Support for SMEs in the COVID-19 crisis: the case of China

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Overview

During the Covid-19 health crisis, the Chinese government implemented a forceful strategy to contain the spread of the virus. While successful in limiting community transmission, this approach initially caused significant economic hardship, and especially for small and medium enterprises (SMEs). To mitigate the impact, the authorities initiated an ambitious policy programme early on to support SMEs and help them jump-start their operations once the lockdown was lifted. More than 90 per cent of SMEs had resumed their business by mid-May according to the Chinese Ministry of Industry and Information Technology. This note, drawing on analysis from China’s Centre for International Knowledge on Development, summarises major policies and the lessons learned so far from the Chinese experience regarding the support for SMEs. It concludes with important lessons for other countries, including the need for proper implementation of policies, the benefits of tailoring policies to local conditions, and the potential gains from exploring digital solutions.

How did China help SMEs during the coronavirus crisis?

Policy measures and communication were tailored to local conditions. The central government set up an online policy database on its main website (the State Council’s website) to list all relevant policies for SMEs, while delegating the implementation of targeted policies to local authorities. To incentivise the latter, key performance indicators of the local governments were adjusted by increasing the weight put on reopening the local economy versus containing the coronavirus. The central government dispatched teams to regions in order to better understand the local needs of businesses. It also enhanced the role of business associations in addressing these needs. For instance, the Municipal Government of Shenzhen initiated a rapid response mechanism that required government bodies to respond within 24 hours to specific SME demands regarding the resumption of their activities.

Extra liquidity (and regulatory flexibility) was provided to SMEs through the banking sector. The Central Bank cut the targeted reserve requirement ratios by 1 percentage point and released RMB 400 billion (US$ 57 billion) of long-term funding. The flexibility of regulatory requirements in the banking sector was increased as well. To ensure SMEs could get access to financing, the authorities introduced a special credit quota for SMEs with preferential interest rates. In total, RMB 1.6 trillion (US$ 226 billion) was made available for SMEs, half of which was provision of additional loans and the other half related to delayed loan repayments. Delayed repayments did not affect the credit records of those businesses.

Operational costs for SMEs were reduced. In Beijing and Shanghai, rent costs for SMEs were waived on state-owned properties. The authorities decreased VAT, provided VAT exemptions for small taxpayers in some areas (e.g., in Hubei province) and encouraged local governments to reduce local taxes and fees. Other operational costs reduction measures included reducing electricity fees by 5 per cent, allowing delayed utility payments for SMEs, temporarily making all highways toll-free and increasing subsidies on vocational training.
Consumer demand was stimulated. By mid-April, more than RMB 10 billion (US$ 1.4 billion) in the form of vouchers for purchasing goods had been allocated to residents in about 80 cities throughout China. The distribution of consumption discount coupons stimulated spending of the general population, or targeted groups in some cases, on hard-hit industries, with a sizeable multiplier effect for the rest of the economy. The government also promoted lowering entry thresholds, such as commission on individual orders or deposit held for any potential quality issues, for SMEs participation on digital platforms in order to boost online sales and marketing. The authorities also encouraged prioritising SMEs in all government procurements.

Existing environmental, social, and governance (ESG) legislation has been cautiously liberalised to help SMEs. For example, to enforce the requirement of table density in restaurants, the Chengdu government liberalised the regulations on city appearance to allow shop owners to set up tables outside the restaurants. Also, to ease access to finance, the authorities defined the pandemic as force majeure, which lifted legal responsibilities of banks’ counter managers for the incurrence of non-performing loans (NPLs). The latter measure is in line with the overall relaxation of regulatory requirements adopted by the Central Bank regarding commercial banks’ tolerance of NPLs.

What are the main lessons learned to date?

Proper implementation of policy is vital. Engagement on all levels of the government is needed to strike a balance between putting the epidemic under control and reopening of the economy. Successful implementation also requires distributing responsibilities among policy actors while acting in unity.

Policy measures need to be tailored to country-specific and local conditions. For example, if the household savings rate is high, reopening of the economy should be accompanied with measures to stimulate consumption. At the same time, complementary measures are needed to respond to local conditions.

Governments should make use of the (digital) infrastructure and tools already in place to implement innovative solutions. In China, the authorities took advantage of digital technology to develop a coding system that initially determined the potential risks of individual employees, and they used big data to enhance health inspection. The government also established platforms to coordinate labour demand and supply and set up point-to-point and one-stop transportation services, including for migrant workers. And the authorities supported SME uptake of online tools for remote working.

Policies encompassing the entire industry or supply chain work better than those targeting a small number of leading enterprises. Due to the interconnected nature of industrial production, a large core enterprise cannot operate in isolation from its supply chain, which often consists of many SMEs. Therefore, the government should promote the resumption of economic activity across the entire industrial sector irrespective of enterprise size instead of focusing only on core enterprises.