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SME policies made by China and European Union: some comparative remarks¹

Heiko Haase, Joachim Weyand

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1. Introduction

Over a long period of time, policymakers paid much attention to large enterprises, while some Small and Medium-sized Enterprises (SMEs)² were considered only as their dependencies or simply neglected in the public and academic focus. However, SMEs drove like oasis in a desert of economic stagnancy and inflation induced by the serious world economic crisis during the 1970s. Thus, policy and research were focusing more and more on SMEs. Meanwhile, SMEs have emerged as a central element in the economies throughout the world, independently from the country's particular level of development. They stand for over 90 per cent of businesses worldwide and account for between 50 and 60 per cent of employment (UNIDO 2002). SMEs are considered a requisite ingredient both for economic and social progress, since they are not only seen as a main driver for generating employment, they also promote innovation, realize business ideas, foster regional economic integration and maintain social stability (European Commission, 2003g).

Their valuable importance for economic performance is due to a variety of reasons. On the one hand, SMEs are a key source for knowledge spillovers (Audretsch, 1995). On the other, an increased number of firms generate a raising competition, positive for economic output (Porter, 1990). Another favorable effect lies in the fact that a greater quantity of enterprises injects economic variety (Hannan and Freeman, 1989). Consequently, there is an increasing trend of developing more appropriate policies to support growth and stability of SMEs because they have, when compared with large companies, the innate deficiency in competitiveness as far as obtaining capital and qualified personnel are concerned.

During last decade, both China and the European Union (EU) have passed a series of policies in order to benefit SMEs. Since 1990, the EU has attached growing attention to SMEs and is now conducting the Fourth SMEs Development Plan (2000-2006). In 1998,

² See Recommendation 2003/361/EC of 6 May 2003 for general definition of micro, small and medium-sized enterprises (SMEs), European Commission, 2003b, Art. 2.

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also Chinese government began to take the issue of developing policies for SMEs into serious consideration and founded in the same year the SMEs department, which has the power to launch policies beneficial to SMEs. At the same time, Chinese and EU policies started to learn from each other and an intensive discussion in various fields came up. The article is inserted within this context and aims at comparing the current policies for SMEs made by China and EU as well as at drawing conclusions for improving the policy environment where Chinese SMEs emerge and grow. The paper consists of three main sections. First, section two examines the general policy-making motivation for establishing special SMEs policies. Following, section three describes the historical and political aspects of Chinese's SMEs evolution. Finally, section four seeks at analyzing and evaluating key elements of European and Chinese SMEs policies, based on the current Chinese situation and the European experiences.

2. Policy-making motivations

When discussing policies for SMEs, the question could be why government should adopt specific measures on them, by means policy-making motivation. As follows, there will be emphasized several aspects that underline the significance of SMEs in China and Europe, such as generating employment, promoting national economy by maintaining the vigor of market competition, withstanding economic stagnancy and turbulence, driving technological innovation, and contributing to the coordinated development of different regions.

2.1 Generating employment

Although the jobs that a single SME can offer are very limited, SMEs as a whole are capable to absorb human resources at all levels of the economy because of their large amount building up systemic employment capacities. They also have a tendency to more labour-intensive production processes than large enterprises (UNIDO 2002). In China, during the past two decades SMEs were playing a significant role in generating employment. From 1978 to 1996, most of the 230 million labor force transferred from the rural areas obtaining

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employment in SMEs and in particular in the township enterprises (Zhou, 2002). At present, there are about 150 million people engaged in the industrial sector, from that 110 million are employed in SMEs. Nowadays all SMEs provide some three-fourths of employment, rendering them a main engine of the Chinese economic growth (Di, 2002; Mu, 2002). In addition, their importance for job creation is going to more relevant because of the continuous state-owned enterprises reform. While in the 1970s, China accounted for more than 80 per cent state-owned and collective enterprises in relation of total industrial value-added output, at present this proportion has declined to 30 per cent (Wang, 2004). Consequently, about 15 million new jobs are needed each year to employ people entering the workforce and for those being laid off by state-owned enterprises. Promoting SMEs will still be an effective way of alleviating this employment pressure faced by China. Therefore, the policy-making motivation for SMEs in China mainly focuses on SMEs' role in generating employment. In comparison, SMEs in the EU also account for a significant economic activity. In 2003, there were nearly 140 million people employed in SMEs, which corresponds to approximately two-thirds of all employment possibilities (European Commission, 2003g).

2.2 Maintaining the vigor of market competition

As economists found out (e.g. Porter, 1990), the vigor of market economy originates from the competition. If there are only a few big enterprises prevailing in the market, the technological advancement won't be quickened for the sake of insufficient competition. The Chinese SMEs, with the privately owned businesses as the main body, contribute to the transition from the former planned to a more competition-based economy. According to the statistics provided by the Chinese SMEs department (Di, 2002; Mu, 2002), the current number of SMEs is about 11 million, occupying more than 99 per cent of all registered businesses in China. In recent years, about 60 per cent of Chinese gross export value originates from SMEs (Mu, 2002), while the value of the final products and service provided by SMEs aggregates 50.5 per cent of Chinese GDP. In the EU, there exist more than 19 million enterprises, with the vast majority 99.8 per cent being SMEs. Nevertheless, it is not

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only this large number of SMEs that stands for their economic relevance, they also account for 60 per cent of value added in the EU (European Commission, 2003g). Especially in the most developed countries, SMEs have strong links with big enterprises, which have usually a large number of small and medium-sized suppliers to provide standardized and specialized products and services for them.

2.3 Withstanding economic fluctuation and stagnancy

Although SMEs are small in size, they are quite flexible and adaptable in business operation. As a matter of fact, the periodical fluctuation is one of the major characteristics of market economy. When the economy begins to decline, SMEs are able to restructure their products and services rapidly, thus effectively eliminating the surplus of production and checking the economic depression. In a word, without the buffer of SMEs, the damage done by the economic turbulence could be far more serious. During the period of stagnation and inflation caused by the world economic crisis in 1974 and 1975, there were no others than SMEs that maintained a certain degree of employment and prosperity. And for Taiwan, SMEs helped it survive the Asia Financial Crisis in 1997. On the contrary, South Korea suffered a lot in that crisis because of its too much emphasis on big corporation groups. It seems that every recover from the economic stagnancy always begins with SMEs.

2.4 Driving technological innovation

In the fierce market competition, possessing great potential of innovation is a prerequisite for surviving on the long-term run. SMEs, especially in the field of high and new technology, are preponderant over big enterprises. This prime advantage owes to the fact that SMEs are a significant source of entrepreneurship development, innovation, and risk taking behavior. In addition, SMEs often occupy niche markets in a highly flexible and customized manner (UNIDO 2002). They mainly developed or at least promoted the new technology revolution focusing on information and biology technologies, which emerged from the 1960s and 1970s (Storey, 1994). As an example, in the USA, more than 50 per cent of the science and technology advancement occurs in SMEs, they transfer more than 80 per cent of newly

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developed technology into their industrial application (Wang, 2003). In China, the technological SMEs have also developed fast. Until the end of 1998, 15 per cent of the SMEs in China are technology-oriented and their sales and export increased 20 times and 50 times respectively than those in 1992. Among the whole SMEs in the EU, the high-tech SMEs occupy one-third. In the meantime, preliminary high-tech SMEs are shifting in the focus of European policymakers because of their extensive innovation potential and flexibility.

2.5 Contributing to a balanced development of different regions

According to the principle of market economy, large enterprises are usually located in big and medium-sized cities rich in production factors. Different from the limited geographic area covered by big companies, SMEs are all-pervasive and can be found everywhere. As a result, the wide distribution of SMEs reduces economic disparities between urban and rural areas, which ensures the relative balance between economic resources and geographic allocation. As a result, SMEs are an important factor for long-term social stability (UNIDO 2002).

During the course of transforming the Chinese economy from a planned to a market economic system, taking the policy of developing SMEs as a significant macro-economic decision, from 1998 on Chinese government fully recognized the role of SMEs in alleviating employment pressure (Zai, 2000). SMEs possess a particular importance in China, since they serve as a ligament connecting and coordinating urban economy and country economy. Moreover, SMEs play a crucial part in implementing the rural modernization strategy providing off-farm work for surplus rural workers. Thus, the strategy of exploring the poorer provinces such as the central, western, and northeastern parts of the country cannot be implemented without strong support for developing SMEs. In 1997, 60 per cent of the ten million laid-offs found new jobs again, of which non-state-operated SMEs reemployed 3.5 million persons (Wu, 1999). According to the viewpoint of some economists (Lin, 2000), encouraging those labor-intensive industries is now the best strategy to prosper the economy in the condition that China is still relatively lack in capital while it has a surplus in labor force and the labor-intensive industries in China is basically composed of SMEs. Hence, Chinese

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government motivation to establish specific SMEs promoting policies is also because SMEs contribute to a balanced development between urban and rural areas.

Since the 1990s, the EU that accounted for more than a quarter of world economy, has suffered from sluggishness characterized by stagnating economic growth rate as well as growing unemployment and financial deficit. Presenting a striking contrast to the EU, the so-called new economy of the USA took on a healthy trend of high growth, low inflation and decreased unemployment. The rapid development of high and new technological SMEs was an undeniable key reason behind the vigor of the U.S. economy. It is also a unanimous perspective of all EU member states that economic booming results from the development of the industries oriented towards high and new technology and SMEs are a vital force in making innovations within those industries. As such, the focus of EU policy-making motivation for SMEs falls on strengthening the technological innovation and encouraging the start-up of high-tech SMEs. However, similarly to their function in China, European SMEs policy also act like an instrument to develop regions with many economic problems, such as in the south of Italy, the east of Germany and the west and the south of France.

3. Economic development and the role of SMEs in China

As the practices of those developed countries have proved, SMEs play important roles with respect to creating more employment, maintaining the vitality of economic competition and promoting science and technology advancement. Likewise, Chinese SMEs, as the micro basis of the Chinese market economic system, have contributed greatly to the prosperity of Chinese economy. Before China adopted the *reform and opening-up policy*, however, Chinese SMEs were either developed abnormally or curbed for the sake of political reasons. Moreover, the development history of SMEs in China can be generally divided into three stages, as shown by table 1.

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Stage	Historical Period	Major Characteristics of SMEs development
I	1958-1961: Period of the Great Leap Forward ³	Participation in the industrialization course emphasizing heavy industry Abnormal development that caused great losses of resources
II	1966-1977: Period of the Cultural Revolution ⁴	Prohibition of any kind of private economy Serious problems with the state-owned industrial SMEs
III	1979-1982: Budding Period	Acknowledgement of the individual sector of the economy
	1982-1988: Wait-and-see Period	Acknowledgement of the private sector of the economy
	1989-1992: Wandering Period	Drastic decrease of non-public sectors evidencing their fragility in Chinese economy
	1992-1997: Reflourishing Period	Reflourishing thanks to the Deng Xiaoping's speech in the south inspection ⁵
	1998 to present: Encouragement & Promotion Period	Making great progress in the more and more SMEs favorable policy environment

Table 1: Chinese economy's recent development

From the above table, the Great Leap Forward period was actually an abnormal development stage for Chinese SMEs that seemingly received rapid development under the guidance of the radical Overtaking Strategy. In addition, during the period of Cultural Revolution, non-state-owned SMEs were not allowed because any kind of private economy was prohibited at that time, while Chinese state-owned industrial SMEs lacked competitiveness and vitality with much similar production structure. Since the implementation of the *reform and opening-up*

³ The Great Leap Forward was a campaign by the communist government of the People's Republic of China from 1958 to early 1960 aimed at a rapid industrialization of the country.

⁴ Cultural Revolution was a political revolution initiated by the leaders of the Communist Party of China in 1966, which aimed at a drastic overthrow of the capitalist class in China through involving the participation of all the Chinese people.

⁵ Deng Xiaoping, who was well-known as chief architect of the reform and opening-up policy, delivered in 1992, when he made the inspection of the southern part of China, the speech that elaborated on what socialism refers to with a view to encouraging the development of socialist market economy in China.

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policy, Chinese SMEs have entered into the genuine development stage, which might as well be further divided into five periods with respectively distinct characteristics.

Chinese SMEs proved a remarkable development and made a significant progress since more than two decades. They have been playing an significant role in China's economic reform process (Wang, 2004). The growth achieved is preliminary due to their operational and managerial flexibility that stands for their competitive advantage compared with big Chinese firms, which were regularly under strict government control (Mu, 2002). At present, the total export of SMEs, including products, technology and service, accounts for 60 per cent of all domestic export income. In spite of that, the competitiveness of Chinese SMEs as a whole is relatively low when compared with foreign SMEs. According to the results of some surveys, the average longevity of Chinese SMEs is about three to five years and almost one million SMEs go bankrupt every year (Science Investment, 2003; Wang, 2004). Although the internal operational problems such as low technical and managerial level account to a certain extent for the weak competitiveness of Chinese SMEs, the lack of special policies benefiting the initiation and growth of SMEs in China represent an important factor. In terms of exportation, under the current foreign trade system characterized by centralized national control, Chinese SMEs have no right in foreign trade operation and must depend on those foreign trade businesses to have their products accessible to the international market. This increases significantly the cost of export trade and decreases price competitiveness on the international market (Jiao, 2002).

In recent years, Chinese government has gradually recognized the significance of SMEs, thus making more and more efforts in formulating polices beneficial to SMEs. The newly established government leadership has also expressed their determination to give strong support to domestic SMEs, which is well evidenced by the issuing of SME Promotion Law. That law took a period of three years and finally went into effect at the beginning of 2003. It has not only established the legal status of SMEs, but also enhanced SMEs specific polices to the level of law. Those policies cover the fields of financial support, entrepreneurship promotion, technological innovation, market exploitation and social services, etc. Another important step lies in the recent amendments to the Constitution of China, adopted during

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the Second Session of the Tenth National People's Congress in March 2004. According to the 21st and 22nd Amendments to the Constitution, the non-public sector of the economy shall be encouraged and supported by the state, at the same time the lawful private property of citizens shall be inviolable. Nevertheless, those legal changes need to be carried out effectively. Especially SME Promotion Law's execution is hindered by a series of supportive regulations and policies in terms of technology promotion, tax benefits, credit guarantee, and financial support, having not been formulated yet. Moreover, according to the increasing speed of the enterprise reform, there is a growing tendency that large companies become more and more market-oriented, which gradually decreases the competitive advantage of Chinese SMEs (Mu, 2002).

4. SMEs policies by China and European Union

Based on the historical and political aspects of Chinese's economy evolvement, the following section seeks at analyzing and evaluating Chinese SMEs policies, allowing suggestions for improving the outside environment influential to the driving of SMEs in China. It compares the current measures in China and the EU centering in detail on several specific areas concerning SMEs, such as taxation, loan, guarantee, venture capital, research and innovation, social services, and additional measures.

4.1 Taxation

In the area of taxation, which is fundamental for promoting start-ups and SMEs in their early stage, completely different environments characterize the situation in China and the EU. In the latter, corporate income taxation and Value Added Tax (VAT) still differ in order to the national legislation due to a lack of competence of the EU in regulating this matter. In terms of VAT, the current percentage ranges from 15 per cent in Luxemburg and Cyprus up to 25 per cent in Hungary, Denmark, and Sweden. In spite of those huge differences, some progresses have been achieved in recent years given the fact that SMEs in particular suffer the costs and risks associated the huge number of separate national tax systems, discouraging

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them from engaging in cross-border activity. Two important directives in the field of VAT are worth to be mentioned. On the one hand there is the Invoicing Directive (2001/115/EC) destined to simplify, modernize and harmonize the conditions laid down for invoicing in respect of VAT. On the other, figures the Tax Representative Directive (2000/65/EC) that abolishes the obligation falling on foreign companies to appoint a tax representative in Member States where they are not established (European Commission, 2003). Nevertheless, in spite of these measures, the EU still is far from a unified taxation system.

Oppositely, in latest years China has put much emphasis on the corporate income taxation preference. Thus, newly started businesses are exempted from corporate income tax for three years if the jobless employed in the year of their initiation account for more than 60 per cent of the total employees. The two taxation reforms in 1994 and 1998 were directly aimed at SMEs. In 1994, the tax rate for business income was changed to 33 per cent. To favor SMEs, corporate income tax rate can be decreased to 18 per cent as long as the annual profit is less than 30,000 RMB, and to 27 per cent if an enterprise profit more than 30,000 RMB, but less than 100,000 RMB. Additionally, since July 1998 the VAT rate, which normally is 17 per cent, for the small commercial enterprises whose annual sales is less than 1.8 million has been lowered from six to for per cent. However, the reform in VAT taxation needs to be strengthened. The industrial SMEs are actually levied more of VAT taking into consideration that their VAT cannot be offset. To lighten the VAT burden shouldered by Chinese SMEs, the production-based VAT ought to be transformed into consumption-oriented VAT.⁶ Generally, those measures that have been proved effectively in some European countries, such as reduction and exemption of corporate income tax, elevation of the beginning point of imposing sales tax, increase of depreciation rate of fixed assets etc. could help Chinese SMEs to foster their subsistence and position within Chinese economy. In addition, the current taxation preference policies should be effectively carried out, at the

⁶ In the northeastern provinces Jilin, Heilongjiang, and Liaoning a pilot VAT reform is planned, changing from the current production-oriented VAT regime to a consumption-oriented VAT system in eight industries, such as chemicals, oil, and automobile manufacturing.

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same time all the existing taxes and fees concerning SMEs should be reviewed and standardized to eliminate all the illegal charge.

4.2 Loan

Financial constraints represent one of the biggest obstacles SMEs face with. To reduce these impediments, on the European Level there are preliminary two financial institutions, namely the European Investment Bank (EIB) and the European Investment Fund (EIF), that provide financial support to SMEs. EIB acts as a wholesale provider of capital market funds and is responsible for indirect investments throughout partner institutions, usually commercial banks, acting as intermediaries for those loans. SMEs and herein those located in less developed areas represent the first priority of the global loan activity (European Commission, 2003a, 2003c).

In China, the major problems for Chinese SMEs also represent the difficulties to access financing (Mu, 2002). Even tough, when founding a SMEs, most capital originates from self-accumulation or fundraising, these funds regularly are not sufficient to finance further growing and development. To finance this gap, external capital is necessary. Largely, Chinese SMEs are impeded to obtain capital or venture capital from the capital market directly (Wang, 2004). Thus, they depend on bank loans and other financial institutions, which for 80 per cent of them is hard to acquire owing to the strict limits regulated by the state-owned commercial banks (Wang, 2003). In addition, those financial services do not meet the financial constraints of SMEs since the types and amounts of loans demanded far exceed the supply. In order to overcome this problem, in 2001 Chinese government proposed the instauration of a nationwide credit assessment system for SMEs. The objective of this measure was to collect, assess, and report the credit situation of SMEs. In 2003, China People's bank demands with a formal document all the big commercial banks to give more loan support to profitable SMEs with good credit. At the end of the same year, the SMEs department published a report on experimental work of supporting the development plan of financing SMEs, with a view to address the real problems of SMEs. Nevertheless, these measures are not sufficient to cover the financial needs of Chinese SMEs, especially

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those of non-state-owned SMEs. State-owned commercial banks, having still the monopoly on Chinese financial assets, mainly release their financial resources to state- and publicly-owned enterprises (Wang, 2004). It is compulsory to increase the overall volume and proportion of credit for SMEs, and meanwhile simplify the procedures and qualifications of mortgage for SMEs and in particular for those SMEs with good market potential and credit. This has to go hand in hand with a more flexible interest rate floating regime. SMEs credit-service departments at state-owned commercial banks should carry out their role in a more effective manner (Wang, 2004). Here for and according to some economics (Lin, 2000), the monopoly of the state-owned commercial banks should be broken, and more local financial institutions be encouraged and developed.

4.3 Guarantees

Guarantees are one of the key approaches to resolve the financial problems of SMEs. In general, such instruments consist in providing a guarantee to the financial institution that covers a credit or loan to SMEs. In the EU, the European Investment Fund (EIF) has a central function offering guarantee instruments to financial institutions that cover credits to SMEs. Herein, the SMEs Guarantee Facility enhances the investment activities of SMEs through an increased volume of bank lending to SMEs. It includes micro-credit guarantees, equity guarantees, as well as guarantees for loans financing IT equipment, software, and training, for both the public and private sector (European Commission, 2003a, 2003f). Especially the public sector benefits from those guarantee schemes because they provide leverage for public funds so that lending can be expanded through relatively small guarantee amounts (European Commission, 2003c). Additionally to that, in 2003 there was launched a guide on credit insurance for European SMEs.

In China, the authorities have issued a series of policy documents concerning how to establish the credit guarantee system for SMEs. In 2001, they passed a series of laws and regulations, such as the Provisional Regulation of SMEs Credit Guarantee System and Management Methods of Credit Guarantees for SMEs (Wang, 2004). Currently there exist three forms of such systems: government-sponsored credit guarantee agencies, member-

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SMEs-funded mutual guarantee funds, and private-sector invested commercial guarantee companies. While the two latter serve as complements, credit guarantee agencies represent the main component of China's credit guarantee system since they stand for 90 per cent of all credit guarantees awarded (Mu, 2002). Until now, there are about 300 credit guarantee institutions for SMEs that operate in 30 provinces, municipalities, and autonomous regions of China (Gao, 2002). Chinese credit guarantee system for SMEs has developed into a phase of standardized construction. However, the system is still far from maturity because it has not yet satisfied the accrual needs of SMEs in guarantees for acquiring loans. In order to diversify the risk with loans provided by commercial banks, China needs far more specialized guarantee institutions and businesses. When encouraging the establishment of SMEs specific guarantee institutions, central and local governments are expected to reduce intervention, so that these institutions can operate under market conditions (Mu, 2002). Nevertheless, at the present stage there is a need for an appropriate financial support and an administrative supervision to those guarantee institutions, including the award of tax benefits to income from guarantee business. In addition, the number of credit re-guarantee institutions in China is very small so that it is quite difficult to diversify and dissolve the operational risks of the guarantee institutions.

4.4 Venture capital and second board stock market

SMEs with a high growth potential are particularly important for employment creation and transposition of research outcomes. However, the financial constraints such firms usually face with limit their development considerably. Traditional banks often judge such companies as cost and risk intensive debtors, while venture capitalists are in better conditions to monitor and finance them. Venture capital instruments primary consist in making equity investments as a minority share in high-growing companies during their start-up, later-stage or development phase. Issuing stocks is another important channel for SMEs to obtain direct finance.

Recently, European policymakers paid much attention on installing funds for risk capital within the EU. Herein, the 1998 Risk Capital Action Plan (European Commission, 1998) as

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well as the European Technology Facility (ETF) embody the main elements. The latter aims at increasing the availability of risk capital for financing of incubators, seed capital funds, smaller funds, funds operating regionally or focused on specific industries or technologies, or financing the exploitation of R&D results (European Commission, 2003 c, 2003f). In view of an appropriate independent, pan-European stock market serving for fast-growing SMEs, offering seamless cross-border trading, clearing and settlement within a unified market infrastructure, the EU established the European second board stock market in 1996, namely EASDAQ⁷. Afterwards, EASDAQ was taken over by NASDAQ and renamed NASDAQ Europe. Nevertheless, due to the lack of success this European stock market ceased its activity in 2003.

In comparison, Chinese government promoted the development of high-tech SMEs by financial support to venture capital industry. Up to June 2002, there were altogether 246 venture capital institutions, which had financed about 3000 projects with one-thirds of their capital amounting to 40 billion RMB (Liu, 2003). Nonetheless, venture capital industry has just started in China and not yet formed an effective risk capital management conforming to the principles of market economy. In that sense, not the government but those commercial institutions with much experience in risk capital business should operate such funds. In addition, on Chinese main boards of stock market the conditions for issuing stocks largely depend on the size of businesses. Up to now, the main board of stock market in China benefits above all large companies.⁸ In consequence, there is no second board stock market oriented towards SMEs. In order to endow venture capital with excellent exit mechanism, two kinds of measures concerning the Chinese capital market might as well be taken into account. One is to create conditions for some of SMEs to be listed on the main board stock market; the other is to establish a Chinese “NASDAQ”, by means a second board stock market oriented towards high-tech SMEs. Moreover, since human capital plays an important

⁷ EASDAQ stands for “European Association of Securities Dealers Automated Quotation”.

⁸ The largest Chinese stock exchange is Shanghai Stock Exchange, with a market capitalization of about 300 billion Euro and more than 800 companies listed.

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role in an effective venture capital mechanism, more expertise in this field is necessary, which offers European venture capitalists the chance to bring their vast experience into cooperation programs with Chinese venture capital companies.

4.5 Research and innovation

In order to meet the challenges which SMEs are confronted with, such as an increased competition resulting from globalization and a growing demand from larger companies for what they often work as sub-contractors, SMEs need to innovate constantly. Thus, strengthening technological capacity of SMEs is of major importance for enhancing the competitiveness of SMEs. The EU policy for Research and Technological Development (RTD) is implemented through multiannual Framework Programmes (FP), which constitute a coherent instrument covering all EU-funded RTD activities. These programs bring together partners such as enterprises, universities and research centers from different countries, creating links and facilitating the cooperation between different research institutions and national business partners, including large enterprises. The current Sixth Framework Programme (FP6) is running from 2002 to 2006 (European Communities, 2002). It places special emphasis on the participation of SMEs devoting at least 15 per cent (1.7 million Euros) of the Budget within the priority thematic areas to them. With this, the FP6 becomes one of the largest support instruments for SMEs in the field of research, innovation, and technology transfer. Other similar activities include the Best Procedure Project on technology transfer institutions, the ProTon Europe network of technology offices, studies on mechanisms to create new innovative firms and on enterprise clusters, as well as a survey on the methods for transferring expertise and knowledge in the rare crafts sector.

From 1998 on, Chinese government has appropriated a fund of one billion RMB and loan of two billion RMB to support the innovation activities of high-tech SMEs (Wang, 2003). In 1999, the Third SMEs Innovation Fund Programme provided 277 innovation projects concerning SMEs with 2.12 million RMB. In addition, in 2002 the “National Industrial Technology Policy” was publicized, with focus on support for high-tech enterprises to raise

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capital in the securities market and on strengthening technological capacity of SMEs with more financial measures, such as public purchase and taxation preference. However, such support is still relatively low compared with the total financial need of SMEs in innovation. To promote comprehensively the technological innovation activities for SMEs, it is suggested to make experiments on establishing technological innovation bases. The Industrial SMEs Park could be such form of experiment. Those best practices in advancing the innovation ability of SMEs ought to be studied and popularized. Furthermore, the universities and research institutions should be encouraged to participate in SMEs' technology advancement and R&D activities, just like what the EU has done in this respect. In addition, setting up innovation funds on a larger scale can be helpful in adjusting the innovative structure of SMEs.

4.6 Social services and other measures

A single SME, for the sake of its weakness in competing with big enterprises, is in great demand of various social services and other assistances. In addition to the measures mentioned before, entrepreneurial promotion and human resource training activities, information support, and technology and management tutorship represent key elements for a socialized SMEs service system. For that, the EU developed a great variety of such social and support services. Within the complex system of European Regional Development Funds (ERDF) and European Social Fund (ESF), both granting financial assistance to resolve structural economic and social problems, SMEs also benefit from those funds. The ESF provides special SMEs interventions regarding training and human resource development as well as activities related to promoting entrepreneurship. In the field of vocational training policy, the Community Action Programme "Leonardo da Vinci" outstands in the EU, offering indirect support for SMEs because it seeks to improve the knowledge, aptitudes, and skills of human resources (European Commission, 2003a). To foster the cooperation between European SMEs, the Joint European Venture (JEV) programme was launched (European Commission, 2003f). Considering the information support, Euro-Info-Centres (EICs) act as local information points for European legislation and programs

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(European Commission 2003a). A special assistance tool embodies the SME Envoy that acts as an interface between SMEs business community and the European Commission (European Commission, 2003d, 2003e).

Compared to the EU, China now is also developing a SMEs entrepreneurship program. Central government plans to promote the clustering development of SMEs. In 2003, the first park special for SMEs was established in Tianjin. Such a park is an extension and supplement of the Tianjin Economy & Technology Zone because it focuses on attracting those SMEs that provide the parts and services needed by the multinational companies situated in this area. Also in 2003, Chinese central financial ministry has arranged a series of training programs focusing on the basic knowledge of business administration with the participation of 22,000 operators coming from SMEs. Meanwhile, the Chinese Economy & Trade Commission has publicized a special document on cultivating the socialized service system for SMEs. However, the bureaucracy inherent in the administration institutions and intermediaries for SMEs is still common in some regions (Luo, 2000). Especially in the middle and west of China, it is necessary to establish simplified and transparent start-up procedures with lower charge criterion and registered capital. Furthermore, SMEs specific training programs like in the EU should be further organized not only on a wider scope that covers more SMEs across the nation, but also in more depth in terms of the training contents. Those measures should embrace all the special knowledge as well as skills needed by Chinese SMEs, such as entrepreneurship, business administration, credit system, information and network technology, industrial development. In China, there are still lacks not only in polices destined to encourage the current service intermediaries, universities, and research institutions providing specialized services needed by SMEs. There is also a need of policies for promoting the establishment of the SMEs-oriented intermediate service institutions and those of industrial associations for SMEs. Following the examples of the EICs and the SME Envoy, it could be an efficient way also in China to construct local service centers for SMEs with the help of governments in financial support and beneficial policies. Both in the EU and in China, the establishment of a SME specific information service system, which can enable SMEs to have a convenient access to all policies, programs, and opportunities concerning SMEs, could be a valuable tool that completes and resumes all

initiatives mentioned before.

5. Conclusion

In most countries around the world SMEs play an increasingly important role not only for their national economy but also for their social development and stability. Nevertheless, the approaches for bettering the policy environment faced by those companies vary in order to their specific function and relevance. In the EU and China, at their present stage of economic and social development, SMEs police-making motivation is due to different reasons. In China, the significance of SMEs is clearly on their function of alleviating unemployment pressure that goes along with the national economic reform as well as on their contribution to a balanced development between urban and rural areas. Even if these effects can also not be neglected within Europe, SMEs are shifting in the focus of European policymakers because of their positive influence on technological innovation and economic diversification.

Therefore, both China and the EU have issued a series of policies that benefit and promote SMEs. The comparison evidenced that European SMEs policies are more comprehensive, systematic, consistent, and long-term oriented than those made by China. The current policy environment faced by Chinese SMEs still needs to be improved considerably. Among the restraints of Chinese SMEs lacks in financial policy are most evident. That regards in particular the high tax burden, insufficient financial support, deficiencies in the guarantee system, difficulties in obtaining loans and venture capital as well as the unsatisfactory possibilities of issuing stocks. Furthermore, since a competitive market environment is fundamental for Chinese SMEs prosperity, some more measures are needed in China to promote SMEs effectively. Herein are worthwhile to mention the further expansion of the fields of market access for Chinese SMEs, making them benefit from the deepening of state-owned enterprises' reform, and the modification the current foreign trade system so that SMEs are allowed to do self-run import & export business. In order to provide more chances for SMEs to participate in international competition and cooperation, Chinese government should take similar practices as the EU is undertaking, namely promote more

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international cooperation programs and exchanges in economy and technology. In contrast, China's market offers some indisputable advantages, such as the absence of linguistic barriers and a more homogeneous taxation system, while the EU for instance still is quite far from a unified VAT system. In addition, decision-making in China is running easier than in the EU. With the issuing of SME Promotion Law and the recent amendments to the constitution, there are excellent chances that Chinese SMEs will find more developmental opportunities in a constantly improving policy environment.

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