

Original Research Article

## **Further Intensifying Support for Micro, Small and Medium-Sized Enterprises and Investing in the Vitality of the Private Economy**

*Xiao Zheng*

*State Information Center, Beijing, 100045, China*

---

**Abstract:** Micro, small and medium-sized enterprises form a vital part of China's national economy. As the foundational units of the socialist market economy, they drive progress in China's modernization. Numerous yet small in scale and dispersed in layout, these enterprises demonstrate relatively weak risk resistance during operations. Recently, the deregistration rate has climbed, while new registrations have declined sharply. micro, small and medium-sized enterprises face challenges in financing, operations, and recruitment. Recommendations include increasing support with intensified assistance, reducing costs by optimizing fiscal and tax policies, and broadening access through a multi-tiered financial support system.

**Keywords:** micro; small and medium-sized enterprises; private economy

---

### **1. Introduction**

Micro, small and medium-sized enterprises play a vital role in China's national economy. They serve as the fundamental units of the socialist market economy and drive progress in China's modernization. In terms of scale, micro, small and medium-sized enterprises are numerous and widely dispersed. According to statistics from the Ministry of Industry and Information Technology, there are 48 million micro, small and medium-sized enterprises in China. They cater to the diverse needs of the people by providing quality products and services, making them the "backbone" of China's physical economy. In terms of employment, micro, small and medium-sized enterprises account for 99.8% of all registered enterprises and employ 79.4% of the total workforce, becoming the "reservoir" of China's employment market. From an innovation perspective, most of China's new technologies, business models, and operating modes originate from the innovative practices of micro, small and medium-sized enterprises. China now boasts over 4,000 national-level specialized and innovative "little giant" enterprises and more than 800 single-champion manufacturing enterprises. Thus, micro, small and medium-sized enterprises have become the "power source" of corporate innovation in China.

The report of the 20th National Congress of the Communist Party of China clearly states the need to "support the development of micro, small and medium-sized enterprises," "optimize the development environment for private enterprises," and "create an environment conducive to the growth of technology-based micro, small and medium-sized enterprises." These important discussions highlight the central government's high regard for the development of micro, small and medium-sized enterprises, as evidenced by continuous new initiatives aimed at fostering a healthy business environment for them. In recent years, micro, small and medium-sized enterprises in China have faced complex internal and external environments, persevering and striving for excellence. They have continuously improved their development scale and quality, achieving significant progress. However, they still encounter challenges such as liquidity constraints, operational difficulties, and labor shortages due to unfavorable market factors. Under new circumstances and objectives, small and medium-sized enterprises, as vulnerable market entities that require special attention and assistance, it is imperative to further support micro, small and

medium-sized enterprises, enhance the vitality of the private economy, and promote the continuous advancement of micro, small and medium-sized enterprises toward high-quality development, further enhance the overall economic vitality of our country.

## **2. Micro, Small and Medium-sized Enterprises in China Face Three Significant Challenges.**

Micro, small and medium-sized enterprises are numerous but small and widely dispersed, making them more vulnerable to risks<sup>[1]</sup>. In recent years, the proportion of deregistered micro, small and medium-sized enterprises has increased, while the number of newly registered ones has sharply declined. They encounter difficulties in financing, operations, and recruitment.

First, financing is a major issue. Despite continuous development, micro, small and medium-sized enterprises struggle with financing in an environment of shrinking profit margins. Fixed costs, such as rent, wages, and equipment maintenance, escalate liquidity pressures. On the one hand, the financing channels are limited, with banks offering insufficient support and low credit limits, making it difficult for many enterprises to meet loan requirements. The capital market's scope for these businesses is small, with highly homogeneous financial support products and a lack of personalized services, failing to meet diverse funding needs. Credit-based financial support is prevalent, whereas equity-based support is scarce, limiting effective asset mobilization<sup>[2]</sup>. On the other hand, high financing costs add another layer of challenge. Micro, small and medium-sized enterprises incur various fees, such as mortgage registration, assessment, and risk guarantees, which drive up costs. Their urgent, frequent, and small-scale funding needs, coupled with insufficient operational norms and disclosure limitations, prolong traditional banks' approval processes. Consequently, micro, small and medium-sized enterprises resort to small loan companies, online finance platforms, and private lending, which come with higher interest rates and significant collateral risks and repayment pressures.

Secondly, the operation is challenging. With the complex changes in China's internal and external environments, micro, small and medium-sized enterprises face increasing competitive pressure in both domestic and international markets. Various industries encounter internal and external challenges. Concurrently, as China's economy transforms and upgrades, consumer capacity and demand have significantly changed. Product demand structures have upgraded, requiring higher product quality and standards. Consumption patterns have optimized further, with new business forms like live-streaming sales and e-commerce emerging. Micro, small and medium-sized enterprises' products and services often misalign with these evolving demands, making it hard to meet the growing need for high-quality consumption. In recent years, international commodity price fluctuations and supply chain instability have caused micro, small and medium-sized enterprises' production costs to rise unpredictably, leading to a gradual reduction in production scale and further decline in revenue. Additionally, uneven global economic recovery affects external demand, exposing the vulnerability of micro, small and medium-sized enterprises' niche product categories, thus exacerbating operating difficulties under fluctuating demand.

Thirdly, hiring is difficult. Micro, small and medium-sized enterprises, mainly involved in manufacturing sectors like clothing, accessories processing, and machinery, require substantial labor. However, manufacturing employment in China has steadily decreased in recent years, making it hard for micro, small and medium-sized enterprises to recruit workers. Data from the Ministry of Human Resources and Social Security show a continuous six-time decline in urban manufacturing employment from 2013 to 2019, with a reduction of

approximately 14 million jobs, a 27.1% decrease. Among the current 100 “most in-demand occupations”, nearly 40 relate to the manufacturing field connected to micro, small and medium-sized enterprises, highlighting a significant supply-demand mismatch in labor. This mismatch is exacerbated by older, low-skilled job seekers facing difficulty finding employment. Furthermore, micro, small and medium-sized enterprises are disadvantaged compared to state-owned and large enterprises in terms of unstable benefits, low social security levels, limited career development, and poor working conditions. The rapid development of the digital economy attracts more young people to dynamic internet companies, and skilled professionals prefer large enterprises with significant technological accumulation. Consequently, micro, small and medium-sized enterprises experience substantial shortages in young talent, technical workers, and high-end technical staff.

### **3. Micro, Small and Medium-Sized Enterprise Development Pathways**

Micro, small and medium-sized enterprises are vital to the economic projects and people’s livelihood projects. Led by Xi Jinping’s Thought on Socialism with Chinese Characteristics for a New Era, we must explore paths for the development of micro, small and medium-sized enterprises, to continuously enhance the quality and efficiency in these enterprises, so as to solidify the foundation for Chinese-style modernization.

First of all, we must strengthen support and increase assistance for micro, small and medium-sized enterprises. We should amplify support and rewards for the application and transformation of scientific and technological achievements in these enterprises. Guiding them to increase research and development investments will cement their role in technological innovation. Bolstering the intellectual property protection system for micro, small and medium-sized enterprises is crucial, as is increasing punitive measures against infringement. Creating a favorable environment for technological growth will enhance their comparative advantages and market competitiveness. Further, supporting employee skill training helps address technological gaps within these enterprises. Through vocational training programs, we can improve human capital. Government procurement policies should favor micro, small and medium-sized enterprises more, expanding their share in government budgets from the preliminary stages. Accelerating their digital transformation and upgrading is also key. We must elevate their awareness of the digital economy, guiding them to expand marketing networks via internet platforms. This will lower costs and invigorate their operations. Intensify training support for talents, especially management talents, in small and medium-sized enterprises. Through online classes and training courses for enterprise managers, enhance the theoretical and practical level of management talents in small and medium-sized enterprises, and further improve their management and operational skills in these enterprises.

The second strategy involves reducing costs and continuously enhancing fiscal and tax support policies. Leverage the direct and inclusive characteristics of fiscal policies to address the specific challenges faced by micro, small and medium-sized enterprises. This ongoing optimization of support measures includes fiscal subsidies, tax reductions, fee exemptions, and deferred payments tailored to micro, small and medium-sized enterprises. Allocate and utilize fiscal compensation funds judiciously, extending the applicability of the “six taxes and two fees” to encompass micro, small and medium-sized enterprises and individual industrial and commercial households. Implement a graduated tax deduction policy based on the profit and loss levels of micro, small and medium-sized enterprises. Increase efforts to support enterprise-related employment by progressively improving preferential social security payment policies for micro, small and medium-sized enterprises, expanding deferment and partial exemption policies to cover contributions for the “five social insurances and one housing fund,” thereby reducing employment costs for enterprises and effectively minimizing the scale of layoffs. To

further strengthen the promotion of preferential tax policies for small and medium-sized enterprises, through WeChat official account, enterprise community brochures and other methods, enhance the understanding of small and medium-sized enterprises of fiscal and tax preferential policies, let small and micro enterprises understand the policies, truly obtain policy benefits, and enhance the development expectations of enterprises.

The third aspect focuses on expanding channels and constructing a comprehensive and multi-tiered financial support system. This involves establishing robust management institutions to facilitate loans for micro, small and medium-sized enterprises, thereby alleviating their financing difficulties through policy guidance. Furthermore, it includes perfecting industry standards for such loans and providing directives for these enterprises to enhance their financial systems. Optimizing the performance evaluation mechanisms for financial institutions and increasing the evaluation weight for their support of small and micro-enterprise development form another crucial part of this initiative. Innovation in inclusive financial service products is also emphasized<sup>[3]</sup>. For instance, creating dedicated green financial service channels for micro, small and medium-sized enterprises ensures a continuous improvement in inclusive loan services tailored to individual needs through a differential, personalized approach. Additionally, accelerating the construction of financing platforms for these enterprises is key. Utilizing advanced technologies such as big data and cloud computing can address the issue of information asymmetry in financing. The encouragement of a direct investment market for micro, small and medium-sized enterprises is pivotal. This includes exploring the establishment of non-profit financial guarantee institutions and venture capital companies to bolster investment support for these enterprises. Enhancing the credit system for micro, small and medium-sized enterprises is another important measure. This involves perfecting the system for disclosing credit information and strengthening the database of credit records. Accelerating the construction pace of credit infrastructure networks is also vital. Considering the developmental characteristics of micro, small and medium-sized enterprises, it is essential to establish objective and accurate credit evaluation indicators tailored to local conditions. This aims to reduce credit approval processes, regulate the credit market order, and support banks in adopting relief policies, such as the reduction or exemption of overdue interest and deferred repayment, thereby providing support services for the renewal of loans for micro, small and medium-sized enterprises.

## References

- [1] Du J , Guariglia A , Newman A .Do Social Capital Building Strategies : Influence the Financing Behavior of Chinese Private Small and Medium-Sized Enterprises?[J].*Entrepreneurship: Theory and Practice*, 2015, 39(3):601–631.
- [2] Eliasson K ,Pär Hansson, Lindvert M .Do firms learn by exporting or learn to export? Evidence from small and medium-sized enterprises[J].*Small Business Economics*, 2012, 39(2):453-472.
- [3] Miocevic D , Crnjak-Karanovic B .Cognitive and Information-Based Capabilities in the Internationalization of Small and Medium-Sized Enterprises: The Case of Croatian Exporters[J].*Journal of small business management: JSBM*, 2011.