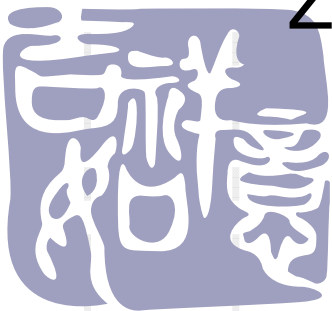


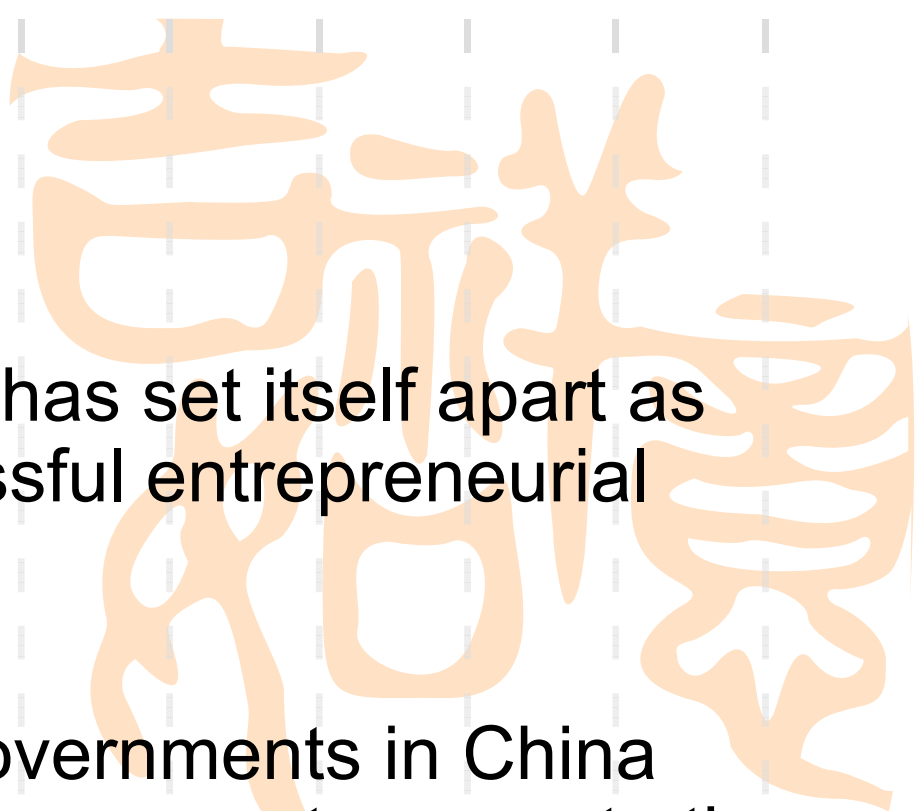

2012 International Forum on Changes in
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Innovation Policy for SMEs: China's Experience

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- In past decades, China has set itself apart as the exemplar for successful entrepreneurial economic growth.
 - The central and local governments in China have taken the strong measures to promote the survival and development of SMEs, policies like preferential tax, financing guarantee, foundation for SMEs, procurement, the removal of various irregular charges et al are provided.

- Despite the significant measures in fiscal and tax policies, financial policies, the government of China has recognized the importance of innovation in business enterprises to ensure and sustain its development and shown remarkable determination to support innovativeness of SMEs through its innovation policy.



The New Strategy of China

- Entrepreneurship plus innovation
- Innovative countries in the world, and many universities turned to be research university and now the number of paper and patent jumped the top 3 in the world.



- To reveal the policy system for SMEs in China, the paper will focus on almost all the policies issued by the ministries and commissions of the government in 2011 and the major policy for the development of small and micro enterprises in 2012.



- The remaining part of the paper will describe the current situation in which SMEs struggled for their development, and the new innovation and knowledge policy should be provided.



Fiscal and Tax Policy

- With the deepening of the reform of the economy that is market orientated, SMEs made their disadvantages more obvious through competing with large enterprises.
- The central government has put out a series of taxation preference policies for SMEs since 2011. The most powerful ones counted the some fiscal and tax policies.



Time	Fiscal and tax policy	Apartment
April 20, 2011	<i>Fund management measure about the central financial rewards to elimination of backward production</i>	Ministry of finance, MIIT, National Energy Administration
July 29, 2011	<i>Notice about adjustment of the personal income tax deduction standard for the individual business owner, the sole individual proprietorship enterprise, and the natural person investor in partnership business</i>	Ministry of finance, State Administration of Taxation
August 8, 2011	<i>Interim fund management measure about cooperation of energy saving and emission reduction among Chinese and European SMEs</i>	Ministry of finance, MOST
September 28, 2011	<i>Notice about the household management company which manages the staff system shall be exempted from the business tax</i>	Ministry of finance, State Administration of Taxation
October 17, 2011	<i>Notice about the financial institution and the small and micro enterprise shall be exempted from the stamp tax while signing a loan contract</i>	Ministry of finance, State Administration of Taxation

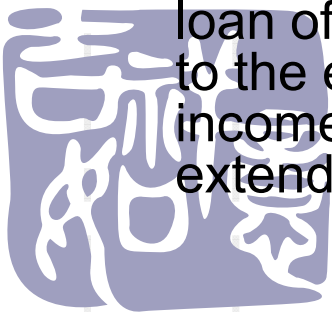
October 19, 2011	<i>Notice about extending the financial enterprise agriculture loans and SMEs loan loss reserve pre-tax deduction policy implementation period</i>	Ministry of finance, State Administration of Taxation
November 16, 2011	<i>Notice about print the pilot plan of change the business tax to value added tax</i>	Ministry of finance, State Administration of Taxation
November 21 st , 2011	<i>Notice about import tax policy of the technology development supplies which are suitable for the national public technological service platforms of SMEs</i>	Ministry of finance, MIIT, State Administration of Taxation
November 29, 2011	<i>Notice about income tax policy for small enterprises with low profits</i>	Ministry of finance, State Administration of Taxation
December 29, 2011	<i>Interim measure about government procurement which promotes the development of SMEs</i>	Ministry of finance, MIIT

Tax arrangement	Detail
Tax rate	Based on the current VAT of 17% standard rate and 13% low rate, add 11% and 6% two suits of low tax rates. Leasing of tangible movable property for 17%, transportation industry and architecture industry for 11%, and other parts of modern service industries for 6%.
Tax method	Transportation industry, transportation industry, posts and telecommunications, modern service industry, culture and sports industry, selling immovable properties, and transfer of intangible assets, apply to general VAT tax method in principle. Finance and insurance industry and living service industry apply to simple VAT tax method in principle.
Tax base of property tax on real estate	In principle, tax is based the whole taxable income of taxpayer. For some industries which collect turn pay or other charges, the amount of collecting or acting mat would be taken off reasonably.
Service trade import and export	Levy VAT on service trade import, and free tax for service trade export.

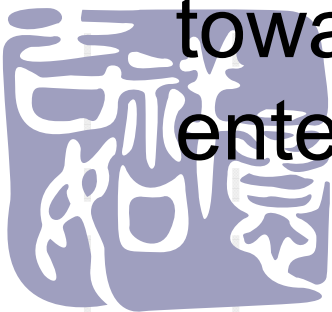
- On April 17 in 2012, the state council released ***advices on further support to the sound development of small and micro enterprises (the state council, No.14, 2012)***. The policy was carried out because of the prominent problems that small and micro enterprises faced, such as high pressure, rising cost, financial difficulty and heavy tax. So the state council put forward many advices to support them in the fiscal and tax policies.



- Article 2 of the regulations was about **taxation preference policy** for small and micro enterprises, improving and micro enterprise value-added tax and business tax, halving the levied business income tax for small low-profit enterprises, and it announced to extend to 2015 and extend field.
- The import tax preferential policies for technology development supplies will range over all the national technology service platform of SMEs under condition. During November 1st in 2011 to October 31st in 2014, the financial institution and the small and micro enterprise are exempted from the stamp tax while signing a loan contract. The pre-tax deduction of loan loss policy for agriculture loan of financial enterprises and loan of SMEs would be extended to the end of 2013, and meanwhile the policy which reduces 3% income tax rate for some rural banking institutions would be extended to the end of 2015.



- Article 3 was the policy about support of **financial funds** which should be policy oriented and emphasize the key points to use the funds. The amount was increased to 14.77 billion from 12.87 billion in 2012, and the financial funds would be tilt toward mid-west area and small and micro enterprises.



- Article 4 was to set up a **development fund for SMEs**. The fund comes from the central budget arrangement, foundation income and donation. The central government arranges 15 billion funds for five years and there are 3 billion in 2012. The fund mainly used to direct the local venture capital investment institutions and other small and micro enterprise whose social capital support was in start-up period, etc. The society is encouraged to donate funds. For those enterprises, institutions, social organizations and individuals who donated funds, the 12% of annual profit portion of enterprises and 30% of individual income taxable can be deducted in the calculation of the pay income tax.



- **Government procurement** support for small and micro enterprises were mentioned in Article 5.
- Each department which is responsible for compiling department budget shall arrange purchasing from small and micro enterprises with the rate of f **18%** share of total annual government procurement budget. In evaluation for government procurement, **6% - 10% price deduction** was given to small and micro enterprises due to different industry circumstances. **Encourage large and medium-sized enterprises and small and micro enterprise to form a consortium to jointly participate in government procurement**, when the small and micro enterprise consortium share accounts for more than 30%, the combo can be given 2% - 3% of the price deduction. Promote government procurement credit guarantee pilot, encourage small and micro enterprises to participate in the government procurement to provide bid security , performance security, financing guarantee and other services.



- The state council would continue **reducing the charge on enterprises and cancelling all kinds of illegal charge**
- in Article 6. The central government issued a list of cancelled administrative fees, and the competent department in finance and price in every province in China would take action. Since January 1st in 2012 to December 31st in 2014, small and micro enterprise shall be exempted from the part of the administrative fees of management, registration and license fees in these three years. Cancel a batch of administrative fees on enterprises of all the provinces (regions and cities). The business service fees of administrative licensing and mandatory access were regulated.



Financial Policy

- The government which paid attention to the financing problems of SMEs, especially as a response to the international financial crisis, carried out a series of financial policies to support SMEs to facilitate their development well and rapidly.



Time	Financial policy	Apartment
April 1 st ,2011	<i>Public condemned standard for listed companies on GEM</i>	Shenzhen Stock Exchange
May 25, 2011	<i>Notice about support commercial bank to improve further financial service for small enterprises</i>	CBRC (China Banking Regulatory Commission)
June 21 st , 2011	<i>Notice about opinion to promote the normal development of financing guarantee industry</i>	the State Council
September 5, 2011	<i>Notice about plan of government procurement credit guarantee pilot</i>	Ministry of finance
October 24, 2011	<i>Supplementary notice about support commercial bank to improve further financial service for small and micro enterprises</i>	CBRC (China Banking Regulatory Commission)

- In 2012, the state council also published several measures to solve the financing problem of small and micro enterprises on ***advices on further support to the sound development of small and micro enterprises (the state council, No.14, 2012)***. The policies were about five aspects which were financial policies, financial institutions, financial channels, credit guarantee service and financial service.



- Article 8 was to **accelerate the development of small financial institutions.**

In the premise of strengthening supervision and preventing risks, the government would properly relax the conditions of setting up small financial institutions by private capital, foreign investment, and capital participation of international organizations.





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China announces pilot financial reform zone in Wenzhou

03-29-2012 08:18 BJT

Special Report: China Announces Pilot Financial Reform Zone in Wenzhou |

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BEIJING, March 28 (Xinhua) -- China has approved plans to set up a pilot zone in the eastern city of Wenzhou to regulate private financing activities, the State Council, China's cabinet, said Wednesday.

The long-awaited decision comes as underground private financing activities in Wenzhou, a major source of funding for the nation's small and medium-sized businesses, have stirred up financial disputes and crime and threatened financial and economic stability.

Effectively sorting out Wenzhou's problems and making financing serve the real economy are not only important for the healthy development of Wenzhou, but also of great pioneering significance for financial reform and economic development throughout the nation, according to a statement released after a State Council executive meeting presided over by Premier Wen Jiabao.

It was decided at the meeting that the reform program will include 12 major tasks.

The government is studying the implementation of a file management system for private financing and improvements to the fund monitoring system, the statement said.

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Innovation policies for SMEs

- Every ministry and commissions in China made great efforts to cooperate for new policies, supplement notices, and implementing rules, creating a better environment for the living and development of SMEs and small and micro enterprises.
- On May 12 in 2011, Ministry of Science and Technology carried out ***several advices on further promoting innovation of technology-based SMEs*** which indicated that the government should support to improve innovation of technology-based SMEs for their development, and promote the strategic reform of economic structure for construction of innovational nation.



Time	Innovation policy	Apartment
February 22 nd , 2011	<i>Outline of the National Plan for Zhongguancun self-innovative pilot area during 2011 to 2020</i>	NDRC
May 5, 2011	<i>Several advices on further promoting innovation of technology-based SMEs</i>	MOST
July 23, 2011	<i>Notice about encourage and guidance for strategic emerging industry of private business</i>	NDRC
August 29, 2011	<i>Notice about promoting construction of R&D institutions for private business</i>	NDRC, MOST
October 20, 2011	<i>Several advices on accelerating the implementation of independent innovation strategy through combination between science and technology and finance</i>	MOST, MOF, PBC, SASAC, SAT, CBRC, CSRC, CIRC



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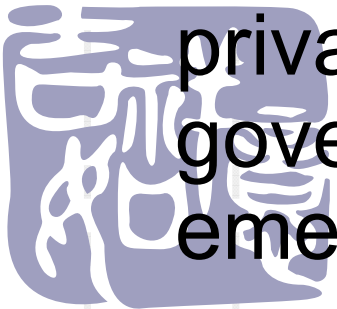
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- 5 高校毕业生 未就业补贴500元
- 6 “国字号”建筑企业来肥兴业
- 7 省红阳村村委会 西红阳村村委会

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- On July 23 in 2011, NDRC put out ***Notice about encourage and guidance for strategic emerging industry of private business*** which claimed clean and regulation of current entry conditions to private business and private investment, and promotion of equal treatment to private business in public source like the government-backed funds for strategic emerging industry.



- The policy made sure that private business could take part in the policy-making about strategic emerging industry, supported them to enhance innovative ability and supported transformation of scientific and technological achievements and sample application of market, and encouraged new industry condition. It gave guidance for establishing venture capital fund and industrial investment fund by private capital, supported private business to make full use of new financial tools, and enhanced service and guidance in the international cooperation of private business.



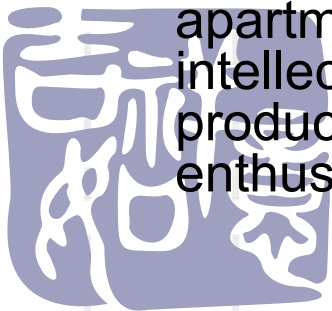
- On October 20, MOST, MOF, PBC, SASAC, SAT, CBRC, CSRC, CIRC these eight departments issued ***several advices on accelerating the implementation of independent innovation strategy through combination between science and technology and finance***. What was made clear was that guide fund for venture capital investment of SMEs should be enlarged, and venture investment organization should invest those technology-based SMEs in set-up stage to promote their innovation. According to the policy, those state-owned venture capital investment institutions and state-owned venture capital fund on unlisted SMEs can apply for exemption from obligation of holding the state-owned shares.

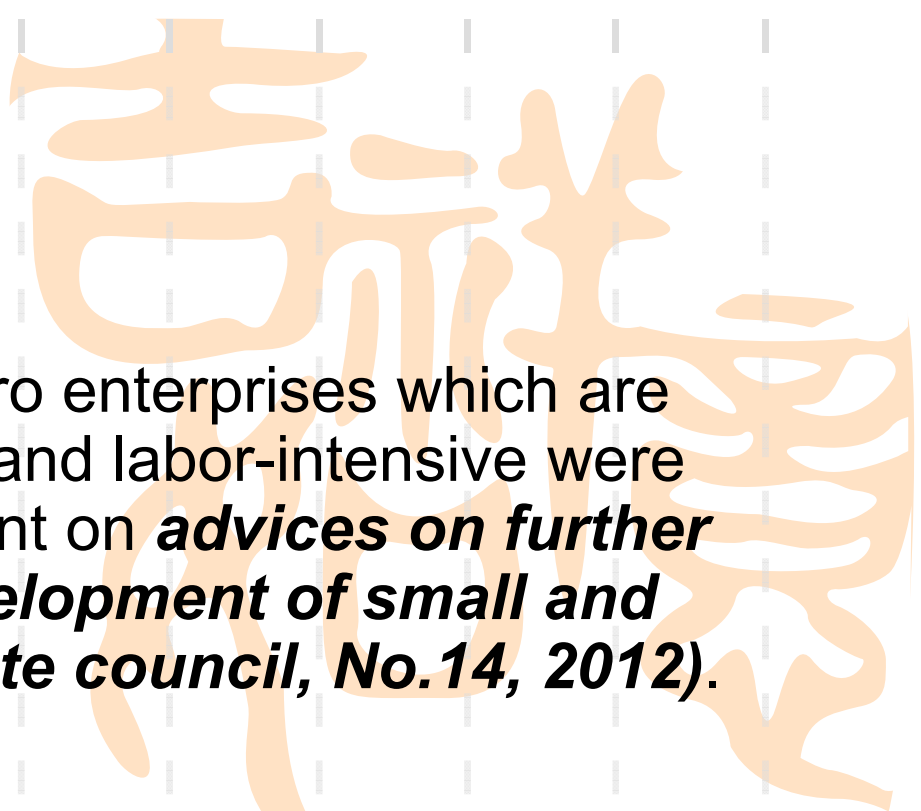


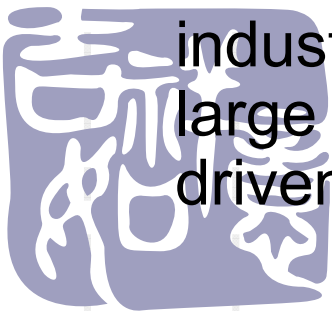
- The policy issued by the state council in April 19 in 2012 mentioned various measures on innovation.
- Article 13 was for the **innovation ability of small and micro enterprises**.
- The policy which claimed additional deduction for the enterprise research and development expenses before income tax should be completed, to support technical innovation of enterprises. The government encouraged small and micro enterprises to establish their own R&D institutions and participate in industrial generic key technology research and development and national and formulating national and local science and technology plan projects and standards, in the implementation of the SME innovation ability construction plan.



- Article 14 of the regulations was about the intellectual property. It aimed at improving the creation, utilization, protection and management level of intellectual property in small and micro enterprises.
- The project of intellectual property strategy of SMEs would emphasize on those small and micro enterprises with independent intellectual property rights advantages, reinforce advertising and training, popularize knowledge of intellectual property rights, promote key areas and key enterprises as pilots, and carry out services for small and micro enterprises which covered counseling of patent, patent agency, and patent pre-warning, etc. The related departments would strengthen crackdown of the infringement of intellectual property rights and production and selling of fake products, to maintain the market order and protect innovation enthusiasm.



- 
- In China, the small and micro enterprises which are innovative, entrepreneurial and labor-intensive were supported by the government on ***advices on further support to the sound development of small and micro enterprises (the state council, No.14, 2012).***
 - Four kinds of industries are particularly encouraged in China, and they are the modern service industry, the strategic emerging industries, the modern agriculture industry and the creative industry which cooperate with large enterprises for transformation from elements driven to innovation driven.



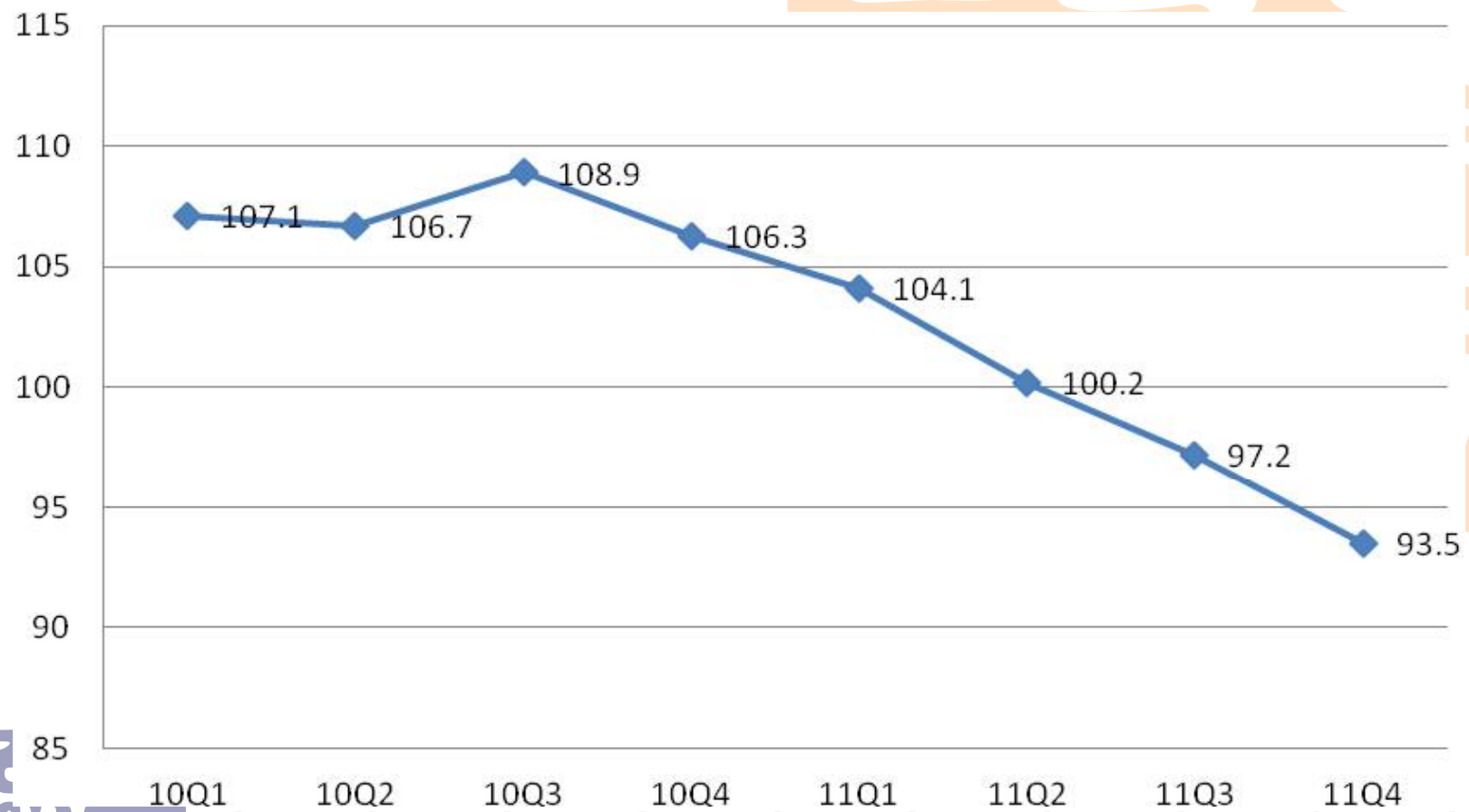
- Article 18 referred to the **Innovative marketing and business model**. The policy recommend that small and micro enterprises use e-commerce, credit sales and credit insurance to expand the field of business. The research and innovation should be put to use in the exhibition mechanism of China-International Small and Medium Enterprises Fair, to promote the breakthroughs in internationalization, marketization, and specialization.



SMEs in China still in trouble

- The situation of SMEs in 2011 is not optimistic, and the percentage of loss-incurring enterprises is 12.98% in the first half year of 2011. The amount of loss reaches 143.9 billion yuan, increasing 29.01% than before.





SME development index of China: year of 2011

Innovation in China in transition

- Closed indigenous innovation
- Open technology acquisition
- Indigenous innovation
- Collaboration innovation



- Collaborative innovation is the innovation organization comprising enterprises, government, knowledge production institutions, intermediaries and users, which can multiply the value of knowledge through the integration of innovation elements and the barrier-free flow of innovation resources.



- Collaborative innovation is try to enhancing the collaboration between university and firms, the collaboration between SOEs and private enterprises, the collaboration between large and SMEs. As to building the sound ecosystem of both business and innovation.



Chief Engineer going to SMEs, Xi'an Province

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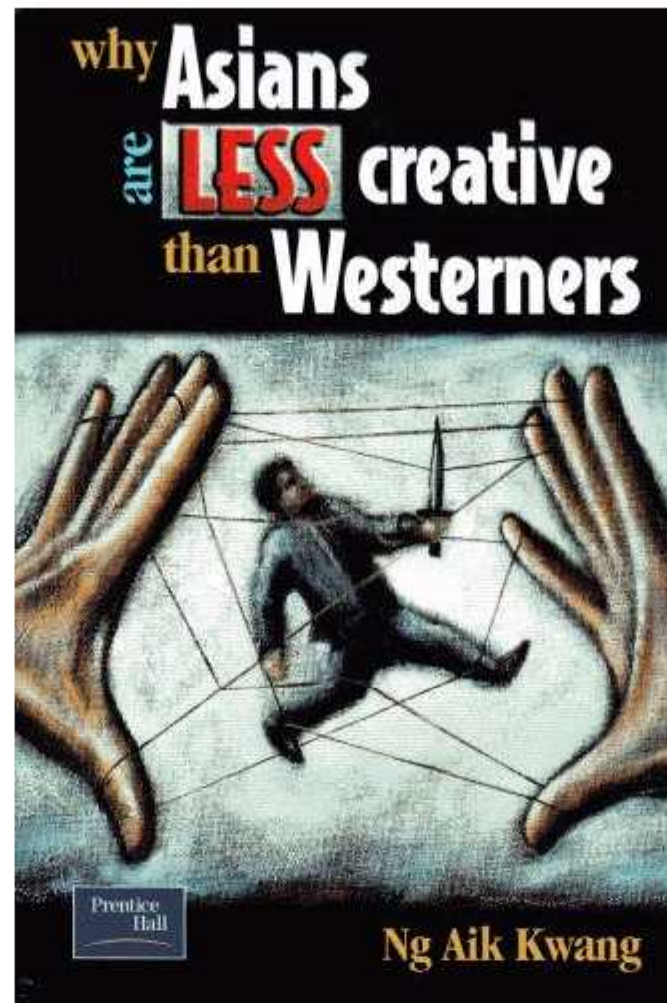
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- Collaborative innovation is also attempt to integrate the S&T, Economy and Talent Development in China.
- 3 chuang （三创） strategy: entrepreneurship, innovation and creativity

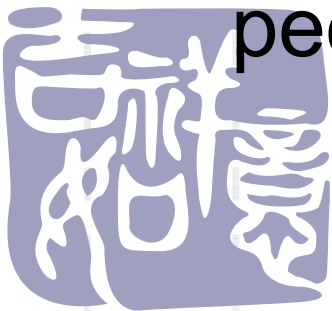




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Conclusions

- The policies for SMEs in China are sorted into three types which are the fiscal and tax policy, the financing policy and innovation policies, and in the future, the knowledge policy which focus on education reform for more creative people.



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Thanks

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