese and foreign SMEs. Compared to MNCs, smaller companies were in a more inferior position in confronting higher risks and costs, and as a result, their profitability was greatly challenged. In 2020, China witnessed thousands of SMEs go out of business, and numerous firms are still struggling to survive. Interim measures helped them cushion the economic shock brought about by the pandemic. However, COVID-19 still has had a profoundly negative impact on supply chains and companies' human resources, among others. As a result, SMEs – and in particular European SMEs – still face considerable obstacles that hinder their healthy development in the Chinese market. Some of these challenges stem from discriminatory regulations (such is the case of public procurement), while others (like the case of financing) are the consequence of insufficient encouragement by authorities, and lack of bilateral or multilateral coordination.

Given all of the above, there is still a need for further policies to support SME development – both for domestic and foreign enterprises. Looking to the future, it will be important that the 14FYP for SME Development and accompanying regulations include commitments to improve the business environment for small businesses, and to support SMEs to develop in the context of strengthening China's middle-income group. Other areas where the government will have to intensify its regulatory and enforcement efforts include ensuring SMEs have equal access to financing and public procurement, streamlining administrative services, attracting and retaining international talents, supporting international cooperation on SME development, protecting the legitimate rights and interests of SMEs, as well enhancing the role of SMEs in the innovation environment.

Given the vulnerability of European small businesses and their need for support in an attractive yet risky market such as China, the work of European institutions, business associations and EU-funded projects such as the EU SME Centre and the IP SME Helpdesk remains indispensable in order to continue giving voice to these SMEs and ensuring a level-playing field vis-à-vis their Chinese counterparts

Abbreviations

14FYP	14th Five-Year Plan
BCS	Business Confidence Survey
BRI	Belt and Road Initiative
CASME	China Association for SMEs
CBIRC	China Banking and Insurance Regulatory Commission
CCPIT	China Council for the Promotion of International Trade
CDB	China Development Bank
CIT	Corporate Income Tax
EU	European Union
EUR	Euro
FIE	Foreign-invested Companies
GDP	Gross Domestic Product
GI	Geographical Agreement
GII	Global Innovation Index
GPA	Government Procurement Agreement
ICT	Information and Communication Technology
IP	Intellectual Property
IPR	Intellectual Property Rights
MNC	Multinational Company
MIIT	Ministry of Industry and Information Technology
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
NEEQ	National Equities Exchange and Quotations
NPC	National People's Congress
PBOC	People's Bank of China
PCT CSE	Patent Cooperation Treaty Collaborative Search and Examination
R&D	Research and Development
RMB	Renminbi
STA	State Taxation Administration
SAMR	State Administration for Market Regulation
SIPO	State Intellectual Property Office
SME	Small and Medium-sized Enterprise
SMEDI	SME Development Index
SOE	State-owned enterprise
USD	United States Dollar
VAT	Value-added Tax

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