



# **EU SMEs in China Policy Environment Report**

**June 2018**

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## **Table of Contents**

Abstract .....	1
1 Introduction to SMEs in China.....	1
1.1 Definition and Classification of SMEs in China.....	1
1.2 European Definition and Classification of SMEs .....	1
1.3 Challenges that SMEs Face in China .....	2
1.3.1 Challenges Faced by European SMEs in China .....	3
2 Analysis of the Current Policy Environment of SMEs in China .....	3
2.1 Financing and Reduction of Financial Burden.....	3
2.1.1 Financing .....	3
2.1.2 Reduction of Financial Burden .....	5
2.2 Administrative Procedures and Services.....	5
2.3 SME Market Development .....	6
2.3.1 Talent Acquisition and Retention.....	6
2.3.2 Innovation and Entrepreneurship.....	7
2.3.3 International Development.....	8
2.3.4 Competition and Procurement .....	9
2.4 Intellectual Property.....	10
2.5 Protection of the Rights of SMEs and Supervision Mechanisms.....	11
3 Conclusion.....	11
4 Abbreviations .....	13
5 Annex I: Tables and Graphs .....	15
6 Annex II: SMEs within China’s Strategic Frameworks and Case Study.....	19
7 Annex III: SME Stakeholder Mapping.....	22
China SME Stakeholders.....	22
EU SME Stakeholders.....	25

## Abstract

In recent years, the policy environment for small and medium-sized enterprises (SMEs) in the People's Republic of China (PRC) 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”<sup>1</sup> 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 (**Annex I Table 1**).<sup>2</sup>

SMEs constitute an overwhelming majority of the enterprises in China and are key to its economic development, as they represent 99.6 per cent of China's companies, offer more than 80 per cent of the job positions and hold more than 70 per cent of the patents. They also represent more than 60 per cent of the gross domestic product (GDP) and contribute more than 50 per cent of the taxes.<sup>3</sup>

### 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 more simplified.

According to the European Commission, the classification of micro, small and medium-sized enterprises is determined through staff headcount and financial ceiling. Thus, an SME by European definition is an enterprise that employs less than 250 persons and has an annual turnover not exceeding EUR 50 million or total assets of EUR 43 million (**Annex I Table 2**).<sup>4</sup>

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 the total number of businesses throughout the EU and 67 per cent of its employment, and they generate 57 per cent of value added. Furthermore, 93 per cent of SMEs are micro SMEs.<sup>5</sup>

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<sup>1</sup> *Law of the People's Republic of China on the Promotion of Small and Medium-sized Enterprises (2017)*, National People's Congress, 1<sup>st</sup> September 2017, viewed 18<sup>th</sup> May 2018 <[http://www.npc.gov.cn/npc/xinwen/2017-09/01/content\\_2027929.htm](http://www.npc.gov.cn/npc/xinwen/2017-09/01/content_2027929.htm)>

<sup>2</sup> *Statistical criteria for the classification of large, medium, and small micro-enterprises (2017)* [CN], NBC, 1<sup>st</sup> March 2018, viewed 18<sup>th</sup> May 2018 <[http://www.stats.gov.cn/tjsj/tjbz/201801/t20180103\\_1569357.html](http://www.stats.gov.cn/tjsj/tjbz/201801/t20180103_1569357.html)>

<sup>3</sup> Guo Linmao, Ma Xianghui (Editors) *People's Republic of China Small and Medium-sized Enterprises Promotion Law: Guidebook*, China Democracy and Legal System Publishing House, Beijing, 2017

<sup>4</sup> *Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises*, European Commission, 6<sup>th</sup> May 2003, viewed 18<sup>th</sup> May 2018, <<http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32003H0361&from=EN>>

<sup>5</sup> *Annual Report on European SMEs 2016/2017, Focus on self-employment*, European Commission, November 2017.

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 and the sizes/quantities for each category are different for the EU and China (in accordance, on the other hand, to each actor's size of economy and number of 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. However, on 6<sup>th</sup> February 2018, the European Commission launched a public consultation on the review of the SME definition, which means that in the near future the definition of SME in Europe might undergo some changes.<sup>6</sup>

### 1.3 Challenges that SMEs Face in China

SMEs in China face a number of challenges, in many cases due to their size and relatively limited resources. The most important are related to financing, administrative burden, talent acquisition and retention, shortage of key technologies and management skills, and standard-setting and public procurement.

#### - Financing

The average cash flow gap that about 90 per cent of Chinese SMEs are confronted with when asking for a loan is around 500,000 RMB or less, and usually it needs to be filled by SMEs within an average of two weeks. However, obtaining such loans, and, in the event of being successful, receiving the money within the desired period of time presents multiple difficulties. First, many SMEs are unable to provide the required collateral for the loans. Second, even if the previous difficulties are surmounted, the banks' verification procedures generally take a relatively long time, which may prove too costly for SMEs. Third, since the major share of bank loans is distributed to state-owned enterprises (SOEs), the share left for SMEs is quite limited.<sup>7</sup>

#### - Administrative burden

Due to the characteristics of the Chinese bureaucratic system, in the past obtaining a set of permits and certificates authorised by various departments would usually take start-up entrepreneurs an average of 22 days<sup>8</sup>. This situation is now changing thanks to recent actions by the Chinese government.

#### - Talent acquisition and retention

Due to their relatively small scale and few resources, SMEs cannot provide employees with the same competitive wages and promising career development as large-scale enterprises. Therefore, talented job seekers are seldom willing to work or even apply for working in SMEs.

#### - Shortage of key technologies and management skills

The development of SMEs is usually hindered by the fact that these companies are rarely technology-driven and suffer a shortage of experienced management personnel.<sup>9</sup>

#### - Standard-setting and public procurement

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<sup>6</sup> *Public Consultation on the Review of the SME Definition*, European Commission, 6<sup>th</sup> February 2018, viewed 18<sup>th</sup> May 2018 <[https://ec.europa.eu/info/consultations/public-consultation-review-sme-definition\\_en](https://ec.europa.eu/info/consultations/public-consultation-review-sme-definition_en)>

<sup>7</sup> Zhihao WU, *A Brief Introduction to Chinese SMEs' Difficulties in Financing and Countermeasures*, Times Finance, February 2017, p. 102

<sup>8</sup> Press of the first session of the 13th National People's Congress, Xinhua net, 20th March 2018, viewed 21st May 2018, <[http://www.xinhuanet.com/2018-03/21/c\\_1122566682.htm](http://www.xinhuanet.com/2018-03/21/c_1122566682.htm)>

<sup>9</sup> Zhihao Wu, *A Brief Introduction to Chinese SMEs' Difficulties in Financing and Countermeasures*, Times Finance, February 2017, p102

While in regulations such as the original SME Promotion Law have encouraged the participation of SMEs in standard-setting and public procurement, the extent to which SMEs have actually benefitted from such policies is not clear.

These challenges are further exacerbated in the case of foreign SMEs due to a series of added difficulties these companies encounter when entering the Chinese market.

### 1.3.1 Challenges Faced by European SMEs in China

The *European Business in China Business Confidence Survey* (BCS 2018) surveyed 532 European companies based in China, with SMEs constituting the largest group of respondents at 52 per cent of the total.<sup>10</sup> Analysis of the responses shows that at 43 per cent, SMEs are the least likely group to see meaningful opening in their respective industries in the next five years, and also that 31 per cent of SMEs consider they are the least likely to ever see a level-playing field (**Annex I Graph 1**).

Regulatory obstacles remain one of the main challenges perceived by European companies (both SMEs and larger enterprises) when doing business in China, with the top three being ambiguous regulations, administrative issues and a discretionary enforcement of rules. Market access barriers and investment restrictions remain a significant obstacle to doing business in China for 27 per cent of the respondents, as do licensing requirements/registration processes for products and IPR protection for 25 per cent and 21 per cent of companies respectively.

Internet restrictions are also an important concern among respondents. Over half of the surveyed firms stated that they had suffered a negative impact on their business due to these restrictions. Many companies use virtual private networks (VPNs) to mitigate the effects of internet access restrictions, but only 23 per cent of SMEs say that government-approved VPN options are effective.

## 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 important developments in SME legislation and regulations. One of the key pieces of legislation in 2017 was the new SME Promotion Law, which was issued on 1<sup>st</sup> September 2017, and which came into force on 1<sup>st</sup> January 2018. The following sections will be dedicated to analysing the recent SME policy developments in China in the areas of finance and taxation, SME market development, administrative procedures and protection of the rights of SMEs.

### 2.1 Financing and Reduction of Financial Burden

#### 2.1.1 Financing

The SME Promotion Law includes a series of articles and measures in chapters 2 and 3 that present a variety of funding channels for SMEs, both public and private:

##### Public financing

Public financing is to be provided by the government at all levels through the establishment of special funds for SME development, which will have a focus on micro and small enterprises. These funds will be supervised and evaluated in order to ensure their proper and legal use. 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*

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<sup>10</sup> *Business Confidence Survey 2018*, European Chamber of Commerce in China 2018 p. 62, <<http://www.europeanchamber.com.cn/en/publications-business-confidence-survey>>

*Manufacturing 2025* (CM2025) (**Annex II**) also promotes the establishment of national and entrepreneurship funds for SMEs.

### 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. Thus, the revised SME Promotion Law encourages direct and indirect financing of SMEs by financial institutions and includes some new provisions in order to facilitate this type of financing. One of the new additions to this section is that such policies shall be supervised by the China Banking Regulatory Commission – after the reform the China Banking and Insurance Regulatory Commission (CBIRC) – which shall, among other things, work to improve the tolerability for bad loans and guide financial institutions to provide better services to SMEs<sup>11</sup>.

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). 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.<sup>12</sup> In 2017, the SME equity transfer system added 2,176 newly listed companies and raised CNY 133.6 billion, a decrease of 3.95 per cent over 2016.<sup>13</sup>

On indirect financing, the most important additions are a series of articles that provide for the usage of movable property and accounts receivable as collaterals for chattel secured financing<sup>14</sup>, and also provide for the encouragement of credit guarantee issuance. The promotion of usage of movable property as a financing channel for SMEs had previously been mentioned in the *Guiding Opinion on Further Promoting the Informatisation of Small and Medium Enterprises*, and, on 2<sup>nd</sup> May 2017, the People's Bank of China (PBOC), the Ministry of Industry and Information Technology (MIIT), the Ministry of Commerce (MOFCOM), the State-owned Assets Supervision and Administration Commission (SASAC), the then China Banking Regulatory Commission (now CBIRC) and the State Administration of Foreign Exchange (SAFE) jointly issued the *Work Plan for the Task Force of Accounts Receivable Financing of Micro and Small Enterprises (2017-2019)*, a three-year aid programme set to facilitate financing through accounts receivable for micro and small enterprises.<sup>15</sup>

During a State Council meeting on 20<sup>th</sup> June 2018, further measures to improve financing conditions for micro, small and medium-sized enterprises were discussed. The proposed measures included lowering the re-financing rates for micro and small businesses, implementing targeted cuts on banks' reserve requirement ratios to boost

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<sup>11</sup> *Law of the People's Republic of China on the Promotion of Small and Medium-sized Enterprises (2017)*, National People's Congress, 1<sup>st</sup> September 2017, viewed 18<sup>th</sup> May 2018 <[http://www.npc.gov.cn/npc/xinwen/2017-09/01/content\\_2027929.htm](http://www.npc.gov.cn/npc/xinwen/2017-09/01/content_2027929.htm)>

<sup>12</sup> *The NEEQ: A Stock Market for SMEs in China*, *China Briefing*, 8<sup>th</sup> June 2017, viewed 18<sup>th</sup> May 2018, <<http://www.china-briefing.com/news/2017/06/08/neeq-chinas-new-stock-market-smes.html>>

<sup>13</sup> *Statistical Communique of the People's Republic of China on the 2017 National Economic and Social Development*, National Bureau on Statistics of China, 28<sup>th</sup> February 2018, viewed 18<sup>th</sup> May 2018 <[http://www.stats.gov.cn/english/pressrelease/201802/t20180228\\_1585666.html](http://www.stats.gov.cn/english/pressrelease/201802/t20180228_1585666.html)>

<sup>14</sup> Also known as chattel mortgage: A type of financing using movable personal property rather than real estate as security.

<sup>15</sup> *Notice on Issuing the special action plan of accounts receivable financing for micro and small enterprises (2017-2019)* Ministry of Finance, Ministry of industry and Information Technology, Ministry of Commerce, State Council, China Banking Regulatory Commission, Foreign Exchange Bureau, 18<sup>th</sup> May 2017, viewed 18<sup>th</sup> May 2018 <<http://www.gov.cn/xinwen/2017-05/18/5194726/files/b3a316c760024818b6296d11584aa9d9.pdf>>

credit supply and ensuring that the state finance guarantee fund covers no less than 80 per cent of financing guarantees for micro and small enterprises.<sup>16</sup>

While the recent measures put forth constitute a positive development, some areas should be further addressed in order to have more comprehensive policies. One of them is developing and implementing regulatory measures for new financing solutions such as online loans in order to protect the rights of SMEs that use these channels.

Another issue where there is room for improvement is ensuring that both domestic and foreign SMEs have equal access to financing in China. The EU SME Centre reports that – due to their unique position within the system – European SMEs seeking financing channels in China experience additional obstacles that prevent them from obtaining it (**Annex II Case Study**).

### 2.1.2 Reduction of Financial Burden

Article 11 of the SME Promotion Law provides for the creation of favourable tax policies for SMEs. Some of the taxes where reduction or exemption is going to be applied are corporate income tax or value-added tax (VAT) among others.<sup>17</sup> On 20<sup>th</sup> October 2017, the State Administration of Taxation (SAT) announced that, in order to support micro and small enterprises, businesses with a monthly sales volume of between CNY 20,000 and CNY 30,000 would be exempted from VAT from 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2020.<sup>18</sup> Furthermore, during the executive meeting of the State Council on 28<sup>th</sup> March 2018, other measures to reduce the financial burden on SMEs were discussed, including a deepening of the VAT reform.<sup>19</sup> Further regimes of preferential tax policies are to be applied in different sectors so as to encourage entrepreneurship and innovation (see point 2.3.2.).

Another way of cutting down costs for SMEs is the reduction of administrative charges, provided for in article 12 of the SME Promotion Law.<sup>20</sup> This reduction should be carried at all levels, from national to local.

## 2.2 Administrative Procedures and Services

Regulatory costs and barriers are one of the main obstacles for SME development. Aside from measures such as reducing administrative charges, in recent years there has been progress in the reform of the entrepreneurial approval system, and transaction costs have been considerably lowered. During the 2018 ‘Two Sessions’, the State Council pledged to simplify the complex registration procedures for foreign-investment enterprises in its annual work report.<sup>21</sup> Also, during the press release of ‘Two Sessions’, Premier Li Keqiang stated that the government would work to cut unnecessary transactions in enterprise setting-up.<sup>22</sup> At the national level, articles

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<sup>16</sup> *Fiscal measures on the way to help small businesses*, State Council, 20<sup>th</sup> June 2018, viewed 21<sup>st</sup> June 2018, <[http://english.gov.cn/premier/news/2018/06/20/content\\_281476192651210.htm?mc\\_cid=6f5f0a9670&mc\\_eid=51671cb827](http://english.gov.cn/premier/news/2018/06/20/content_281476192651210.htm?mc_cid=6f5f0a9670&mc_eid=51671cb827)>

<sup>17</sup> *Law of the People's Republic of China on the Promotion of Small and Medium-sized Enterprises (2017)*, National People's Congress, 1<sup>st</sup> September 2017, viewed 18<sup>th</sup> May 2018 <[http://www.npc.gov.cn/npc/xinwen/2017-09/01/content\\_2027929.htm](http://www.npc.gov.cn/npc/xinwen/2017-09/01/content_2027929.htm)>

<sup>18</sup> *Notice on Continuing the VAT Policy of Micro and Small Enterprises*, State Administration of Taxation, 20<sup>th</sup> October 2017, viewed 18<sup>th</sup> May 2018, <<http://www.chinatax.gov.cn/n810341/n810755/c2897233/content.html#>>

<sup>19</sup> *Li Keqiang: This year we must ensure that the financing costs of micro and small enterprises come down!* State Council, 30<sup>th</sup> March 2018, viewed 18<sup>th</sup> May 2018, <[http://www.gov.cn/premier/2018-03/30/content\\_5278712.htm](http://www.gov.cn/premier/2018-03/30/content_5278712.htm)>

<sup>20</sup> Guo Linmao, Ma Xianghui (Editors) *People's Republic of China Small and Medium-sized Enterprises Promotion Law: Guidebook*, China Democracy and Legal System Publishing House, Beijing, 2017

<sup>21</sup> *Report on the Work of the Government*, Delivered at the First Session of the 13th National People's Congress of the People's Republic of China on March 5, 2018, viewed 21st May 2018 <<http://www.gov.cn/zhuanti/2018lh/2018zfgzbg/zfgzbg.htm>>

<sup>22</sup> Press of the first session of the 13th National People's Congress, Xinhua net, 20th March 2018, viewed 21st May 2018, <[http://www.xinhuanet.com/2018-03/21/c\\_1122566682.htm](http://www.xinhuanet.com/2018-03/21/c_1122566682.htm)>

27 and 31 of the SME Promotion Law already provide for the simplification and streamlining of the entrepreneurship approval and deregistration processes. Furthermore, the State Council published on 17<sup>th</sup> May 2018 the *Opinions on Further Compressing the Time for Starting a Business*<sup>23</sup>, which state that by the end of 2018 the length of time required for starting a business will be reduced nationally to 8.5 days. In order to achieve this goal, the *Opinions* set the following measures:

- Promoting the ‘one single window’ principle;
- streamlining corporate registration formalities;
- simplifying the seal production processes in order to consolidate multiple certificates into a single licence;
- improving procedures for obtaining invoices for the first time for new companies;
- optimising the social insurance registration procedures.

At the local level, initiatives to further simplify these administrative mechanisms have been put in motion. An example of efficiency improvement and cost reduction in terms of administrative procedures is that of Beijing. On 18<sup>th</sup> March 2018, the Beijing Administration for Industry and Commerce published the *Bureau Notice on Further Optimising the Business Environment and Improving the Efficiency of Enterprise Start-up*<sup>24</sup>, which provided for the development of an online business registration system that will be able to shorten the registration time from an average of 22 to up to five working days. According to Chinese officials from the Bureau, although the registration time will be slightly longer for foreign companies than for Chinese ones, the new system will still speed up the registration process for foreign businesses.<sup>25</sup>

Regarding services, the SME Promotion Law sets out to address issues like SME access to information with measures such as the creation of a cross-sectoral online policy information platform. The *Law* also encourages various kinds of service and higher education institutions to provide access for SMEs to other services such as trainings or consultations on financing, intellectual property (IP), foreign cooperation and project development among others.

## 2.3 SME Market Development

### 2.3.1 Talent Acquisition and Retention

According to Premier Li Keqiang, employment in China is a pressing issue. In 2017 there were 8.2 million college graduates – a record high number – as well as nearly 5 million high school graduates and almost a

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<sup>23</sup> *Opinions on Further Compressing the Time for Starting a Business*, State Council, 17<sup>th</sup> May 2018, viewed 25<sup>th</sup> May 2018 <[http://www.gov.cn/zhengce/content/2018-05/17/content\\_5291643.htm](http://www.gov.cn/zhengce/content/2018-05/17/content_5291643.htm)>

<sup>24</sup> *People's Daily: Beijing Releases “9+N Policy Package to Create the Most Optimized Environment for Service Companies*, Beijing People's Government, 22<sup>nd</sup> March 2018, viewed 18<sup>th</sup> April 2018 <<http://www.beijing.gov.cn/lqfw/gggs/t1515716.htm>>

<sup>25</sup> During a meeting organised by Invest Beijing on the policy interpretation of digitalisation of business registration and optimisation of Beijing's business environment in general that took place on 4<sup>th</sup> April 2018, the European Chamber asked a series of questions regarding the impact of the new measures on business registration for foreign companies. According to the Chinese officials attending the event, foreign companies can carry out part of the registration online with the help of legal counsel or their Chinese employees. However, it is recommended that foreign enterprises do parts of the process such as providing through off-line channels.

million retired military workers. In this respect, he stated that micro and small enterprises were the largest recipients of employment, and that thus, supporting enterprises was supporting employment<sup>26</sup>.

Article 37 of the SME Promotion Law states that the relevant governmental departments at county level and above shall guide college graduates to obtain employment in SMEs and induce innovative talents into SMEs by subsidizing, training and other means. Prior to the issuance of the SME Promotion Law, other regulations supporting talent acquisition for smaller enterprises had been set in place. For instance, according to the *Opinions of the State Council on Further Efforts Relating to Employment and Business Start-up under the New Conditions*, graduates who sign up labour contracts for more than a year shall be granted one-year social insurance subsidies.<sup>27</sup> The *Opinions of the State Council on Effectively Ensuring Employment and Entrepreneurship at Current and Future Periods* also encourages talent attraction for start-ups and smaller enterprises through the following measures, among others:

- encouraging graduate students to seek employment in SMEs through incentives such as tuition compensation or student loan subsidies; and
- providing one-time start-up subsidy pilot projects for first-time entrepreneurs, freelancers with businesses operating for more than a year, and students and workers with employment difficulties.<sup>28</sup>

Regarding the access of foreign professionals to the Chinese work market, the Human Resources Working Group of the European Union Chamber of Commerce in China (European Chamber) highlights the implementation of the *Notice on the Implementation of the Foreigners' Work Permit System in China* from 1<sup>st</sup> April 2017.<sup>29</sup> While the working group considers some of the measures outlined in the regulation a positive development, it also stresses that there are still significant obstacles for attracting senior and technical talents, as well as foreign interns.<sup>30</sup>

### 2.3.2 Innovation and Entrepreneurship

Bolstering indigenous innovation features prominently in many of China's development strategies such as CM2025 or *A New Generation of Artificial Intelligence Development Plan* (AI 2030)<sup>31</sup> (**Annex II**). The *Guiding Opinions on Further Promoting the Informatisation of Small and Medium Enterprises*<sup>32</sup> plays an important role in developing innovation for SMEs, especially through measures such as:

- encouraging large Information Technology (IT) companies to open up their resources for SMEs;
- supporting the use of IT for research and development (R&D) purposes;
- promoting the integration of IT technologies with traditional manufacturing methods.

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<sup>26</sup> Li Keqiang: *This year we must ensure that the financing costs of micro and small enterprises come down!* State Council, 30<sup>th</sup> March 2018, seen 18<sup>th</sup> May 2018, <[http://www.gov.cn/premier/2018-03/30/content\\_5278712.htm](http://www.gov.cn/premier/2018-03/30/content_5278712.htm)>

<sup>27</sup> *Opinions of the State Council on Further Efforts Relating to Employment and Business Start-up under the New Conditions*, State Council, 1<sup>st</sup> May 2015, viewed 18<sup>th</sup> May 2018 <[http://www.gov.cn/zhengce/content/2015-05/01/content\\_9688.htm](http://www.gov.cn/zhengce/content/2015-05/01/content_9688.htm)>

<sup>28</sup> *Opinions of the State Council on Effectively Ensuring Employment and Entrepreneurship at Current and Future Periods*, State Council, 19<sup>th</sup> April 2017, viewed 18<sup>th</sup> May 2018, <[http://www.gov.cn/zhengce/content/2017-04/19/content\\_5187179.htm](http://www.gov.cn/zhengce/content/2017-04/19/content_5187179.htm)>

<sup>29</sup> *Notice on the Implementation of the Foreigners' Work Permit System*, SAFEA, 6<sup>th</sup> April, 2017, entered into force on 1<sup>st</sup> April, 2017, viewed 18<sup>th</sup> May 2018, <<http://www.safea.gov.cn/content.shtml?id=12749533>>

<sup>30</sup> *European Business in China – Position Paper 2017/2018: Human Resources Working Group Position Paper*, European Union Chamber of Commerce, September 2017, viewed 18<sup>th</sup> May 2018 <<http://www.europeanchamber.com.cn/en/publications-position-paper>>

<sup>31</sup> *A New Generation of Artificial Intelligence Development Plan*, State Council, 20<sup>th</sup> July 2017, viewed 18<sup>th</sup> May 2018 <[http://www.gov.cn/zhengce/content/2017-07/20/content\\_5211996.htm](http://www.gov.cn/zhengce/content/2017-07/20/content_5211996.htm)>

<sup>32</sup> *Guiding Opinion on Further Promoting the Informatisation of Small and Medium Enterprises*, MIIT, January 2017, viewed 18<sup>th</sup> April 2018 <<http://www.miit.gov.cn/n1146295/n1652858/n1652930/n3757016/c5475728/content.html>>

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 the area of 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 (see the provisions indicated in sections 2.1.2. and 2.2.). Further measures include putting idle facilities to use for entrepreneurs as low-cost offices or implementing tax and fee reductions for college graduates and unemployed or disabled workers setting up micro and small enterprises.

Aside from the VAT rate adjustments announced earlier in the year, further measures to promote entrepreneurship and innovation through tax reductions were announced by the State Council on 25<sup>th</sup> of April 2018. Following the guidelines by the Central Economic Work Conference and the Government Work Report, the State Council introduced seven tax measures for micro and small enterprises that are estimated to lower the overall tax burden of these companies by CNY 60 billion.<sup>33</sup>

### 2.3.3 International Development

Since its inception, China's 'Going Global' policy and its derived measures have mainly supported the internationalisation of domestic SOEs. 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, and encouraging national policy-based financial institutions to develop their import-export credit business.

Aside from the SME Promotion Law, one of the most important recent policies providing the basis for SME international development is the *Five-Year Action Plan for Promoting the International Development of SMEs (2016-2020)*<sup>34</sup>. Some of the main measures outlined in the Plan include deepening and expanding bilateral and multilateral cooperation mechanisms on SMEs with industry organisations, governments and banks, and creating an information-sharing platform and promoting the international development of SMEs in key industries and along the BRI.

The *Notice of the Two Departments on Carrying out the Special Action for Supporting the Participation of SMEs in the Belt and Road Initiative*<sup>35</sup> (**Annex II**) further develops relevant measures for SME participation along the BRI. The *Notice* focuses on the following key points:

- supporting SMEs in their trade and investment endeavours;
- providing comprehensive services to SMEs; and
- enhancing the international competitiveness of SMEs.

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<sup>33</sup> 'Double Innovation' and micro and small enterprises welcome another CNY 60 billion tax reduction 'red envelope', State Council, 4<sup>th</sup> May 2018, viewed 25<sup>th</sup> May 2018 <[http://www.gov.cn/guowuyuan/2018-05/04/content\\_5287879.htm](http://www.gov.cn/guowuyuan/2018-05/04/content_5287879.htm)>

<sup>34</sup> *Five-Year Action Plan for Promoting the International Development of SMEs (2016-2020)*, Ministry of Industry and Information Technology, 1<sup>st</sup> August, 2016, viewed 18<sup>th</sup> May 2017, <<http://www.miit.gov.cn/n1146295/n1652858/n1652930/n3757016/c5180691/content.html>>

<sup>35</sup> *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, 27<sup>th</sup> July 2017, viewed 18<sup>th</sup> May 2018, <<http://www.miit.gov.cn/n1146295/n1652858/n1652930/n3757016/c5755651/content.html>>

In order to achieve these goals, the *Notice* outlines a series of specific measures. These include – among others – the creation of a “Belt and Road Initiative SME Cooperation Platform”<sup>36</sup>, the promotion of two-way investment through the creation of a cooperative zone for SMEs in China and partner countries, and the development of special trainings to help SMEs improve their management capabilities.

Looking at European business interest in the BRI, the *BCS 2018* shows that 55 per cent of the respondents see business opportunities along the BRI<sup>37</sup>. However, while the EU SME Centre is aware of a few success cases of SMEs participating in BRI projects, foreign companies and more concretely SMEs wanting to pursue these opportunities still face considerable challenges related to the availability of information regarding projects, funding and allocation of projects. There are also certain concerns held by the international community regarding the access opportunities for foreign companies in BRI projects vis-à-vis Chinese companies<sup>38</sup> that should be addressed in order to strengthen international cooperation for the project.

### 2.3.4 Competition and Procurement

In order to increase SME participation in government procurement, the *SME Law* sets a series of supporting measures in Article 40. These include reserving more than 30 per cent of the total government procurement budget for SMEs (of which no less than 60 per cent would be saved for micro and small enterprises) and other mechanisms such as the formulation of purchase requirement standards, offering price reviews or preferential procurement.

Ensuring fair competition and a level-playing field also features prominently within the SME Promotion Law. In fact, adhering to the ‘three equalities’ principle<sup>39</sup> is one of the underlying principles guiding the revision of the Law. Furthermore, Article 38 provides for the creation of a fair competition environment for SMEs, and in Article 39 cooperation between large and small enterprises is encouraged.

European institutions and organisations have long been sounding the alarm bells regarding the unequal access to procurement contracts in China that European companies experience. While as of June 2018 China is in the process of accession to the World Trade Organisation (WTO) Government Procurement Agreement (GPA), the main pieces of legislation regulating public procurement in China reflect the government’s protectionism and

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<sup>36</sup> China’s Belt and Road Initiative SME Cooperation Platform, viewed 18<sup>th</sup> May 2018 <[http://www.smefw.com/sfc1/show.action?code=activity\\_home\\_en](http://www.smefw.com/sfc1/show.action?code=activity_home_en)>

<sup>37</sup> *Business Confidence Survey 2018*, European Chamber of Commerce in China, 2018 p. 38, <<http://www.europeanchamber.com.cn/en/publications-business-confidence-survey>>

<sup>38</sup> One of the main concerns of foreign companies relates to access to BRI projects and the fairness in the allocation procedures, especially in projects financed by Chinese banks. “Out of all the contractors participating in Chinese-funded transportation projects tracked by the CSIS Reconnecting Asia Project, 89 percent are Chinese companies. In comparison, out of the contractors participating in projects funded by the World Bank and Asian Development Bank, 29 percent are Chinese, 40.8 percent are local, and 30.2 percent are foreign.” From *The Belt and Road’s Barriers to Participation*, CSIS, 7<sup>th</sup> February 2018, viewed 19<sup>th</sup> April 2018,

<<https://reconnectingasia.csis.org/analysis/entries/belt-and-road-barriers-participation/>>

<sup>39</sup> The ‘three equalities’ principle advocates for the provision of equal rights, opportunities and rules for various types of enterprises.

push for indigenous innovation. The clearest example of a discriminatory provision is Article 10 of the *Government Procurement Law of the People's Republic of China (2014 amendment)* (Procurement Law)<sup>40</sup>, which stipulates that government procurement shall be based on the procurement of domestic goods, projects and services unless a) such goods, projects or services cannot be obtained within the territory of China or under reasonable commercial conditions; b) the procurement is made for use outside of China; c) it is otherwise provided in other laws or administrative regulations. It is highly unlikely that European SMEs will be able to benefit from a market that even international MNCs have had considerable difficulties accessing.

## 2.4 Intellectual Property

On 22<sup>nd</sup> January 2017, the MIIT and the State Intellectual Property Office (SIPO) published the *Guiding Opinions on the Full Implementation of the Strategy for the Implementation of the Intellectual Property Strategy for SMEs*<sup>41</sup>. The *Guiding Opinions* sets forth the following seven key measures:

- implementing a patent navigation mechanism;
- establishing incentives to stimulate SME innovation;
- improving the efficiency and capability of SME IPR operations;
- strengthening the protection of IPR for SMEs;
- developing the IPR management capabilities of SMEs;
- deepening foreign exchanges and carrying out cross-border operations on SME IPR; and
- optimising the public service system on IPR for SMEs.

The SME Promotion Law also takes into consideration the importance of development, management and protection of IP for SMEs. As mentioned in section 2.1.1., IP now can potentially become a source of financing, since it can be used as movable property when requesting credits. In order to boost innovation, the development of technology and products with independent IP is encouraged. Finally, the State and the relevant departments at all levels are to provide IP-related services and guidance to SMEs.

Regarding enforcement of IP regulations, one of the most positive developments in recent years was the establishment of the Specialised IP Courts Pilot Project in Beijing, Shanghai and Guangzhou, and IP tribunals in various provinces in China.<sup>42</sup> At the end of August 2017, the Supreme People's Court (SPC) released a three-year report that assessed the value and contributions of the IP courts. The results were positive in terms of the volume and outcomes of cases accepted since 2014 (46,071). Furthermore, the SPC recommended the establishment of sole-judge benches deciding on simple civil and administrative IP cases in order to increase efficiency, as well as the creation of a specialised IP court at appellate level.<sup>43</sup> In general, China's push for innovation and entrepreneurship has led to a significant improvement in IPR enforcement, as perceived by

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<sup>40</sup> *Government Procurement Law of the People's Republic of China (2014 amendment)*, Ministry of Finance of the People's Republic of China, 31<sup>st</sup> August 2014, viewed 18<sup>th</sup> May 2018, <[http://jrs.mof.gov.cn/ppp/zcfbPPP/201410/t20141030\\_1155101.html](http://jrs.mof.gov.cn/ppp/zcfbPPP/201410/t20141030_1155101.html)>

<sup>41</sup> *Full Implementation of the Strategy for the Implementation of the Intellectual Property Strategy for SMEs*, Ministry of Industry and Information Technology, State Intellectual Property Office, 22<sup>nd</sup> January 2017, viewed 18<sup>th</sup> May 2018, <<http://www.miit.gov.cn/n1146295/n1652858/n1652930/n3757016/c5472285/content.html>>

<sup>42</sup> The IP court system was introduced in the second half of 2014 and has developed in terms of quality of judges and outreach capacity. There has been an expansion of the specialist IP adjudication system, via the recently created Special Inter-District IP Tribunals in Chengdu, Nanjing, Suzhou and Wuhan. In the second half of 2017, six intellectual property courts including Jinan, Fuzhou, Qingdao, Hefei, Hangzhou and Ningbo were established.

<sup>43</sup> *China Patents: IP Courts under Review*, Managing Intellectual Property, 28<sup>th</sup> September 2017, viewed 19<sup>th</sup> April 2018, <<http://www.managingip.com/Article/3755374/China-Patents-IP-courts-under-review.html>>

European companies. According to *BCS 2018*, the proportion of respondents who view IPR enforcement as adequate or excellent has increased from 13 per cent to 34 per cent between 2013 and 2018<sup>44</sup>.

Finally, an issue that will affect SMEs on issues related to IP is the recent government reshuffle announced during the 2018 ‘Two Sessions’. Under these reforms, the then State Intellectual Property Office (SIPO) overtook the then SAIC’s Function of Trademark Management and the then General Administration of Quality Supervision, Inspection and Quarantine’s (AQSIQ) Function of “Place of Origin” Label Management. SIPO now falls under the umbrella of the newly created State Administration for Market Regulation (SAMR).<sup>45</sup> These changes are expected to be positive for SMEs, as, since the registration and enforcement of IPR will be handled by one institution instead of several, there will be greater resources to enforce IP cases.<sup>46</sup>

## 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 through actions such as breaching their contract or defaulting on payments;
- ensuring local governments abide by relevant laws and do not force SMEs to participate in non-mandatory activities like trainings or appraisals; and
- standardising administrative fees and publishing a detailed catalogue to counter the charging of excessive fees.

The revised SME Promotion Law also provides for the establishment of regular inspections of SMEs, as well as for the evaluation of SME funds and the examination of infringements on SME rights. Furthermore, regular assessments on the developmental environment of SMEs are to be carried out by third parties at all levels.

## 3 Conclusion

As seen throughout the whole report, the policy environment for SMEs in China has undergone a significant transformation in the past year. Not only has SME development been taken into consideration within China’s main strategic plans (BRI, CM2025, AI 2030...), the SME Promotion Law – a key piece of legislation regarding SMEs – has been updated to properly address the current challenges faced by SMEs, and a series of supporting regulations have also been issued. The increased focus of the Chinese Government on SME development can also be seen in the appointment of a key leadership figure such as Liu He as the Chairman of the State Council Leading Small Group for Promoting the Development of Small and Medium Enterprises.<sup>47</sup>

Although as of now it is too early to assess the impact that many of the regulations recently issued will have on SMEs in China, it appears that proper implementation of such measures could potentially lead to an improvement of the situation for domestic SMEs. On paper significant progress has been made in most of the

<sup>44</sup> *Business Confidence Survey 2018*, European Chamber of Commerce in China, 2018 p. 20, <<http://www.europeanchamber.com.cn/en/publications-business-confidence-survey>>

<sup>45</sup> State Intellectual Property Office, *Organisation*, 10<sup>th</sup> April 2018, viewed 17<sup>th</sup> July 2018, <<http://www.sipo.gov.cn/gk/gkzzjg/1121359.htm>>

<sup>46</sup> Jurgenson, Helika, *Structural Changes in IPR Registration and Enforcement Bodies in China*, 2<sup>nd</sup> April 2018, viewed 18<sup>th</sup> May 2018, <<http://www.youripinsider.eu/structural-ipr-registration-enforcement-bodies-china/>>

<sup>47</sup> *Notice of the General Office of the State Council on Adjusting the State Council Leading Group to Promote the Development of SMEs*, State Council, 20<sup>th</sup> June 2018, viewed 21<sup>st</sup> June 2018 <[http://www.gov.cn/zhengce/content/2018-06/20/content\\_5299868.htm?mc\\_cid=6f5f0a9670&mc\\_eid=51671cb827](http://www.gov.cn/zhengce/content/2018-06/20/content_5299868.htm?mc_cid=6f5f0a9670&mc_eid=51671cb827)>

areas covered in the report, from financing to innovation support. However, as mentioned before the success of many of these provisions is contingent on proper enforcement and implementation.

As for the situation of foreign SMEs (specifically European SMEs) operating in China, some of the recent regulatory developments in areas such as IPR or administrative processes have either tangentially benefitted them or (in the case of measures such as Beijing's *Bureau Notice on Further Optimising the Business Environment and Improving the Efficiency of Enterprise Start-up*) have the potential to tangentially benefit them. Nonetheless, there is undoubtedly room for improvement. In many areas 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.

While the SME-related policy developments in the past years have in the most part been positive, the work of European institutions, business associations and European-funded projects such as the EU SME Centre and the IPR SME Helpdesk is still indispensable in order to continue giving voice to the European SMEs operating in China and ensuring a level-playing field vis-à-vis their Chinese counterparts.

## **4 Abbreviations**

AI	Artificial Intelligence
AQSIQ	General Administration of Quality Supervision, Inspection and Quarantine
BCS	Business Confidence Survey
CBIRC	China Banking and Insurance Regulatory Commission
CCPIT	China Council for the Promotion of International Trade
CM2025	China Manufacturing 2025
CNY	Chinese Yuan
EU	European Union
EUR	Euro
GDP	Gross Domestic Product
GPA	Government Procurement Agreement
ICT	Information and Communication Technology
IP	Intellectual Property
IPR	Intellectual Property Rights
R&D	Research and Development
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
BRI	Belt and Road Initiative
PBOC	People's Bank of China
PRC	People's Republic of China
SASAC	State-owned Assets Supervision and Administration Commission
SAIC	State Administration of Industry and Commerce
SAT	State Administration of Taxation
SAFE	State Administration of Foreign Exchange
SAMR	State Administration for Market Regulation
SIPO	State Intellectual Property Office
SME	Small and Medium-sized Enterprise
SOE	State-owned enterprise

SPC	Supreme People's Court
VAT	Value-added Tax
VPN	Virtual Private Network
WTO	World Trade Organisation

## 5 Annex I: Tables and Graphs

Table 1: Statistical criteria for the classification of micro, small, medium and large enterprises (2017) <sup>48</sup>

<i>Sector name</i>	<i>Index</i>	<i>Measurement</i>	<i>Large</i>	<i>Medium</i>	<i>Small</i>	<i>Micro</i>
<i>Agriculture, forestry, animal husbandry and fishery</i>	Operating Income(Y)	Ten Thousand Yuan	$Y \geq 20000$	$500 \leq Y < 20000$	$50 \leq Y < 500$	$Y < 50$
<i>Industry</i> <sup>49</sup>	Employees(X)	People	$X \geq 1000$	$300 \leq X < 1000$	$20 \leq X < 300$	$X < 20$
	Operating	Ten Thousand	$Y \geq 40000$	$2000 \leq Y < 40000$	$300 \leq Y < 2000$	$Y < 300$
<i>Construction</i>	Operating	Ten Thousand	$Y \geq 80000$	$6000 \leq Y < 80000$	$300 \leq Y < 6000$	$Y < 300$
	Total Assets(Z)	Ten Thousand	$Z \geq 80000$	$5000 \leq Z < 80000$	$300 \leq Z < 5000$	$Z < 300$
<i>Wholesale</i>	Employees(X)	People	$X \geq 200$	$20 \leq X < 200$	$5 \leq X < 20$	$X < 5$
	Operating	Ten Thousand	$Y \geq 40000$	$5000 \leq Y < 40000$	$1000 \leq Y < 5000$	$Y < 1000$
<i>Retail</i>	Employees(X)	People	$X \geq 300$	$50 \leq X < 300$	$10 \leq X < 50$	$X < 10$
	Operating Income(Y)	Ten Thousand Yuan	$Y \geq 20000$	$500 \leq Y < 20000$	$100 \leq Y < 500$	$Y < 100$
	Employees(X)	People	$X \geq 1000$	$300 \leq X < 1000$	$20 \leq X < 300$	$X < 20$

<sup>48</sup> Statistical criteria for the classification of large, medium, and small micro-enterprises (2017), National Bureau of Statistics of the People's Republic of China, viewed 18<sup>th</sup> May 2018, <[http://www.stats.gov.cn/tjsj/tjbz/201801/t20180103\\_1569357.html](http://www.stats.gov.cn/tjsj/tjbz/201801/t20180103_1569357.html)>

<sup>49</sup> 'Industry' includes mining, manufacturing, and electricity, heating, gas and water production/supply industries.

<i>Transportation</i> <sup>50</sup>	Operating Income(Y)	Ten Thousand	$Y \geq 30000$	$3000 \leq Y < 30000$	$200 \leq Y < 3000$	$Y < 200$
<i>Storage/Warehousing</i> <sup>51</sup>	Employees(X)	People	$X \geq 200$	$100 \leq X < 200$	$20 \leq X < 100$	$X < 20$
	Operating Income(Y)	Ten Thousand	$Y \geq 30000$	$1000 \leq Y < 30000$	$100 \leq Y < 1000$	$Y < 100$
<i>Postal services</i>	Employees(X)	People	$X \geq 1000$	$300 \leq X < 1000$	$20 \leq X < 300$	$X < 20$
	Operating Income(Y)	Ten Thousand	$Y \geq 30000$	$2000 \leq Y < 30000$	$100 \leq Y < 2000$	$Y < 100$
<i>Board &amp; lodging</i>	Employees(X)	People	$X \geq 300$	$100 \leq X < 300$	$10 \leq X < 100$	$X < 10$
	Operating Income(Y)	Ten Thousand	$Y \geq 10000$	$2000 \leq Y < 10000$	$100 \leq Y < 2000$	$Y < 100$
<i>F&amp;B</i>	Employees(X)	People	$X \geq 300$	$100 \leq X < 300$	$10 \leq X < 100$	$X < 10$
	Operating Income(Y)	Ten Thousand	$Y \geq 10000$	$2000 \leq Y < 10000$	$100 \leq Y < 2000$	$Y < 100$
<i>Information Transmission</i> <sup>52</sup>	Employees(X)	People	$X \geq 2000$	$100 \leq X < 2000$	$10 \leq X < 100$	$X < 10$
	Operating Income(Y)	Ten Thousand Yuan	$Y \geq 100000$	$1000 \leq Y < 100000$	$100 \leq Y < 1000$	$Y < 100$
<i>ICT</i>	Employees(X)	People	$X \geq 300$	$100 \leq X < 300$	$10 \leq X < 100$	$X < 10$
	Operating Income(Y)	Ten Thousand Yuan	$Y \geq 10000$	$1000 \leq Y < 10000$	$50 \leq Y < 1000$	$Y < 50$
<i>Real Estate</i>	Operating Income(Y)	Ten Thousand Yuan	$Y \geq 200000$	$1000 \leq Y < 200000$	$100 \leq Y < 1000$	$Y < 100$
	Total Assets(Z)	Ten Thousand Yuan	$Z \geq 10000$	$5000 \leq Z < 10000$	$2000 \leq Z < 5000$	$Z < 2000$
	Employees(X)	People	$X \geq 1000$	$300 \leq X < 1000$	$100 \leq X < 300$	$X < 100$

<sup>50</sup> ‘Transportation’ includes road transportation, water transportation, air transportation, pipeline transportation, multimodal transport and transportation agency, loading and unloading. Railway transportation is not included.

<sup>51</sup> ‘Storage/Warehousing’ includes general warehousing, low temperature warehousing, dangerous goods warehousing, grain and cotton warehousing, Chinese medicinal materials warehousing and other warehousing.

<sup>52</sup> ‘Information Transmission’ includes telecommunications, radio and television and satellite transmission services, internet and related services.

<i>Property Management</i>	Operating Income(Y)	Ten Thousand Yuan	$Y \geq 5000$	$1000 \leq Y < 5000$	$500 \leq Y < 1000$	$Y < 500$
<i>Leasing and Business Services</i>	Employees(X)	People	$X \geq 300$	$100 \leq X < 300$	$10 \leq X < 100$	$X < 10$
	Total Assets(Z)	Ten Thousand Yuan	$Z \geq 120000$	$8000 \leq Z < 120000$	$100 \leq Z < 8000$	$Z < 100$
<i>Other industries not listed<sup>53</sup></i>	Employees(X)	People	$X \geq 300$	$100 \leq X < 300$	$10 \leq X < 100$	$X < 10$

**Table 2: Classification of micro, small and medium enterprises by the EC<sup>54</sup>**

	<i>Medium</i>	<i>Small</i>	<i>Micro</i>
<i>Employees (X)</i>	$50 \leq X < 250$	$10 \leq X < 50$	$X < 10$
<i>Annual turnover (Y) – million EUR</i>	$10 \leq X < 50$	$2 \leq X < 10$	$X < 2$
<i>Balance Sheet (Z) – million EUR</i>	$10 \leq X < 43$	$2 \leq X < 10$	$X < 2$

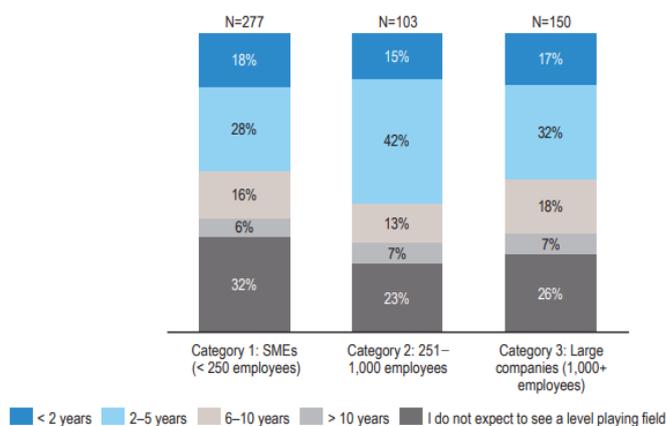
<sup>53</sup> ‘Other industries not listed’ includes scientific research and technology services, water conservancy, environmental and public facilities management, residential services, repair and other services, social work, culture, sports and entertainment, and real estate and its intermediary services (excluding private real estate business activities).

<sup>54</sup> Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (C(2003) 1422) Articles 1, 2 and 3, viewed 18<sup>th</sup> May 2018 <<http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32003H0361&from=EN>>

**Graph 1: One third of SMEs (<250 employees) do not believe a level playing field will ever exist<sup>55</sup>**

When do you expect to see a level playing field for foreign and Chinese companies through the provision of national treatment in your industry?

Comparison by company size



<sup>55</sup> *Business Confidence Survey 2018*, European Chamber of Commerce in China 2018, June 2018, p. 62, <<http://www.europeanchamber.com.cn/en/publications-business-confidence-survey>>

## 6 Annex II: SMEs within China's Strategic Frameworks and Case Study

### SMEs within China's strategic framework

#### **SMEs in the 13<sup>th</sup> Five-Year Plan (including the *Plan for Promoting the Development of SMEs (2016-2020)* and the *Five-Year Action Plan for Promoting the International Development of SMEs (2016-2020)*)**

Much of the content related to SMEs enshrined in the 13<sup>th</sup> Five-Year Plan (13<sup>th</sup> FYP) and its supporting documents – the *Plan for Promoting the Development of SMEs (2016-2020)* and the *Five-Year Action Plan for Promoting the International Development of SMEs (2016-2020)* – addresses the innovation and upgrading of SMEs. Thus, some of the main provisions in the 13<sup>th</sup> FYP are the support of specialized SMEs and the guiding of large internet enterprises in making innovation resources available.

The *Plan for Promoting the Development of SMEs (2016-2020)* provides for the development of SME entrepreneurship through the setting up of incubators and accelerators. It also supports innovation in SMEs and encourages the implementation of the *Internet Plus Action Plan* (see below) and collaborative innovation between SMEs, research and development (R&D) institutions and academia. The Plan also provides for the improvement of supply and the endorsement for transformation through promoting the participation of SMEs in standard-setting as well as the specialization of SMEs in the key areas outlined in *China Manufacturing 2025* (see below). Finally, it supports the development of domestic and foreign markets through ensuring a level-playing field and promoting the SME 'going out' strategy, and it aims to promote the transformation of functions and improve services through a high-efficiency/low-cost strategy.<sup>56</sup>

The *Five-Year Action Plan for Promoting the International Development of SMEs (2016-2020)* sets out to strengthen both MIIT's and the Bank of China's (BOC) deepening and expanding of bilateral and multilateral cooperation mechanisms on SMEs with industry organisations, governments and banks. The Plan also provides for the creation of a service platform for information sharing on industrial policies, regulatory trends and guidelines, and the development of docking and cross-border match-making facilities. Another focus of the document is the active promotion of SME development in key industries and in specially designated projects such as the Belt and Road Initiative (BRI), as well as the support of SME participation in international fairs and exhibitions. The optimisation of financial services and innovative support methods are also important provisions in the Plan, which encourages the establishment of funds at the regional and local level, as well as the development of a differentiated credit policy and the pilot use of cross-border RMB loans for SMEs. Finally, the Plan sets out to strengthen organisational leadership and enterprise management in order to ensure the effective implementation of the measures.<sup>57</sup>

#### **SMEs in *China Manufacturing 2025* (CM2025)**

The importance of access to funding is one of the key issues underlined by CM2025 when it comes to SMEs. To that end the document<sup>58</sup> promotes the establishment of national funds and the development of preferential

<sup>56</sup> *Plan for Promoting the Development of SMEs (2016-2020)*, MIIT, 5<sup>th</sup> July, 2016, viewed 20<sup>th</sup> May 2017, <<http://www.miit.gov.cn/n1146290/n4388791/c5081157/content.html>>

<sup>57</sup> *Five-Year Action Plan for Promoting the International Development of SMEs (2016-2020)*, MIIT, 1<sup>st</sup> August 2016, viewed 20<sup>th</sup> May 2017, <<http://www.miit.gov.cn/n1146295/n1652858/n1652930/n3757016/c5180691/content.html>>

<sup>58</sup> *Notice on Issuing Made in China 2025*, State Council, 2015, viewed 30<sup>th</sup> April 2018, <[http://www.gov.cn/zhengce/content/2015-05/19/content\\_9784.htm](http://www.gov.cn/zhengce/content/2015-05/19/content_9784.htm)>

tax and financing policies. Banks and other financial entities are encouraged to provide innovative financial services that cater to SMEs, such as IP loans and credit guarantee systems.

Another issue of key importance for the development of SMEs presented in the document is the promotion of SME specialisation in niche markets and of innovation through the establishment of entrepreneurship funds and the strengthening of the cooperation between SMEs and R&D institutions, as well as the coordination between MNCs and SMEs on outsourcing and division of work. Finally, lowering costs on IP licensing and protection, and creating a comprehensive services platform for SMEs are also two measures provided for in CM2025.

### **SMEs in the *Internet Plus Action Plan***

The *Internet Plus Action Plan (Internet Plus)*<sup>59</sup> was issued on the 4<sup>th</sup> of July 2015, and it aims to foster economic development through the integration of Internet in traditional industries. On this issue, the MIIT released on the 24<sup>th</sup> of January, 2017, the *Guiding Opinions on Further Promoting the Informatisation of Small and Medium Enterprises* with the goal of increasing the level of informatisation of SMEs by 2020.<sup>60</sup> One of the main measures enshrined in the *Guiding Opinions* consists of encouraging SMEs to use IT for R&D purposes by reducing the costs of research and creating an open internet platform to gather R&D resources. Another important measure includes encouraging large IT companies to open their resources and provide services to SMEs. The usage of movable property for credit is also promoted, as well as the development of innovative financing such as internet loans or crowdfunding and the creation of collection channels for credit information.

### **SMEs in A New Generation of Artificial Intelligence Development Plan**

A *New Generation of Artificial Intelligence Development Plan (AI 2030)* supports the development of SMEs through the implementation of tax incentives for SMEs and start-ups in the AI sector, the promotion of the development of AI in SMEs and the creation of a platform and of service agencies to support AI innovation and entrepreneurship.<sup>61</sup>

### **SMEs in the Belt and Road Initiative**

Regarding the Belt and Road Initiative (BRI), On 27<sup>th</sup> July 2017, the MIIT and the China Council for the Promotion of International Trade (CCPIT) published the Notice of the Two Departments on Carrying out the Special Action for Supporting the Participation of SMEs in the Belt and Road Initiative. Its aim is to boost SME involvement and performance throughout the BRI, thus supporting the ‘going out and bringing in’ strategy. The main measures for promoting SME participation in the BRI are as follows:

SMEs are to be supported in their trade and investment endeavours in countries along the route through several different measures, such as promoting their participation in domestic and international exhibitions, establishing a Belt and Road Initiative SME Cooperation Platform, encouraging SMEs to use e-commerce to develop in

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<sup>59</sup> *State Council's Guiding Opinions on Actively Promoting Internet + Action Plan*, State Council, July 2015, viewed 18<sup>th</sup> April 2018 <[http://www.gov.cn/zhengce/content/2015-07/04/content\\_10002.htm](http://www.gov.cn/zhengce/content/2015-07/04/content_10002.htm)>

<sup>60</sup> *Guiding Opinion on Further Promoting the Informatisation of Small and Medium Enterprises*, MIIT, January 2017, viewed on 18<sup>th</sup> April 2018 <<http://www.miit.gov.cn/n1146295/n1652858/n1652930/n3757016/c5475728/content.html>>

<sup>61</sup> *A New Generation of Artificial Intelligence Development Plan*, State Council, 20<sup>th</sup> July 2017, viewed on 18<sup>th</sup> April 2018 <[http://www.gov.cn/zhengce/content/2017-07/20/content\\_5211996.htm](http://www.gov.cn/zhengce/content/2017-07/20/content_5211996.htm)>

the international market, and promoting two-way investment through the creation of a cooperative zone for SMEs in China and partner countries.

Services are to be provided to SMEs through a platform that provides relevant information and by strengthening international legal services, such as early warning mechanisms or legal advisory hotlines for internationally-funded SMEs, among others.

The international competitiveness of Chinese SMEs is to be enhanced by special training to help SMEs improve their management capabilities, enhance the overseas influence of Chinese brands and guide them in navigating and regulating overseas business activities.

In addition, a special working group will also be created by the CCPIT, which will draft annual progress reports, and bilateral cooperation with SME organs and institutions will be strengthened.

### **Case Study: European SME has trouble with access to financing in China**

A successful European SME in the services sector doing business in China tried to apply for a loan in order to cover cash flow. However, it encountered a series of difficulties that ultimately made it impossible to be granted any credit from financial institutions, both Chinese and foreign.

The process followed by this SME was to first look for financing from Chinese banking institutions. However, due to the small size of the company vis-à-vis a Chinese SME, it was not able to meet the financial requirements the Chinese banks had established in order to provide a loan. The next step the company took was to try and obtain assistance from a financial institution in its home country. The issue in this case was that the SME's holding was not based in the home country and consequently the SME did not have any relationship with the financial institutions there. Given the fact that foreign banking institutions in China can grant loans only through their local partners, therefore ensuring the financial coverage in the home country, it was impossible for them to grant the loan to the SME. This cannot happen if the holding is not based in the mother country and has a financial history with the non-Chinese bank there.

According to that SME, the only avenues for financing they were left with were to ask its shareholders for a capital injection, to look for a Chinese partner providing the capital or to work with accelerators and incubators that would provide financing on a project-by-project basis. The third option is a possibility that remains to be further explored, as such a system tends to focus more on products than on services.

## 7 Annex III: SME Stakeholder Mapping

### China SME Stakeholders<sup>62</sup>

#### 1. SME Bureau of Ministry of Industry and Information Technology (工信部中小企业局)

The SME Bureau of MIIT offers macro guidance to SMEs, works together with other relevant parties to formulate policies and measures, advance outward exchange and cooperation, establish as well as improve service systems, and coordinate to resolve relevant major issues to promote the development of SMEs and the non-state economy.

Website: <http://www.miit.gov.cn/n1146285/n1146352/n3054355/n3057527/index.html>

##### a) China SME Online (中国中小企业信息网)

As an affiliated media organization of MIIT, the China SME Information Portal uses advanced technology to collect and release relevant information to direct SME management departments at all levels and intermediary organizations to provide services for SMEs and deploy relative works, with the aim of promoting and supporting the healthy development of SMEs and the non-state-owned economy.

Website: <http://www.sme.gov.cn/>

#### 2. Chinese Association of Small and Medium Enterprises (中国中小企业协会)

It is a non-profit organization voluntarily formed by SMEs, big enterprises that support the development of SMEs, and relevant scholars. With the aim of whole-heartedly serving SMEs, the association makes efforts to serve as the bridge between government and enterprises, offering proposals and suggestions to the State Council to create a sound market environment for SMEs.

Website: <http://www.ca-sme.org/>

#### 3. China Centre for Promotion of SME Development & China International Cooperation Association of Small and Medium Enterprises (中国中小企业发展促进中心&中国中小企业国际合作协会)

CICASME is a national non-profit social organization as legal person voluntarily formed by SMEs with the status of legal person, organizations engaging in SMEs' international cooperation and service, staff in SMEs, social celebrities paying attention to SMEs' international cooperation. It is one of the organizers of the APEC SME Technology Conference and Fair, China International SME Trade Fair and APEC SME Industrial and Commercial Forum, and the superior organization of the Enterprises Credit Assessment Service Platform of CICASME

Website: <http://www.chinasme.org.cn/>

##### a) China SME Magazine (中国中小企业杂志)

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<sup>62</sup> Disclaimer: this list is not exhaustive, only some of the most relevant SME stakeholders from both the EU and China are listed.

As an affiliated medium, this monthly publication focuses on SME issues, advocates for more efficient policies for SMEs, reflects the trends in the development of SMEs and acts as a channel of information-sharing among SMEs worldwide and a communication bridge connecting government and SMEs.

**b) Enterprises Credit Assessment Service Platform of CICASME (中国中小企业国际合作协会企业信用评价服务平台)**

As an affiliated service platform, its main duty is to assist the government in improving the SME service system and carrying out SME credit rating assessments.

Website: <http://www.necep.cn/AboutUs>

**4. China Association for Small & Medium Commercial Enterprises (中国中小商业企业协会)**

CASMCE is composed of SMEs engaged in manufacturing, distribution, technological development processing and institutions and persons carrying out relevant specialized services for SMEs. It is one of the organizers of the Annual Meeting of SME Entrepreneurs of China (中国中小企业家年会) which is the grand meeting for SMEs nationwide.

Website: <http://www.zxsx.org/>

**5. China-Asia Economic Development Association Enterprise Promotion Committee (中国亚洲经济发展协会中小企业促进会)**

China-Asia Economic Development Association, the superior organization of CAEPC, is founded to consolidate economic cooperation in the Asia area, boost friendship and serve China's diplomatic and economic construction. Led by the Ministry of Foreign Affairs, it is the successor of the "China, Japan and Korean Economic Development Association".

Website: <http://www.ca-epc.org/>

**6. China Center for SME Cooperation Development & Promotion (中国中小企业合作发展促进中心)**

CCSCDP is one of the major members of the national SME service system. It is led by the SME National Council comprising relevant government officials, scholars and enterprises. The council holds conventions once a year. The Centre offers consultancy, financial cooperation, international exchange and training for SMEs. It also offers electronic periodical *Economy Daily* and magazines like *Entrepreneurs* to SMEs and council members.

Website: [www.smec.org.cn](http://www.smec.org.cn)

**7. Hua Xia Bank (华夏银行)**

Founded in October 1992, Hua Xia Bank was the 5th listing bank in China. It sticks to its position of financial service provider for SMEs, supports the real economy and fulfils social responsibility. It has won "SME Support Award", "Advanced Financial Service Unit of Small and Micro Enterprises" and other awards many times.

Website: <http://www.hxb.com.cn/index.shtml>

#### **8. National Equities Exchange and Quotations (全国中小企业股份转让系统)**

National Equities Exchange and Quotations is the 3rd national securities exchange and the 1st securities exchange operated in company system. Its main responsibility includes providing securities exchange system and facilities, formulating and revising rules in national equities exchange system and so on.

Website: <http://www.neeq.com.cn/company/introduce.html>

#### **9. The Research Center for SMEs & Entrepreneurship, Chinese Academy of Social Sciences (中国社会科学院中小企业研究中心)**

The Research Center is established to give full play to the advantages of academic research, policy research and advisory service, organize institutions and scholars to carry out research and consultancy toward SMEs, promote the development and innovation of theory and practice of SMEs and provide a good academic and information exchange platform.

Website: <http://www.china-sme.org/>

#### **10. Annual Meeting of SME Entrepreneurs of China (中国中小企业家年会)**

The annual meeting is aimed at offering a high-level dialogue platform for government, enterprises and scholars to discuss the issues like the transformation and upgrading of SMEs and solving problems for them.

Website: <http://www.cc100.org/index.asp>

#### **11. China SME investment & Finance EXPO (中国中小企业投融资交易会)**

SME IFEX is the only national and specialized exposition serving SMEs' financing and investment. It is held every July in Beijing since 2015.

Website: <http://www.sme-ifex.com>

#### **12. China International Small and Medium Enterprises Fair (中国国际中小企业博览会)**

With government support and market operation, CISMEF is a non-profit exhibition that aims to build a platform of "display, trade, exchange and cooperation" for SMEs home and abroad so as to increase understanding, strengthen cooperation, expand exchanges and strike common development for China's SMEs and their foreign counterparts, which enhance the healthy development of SMEs in China.

Website: <http://www.cismef.com.cn/>

#### **13. APEC SME Technology Conference and Fair (亚太经合组织中小企业技术交流暨展览会)**

It is the large-scale international economic and cultural exchange event hosted by MIIT, undertaken by China International Cooperation Association of Small and Medium Enterprises (CICASME) and supported by Ministry of Foreign Affairs, Ministry of Science and Technology, and Ministry of Commerce. It adheres to

the theme of “Technology improves the economy, and cooperation creates the future” and has become one of the APEC SME brand events.

Website: <http://www.apecsmetc.org.cn/>

#### **14. SME Service Alliance of China (全国中小企业服务联盟)**

It is a national alliance organization comprising local SME service institutions. Its purpose is to help government at all levels implement SME Promotion Law, improve SME service systems and networks and coordinate SME service institutions to offer high-quality service to SMEs.

Website: <http://www.smepsp.com/Solutions/>; <http://www.smepsp.com/>

#### **15. Bank of China Global SME Cross-border Integration System (中银全球中小企业跨境撮合服务)**

Bank of China’s matchmaking services aim to connect successful Chinese and overseas SMEs and provide them with comprehensive financial services in six steps. In the first step, BOC establishes a cooperation mechanism between departments of commerce, science and technology, and agriculture of Chinese provinces and cities and their overseas counterparts, as well as banks and chambers of commerce to help SMEs build international cooperation and establish a database. Second, BOC exchanges information with its foreign counterparts and connects SMEs according to their needs. Third, it helps the SMEs communicate online to determine the suitability of the "matchmaking". In the fourth step, the bank organizes on-site negotiations for interested SMEs. In the fifth, it arranges for the companies to visit and know more about their overseas counterparts. And in the last step, it provides various financial services for the companies.

Website: <http://www.boc.cn>

### **EU SME Stakeholders**

#### **1. REFIT**

The Regulatory Fitness and Performance Programme (REFIT) launched in December 2012 is a programme aimed to make EU law lighter, simpler and less costly so that it benefits citizens and businesses and helps to create the conditions for growth and jobs.

With regard to SMEs, REFIT is involved in 'Minimizing regulatory burden for SMEs - Adapting EU regulation to the needs of micro-enterprises', to ensure that the EU responds better to the needs of small businesses.

Website: [http://ec.europa.eu/smart-regulation/refit/simplification/sme/sme\\_en.htm](http://ec.europa.eu/smart-regulation/refit/simplification/sme/sme_en.htm)

#### **2. EASME**

The Executive Agency for Small and Medium-sized Enterprises (EASME) has been set-up by the European Commission to manage on its behalf several EU programmes.

Website: <https://ec.europa.eu/easme/en/about-easme>

##### **a) YEB**

Your Europe Business is an EU portal designed to help Small and Medium-sized Enterprises do business cross-border and take advantage of the European Single Market.

Website: <https://ec.europa.eu/easme/en/your-europe-business>

### **3. SME Assembly**

The SME Assembly is the most significant event for small and medium-sized enterprises (SMEs) in Europe. The conference takes place once a year during the European SME Week. Together with the network of SME Envoys, the assembly creates the governance structure of the Small Business Act.

Website: [http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/sme-assembly\\_en](http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/sme-assembly_en)

### **4. EUROCHAMBRES**

EUROCHAMBRES represents over 20 million businesses in Europe through 46 members and a European network of 1700 regional and local chambers. More than 93% of these businesses are small and medium sized enterprises (SMEs). EUROCHAMBRES strives to improve the general conditions in which businesses operate, to facilitate access to markets within and beyond the EU and to ensure the availability of human, financial and natural resources.

Website: <http://www.eurochambres.eu/Content/default.asp?pagename=WhoWeAre>

### **5. DG DEVCO**

The Commission's Directorate-General for International Cooperation and Development (DG DEVCO) is responsible for designing European international cooperation and development policy and delivering aid throughout the world.

DG DEVCO is in charge of development cooperation policy in a wider framework of international cooperation, adapting to the evolving needs of partner countries.

Website: [https://ec.europa.eu/europeaid/general\\_en](https://ec.europa.eu/europeaid/general_en)

### **6. DG GROW**

DG GROW's responsibilities were previously covered by the Directorate-General for Internal Market (DG MARKT) and the Directorate-General for Enterprise and Industry (DG ENTR).

DG GROW develops and carries out the Commission's policies on business and industry, as well as Single Market.

Website: [https://ec.europa.eu/info/departments/internal-market-industry-entrepreneurship-and-smes\\_en](https://ec.europa.eu/info/departments/internal-market-industry-entrepreneurship-and-smes_en)

### **7. EEN**

The Enterprise Europe Network helps SMEs and entrepreneurs access market information, overcome legal obstacles, and find potential business partners across Europe.

Website: <https://een.ec.europa.eu/>

## **8. SME Envoys Network**

The network of SME Envoys was set up in 2011 as part of the review of the Small Business Act. Each EU country has nominated a national SME Envoy to complement the role of the EU SME Envoy who chairs the network. The group of SME Envoys makes up an SBA advisory group that promotes SME friendly regulation and policy making in all EU countries.

Website: [http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/sme-envoys\\_en](http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/sme-envoys_en)

## **9. The EU SME Centre in China**

The EU SME Centre in China is an EU-funded project that has been offering European SMEs services to help them operate successfully in China since 2010. It provides valuable background information to companies and intermediary organisations via market reports, guidelines, trainings, advice and events among others.

Website: <http://www.eusmecentre.org.cn/>

## **10. The IPR SME International Helpdesks**

The IPR SME International Helpdesks support EU SMEs to protect and enforce their Intellectual Property (IP) rights in or relating to China, Latin America and South-East Asia through the provision of free information and services.

Website: <http://www.ipr-hub.eu/>

## **11. Export Helpdesk**

The EU Trade Helpdesk helps exporters in their trade partner countries with the information they need.

Website: <http://trade.ec.europa.eu/tradehelp/>

## About the EU SME Centre

The EU SME Centre helps EU SMEs get ready for China by providing them with a range of information, advice, training and support services. To find out more, visit: [www.eusmecentre.org.cn](http://www.eusmecentre.org.cn).



China-Britain  
Business Council  
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Camera di Commercio Italiana in Cina  
中国意大利商会  
China-Italy Chamber of Commerce



CCI FRANCE CHINE  
中国法国工商会



EUROCHAMBRES



THE EUROPEAN UNION  
CHAMBER OF COMMERCE IN CHINA  
中欧贸易商会

### *Need more help?*

The EU SME Centre provides a range of **China Business Solutions**, including:

- Tailored China market research
- Company verification
- Customised step-by-step guide to exporting to China
- Importer/distributor search, and others

Read more about China Business Solutions at [www.eusmecentre.org.cn/solutions](http://www.eusmecentre.org.cn/solutions) or contact [info@eusmecentre.org.cn](mailto:info@eusmecentre.org.cn). To submit your enquiries directly to our experts go to *Ask-the-Expert* [www.eusmecentre.org.cn/expert](http://www.eusmecentre.org.cn/expert).

### *Further reading...*

The EU SME Centre has over 100 reports, guidelines and case studies in its **Knowledge Centre**, the following may be relevant to you:

- Individual Income Tax in China
- Tax Liability for Non-Resident Enterprises Engaging in Service Provision
- China Enterprise Income Tax
- Establishment and Operation of a Representative Office
- Establishment of a Foreign Invested Enterprise in China
- Repatriation and Reinvestment of the Assets of Foreign Invested Enterprise in China

Access the Knowledge Centre here: [www.eusmecentre.org.cn/knowledge-centre](http://www.eusmecentre.org.cn/knowledge-centre).



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