



That Extra Kick

China is in the throes of restructuring its economy, and helping small and micro-sized enterprises stay afloat will be key By Lan Xinzhen



AIDING SMALL SHOPS: A woman pays for goods at a shop in Fuzhou, Fujian Province. The provincial government grants 10 million yuan (\$1.63 million) in subsidies to 500 convenience stores across the province

At a time when economic growth is sluggish, the Chinese Government has strengthened support for small and micro-sized enterprises. The State Council announced that value-added and turnover taxes for small businesses with monthly sales of less than 20,000 yuan (\$3,262) would be suspended as of August 1.

The National Development and Reform Commission (NDRC) issued a statement on its website on July 26 saying that financing services for small and micro-sized enterprises would be strengthened. On the same day, the People's Bank of China (PBC), the country's central bank, announced that it would push the country's banks to increase credit to small and micro-sized enterprises. Traditionally, these enterprises

have faced difficulties securing loans, which have normally been reserved for large state-run companies.

According to figures from the State Administration for Industry and Commerce, there are 50 million small and micro-sized enterprises in China, of which 6 million will benefit from the tax-free policy, ensuring jobs and incomes for tens of millions of people.

Small and micro-sized enterprises have long been a major source of jobs in China. However, limited by factors such as capital, technology and talent, small and micro-sized enterprises are weak when it comes to modern management and securing financing, all of which hold back their development.

Jia Kang, Director of the Research Institute

of Fiscal Science at the Ministry of Finance (MOF), thinks that supporting small and micro-sized enterprises will help encourage the establishment of more businesses and invigorate confidence in small and micro-sized enterprises, which are key in ensuring stable economic growth and expanding employment.

Thorough investigation

Since the end of May, the Ministry of Industry and Information Technology (MIIT), the NDRC, the MOF, the PBC and the China Banking Regulatory Commission have all made field investigations in eastern, central and western regions on the difficulties faced by small and micro-sized enterprises.

The MIIT report says that according to its investigation, the financial problems faced by small and micro-sized enterprises include a low proportion of direct financing, insufficient cash flow and high borrowing costs. Moreover, small and micro-sized enterprises are struggling amid an appreciating yuan, rising labor costs and price hikes for resources and energy, not to mention various kinds of taxes and fees.

According to a survey carried out by the National Bureau of Statistics (NBS) among 39,000 industrial enterprises with annual sales volume below 20 million yuan (\$3.26 million), only 21.1 percent of small and micro-sized industrial enterprises maintained "good" or "very good" operations in the first quarter, which was 1.7 percentage points lower than the figure at the end of last year. Particularly, among the micro-sized enterprises, only 18.3 percent had "good" or "very good" operations. Manufacturing and export-oriented enterprises in Guangdong and Zhejiang provinces and Chongqing Municipality saw their orders reduce

by 20-30 percent.

The NBS investigation report says on addressing the difficulties, 57.14 percent of small and micro-sized enterprises think the government should help them obtain more credit, reduce logistics fees, cut or exempt taxes, help them improve management, adopt policies to attract professionals, and promote consumption.

During a fact-finding mission in south China at the beginning of July, Premier Li Keqiang held an informal discussion with local small business owners in Guangxi Zhuang Autonomous Region on July 8, saying that the government will unleash several favorable policies to support small and micro-sized enterprises.

Economic restructuring

Shi Wei, a researcher with the Institute of Economic System and Management of the NDRC, says that since China is in the midst of economic restructuring and transformation, supporting the development of small and micro-sized enterprises is key.

The Chinese Government has been emphasizing the need to expand domestic demand, and achieving that goal will involve reducing taxes for small and micro-sized enterprises. Cutting or exempting value-added taxes and turnover

taxes for small and micro-sized enterprises can create more competition in the market, says Shi. This will directly benefit Chinese consumers.

At present 75 percent of Chinese employees work for small and micro-sized enterprises. Once tax alleviation comes, salaries would—the government hopes—increase, and the higher consumption that should result would far more than make up for losses in tax revenue for the government. The tax-free policies will also encourage the creation of more small and micro-sized enterprises and create more jobs.

“The tax-free policy is a good start, but it is not enough. I suggest the government consider reducing the value-added and turnover taxes by 50 percent for small and micro-sized enterprises with monthly sales of 20,000 yuan to 100,000 yuan (\$163,018). The government should also appropriately lower the social security fees paid by small and micro-sized enterprises for their employees,” said Shi.


Heavy tax cuts would lead to an expansion of production and sales, create more jobs and encourage college graduates to start their own businesses, says Shi.

In 2009 the State Council issued a document on facilitating development of small and micro-sized enterprises, saying taxes for them would be cut by the end of 2010. Altogether 37

tax items and fees were reduced or exempted. This is the second round of tax cuts by the Chinese Government for small and micro-sized enterprises after the global financial crisis.

Shi says in 2009 the major problem these enterprises faced was reduced exports due to lower global demand. But at present they are faced with even worse conditions: Many of them are suffering a severe shortage of cash flow.

The government is obviously considering the establishment of a long-term support system. At a press conference held on July 24, MIIT spokesman Zhu Hongren said the ministry would implement policies supporting the development of small and micro-sized enterprises. In the meantime, it will issue new measures to alleviate the tax burden on small and medium-sized enterprises, especially for the micro-sized businesses. ■

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How to Spot a Small or Micro-Sized Enterprise

(Source: National Bureau of Statistics, \$1=6.12 yuan)

Industry	Small enterprises	Micro-sized enterprises
Agriculture and stock breeding Manufacturing	Annual sales revenue of 500,000 yuan or above A minimum of 20 employees, Annual sales revenue of 3 million-20 million yuan	Annual sales revenue below 500,000 yuan Fewer than 20 employees, Annual sales revenue below 3 million yuan
Construction	Annual sales revenue of 3 million-60 million yuan, Total assets of 3 million-50 million yuan	Annual sales revenue below 3 million yuan Total assets below 3 million yuan
Wholesale	5-20 employees, Annual sales revenue of 10 million-50 million yuan	Fewer than 5 employees, Annual sales revenue below 10 million yuan
Retail	10-50 employees, Annual sales revenue of 1 million-5 million yuan	Fewer than 5 employees, Annual sales revenue below 1 million yuan
Transportation	20-300 employees, Annual sales revenue of 2 million-30 million yuan	Fewer than 20 employees, Annual sales revenue below 2 million yuan
Software and information services	10-100 employees, Annual sales revenue of 500,000-10 million yuan	Fewer than 10 employees, Annual sales revenue below 500,000 yuan
Leasing and commercial services	10-100 employees, Total assets of 1 million-80 million yuan	Fewer than 10 employees, Total assets below 1 million yuan
Others	10-100 employees	Fewer than 10 employees