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**Introduction**

All over the world, the unorganized manufacturing sector is known as SMEs while in India this is known as SME defined in terms of investment in plant and machinery. The Small and Medium Enterprise sector is the real engine of growth for the Indian Economy in the New Millennium. It provides gainful employment to a large chunk of respondents. The share of SME sector in the manufacturing output and export is significant and has been growing consistently.

The Government has recognized its importance for the economy and its intention towards promotion of SMEs is reflected in various Industrial policy Resolutions right from the year 1948. The most important factor for economic development of a country is its industrialization. In the process of industrialization, importance is given to the three major groups of industries; large-scale industries, small-scale industries and cottage industries. Small and Medium Enterprises (SMEs) are showing their impact on national and regional economies throughout the world.

The industrial development in a backward area can only be achieved by the rapid development and promotion of small scale industries. Besides economic aspects, the social role of small scale and cottage industrial units are quite significant in achieving various social goals such as removal of poverty, attainment of self-reliance, reduction in disparities in income, wealth and standard of living and regional imbalances. Small and medium-sized enterprises (SMEs) play a vital role in the economic development of nations. Therefore, it is vital to evaluate the performance of SMEs to support that role. Current SME performance models suffer from a number of disadvantages.

In many aspects, China and India are very similar. Both countries are located in Asia with similar sized respondents and both belong to the group of emerging markets with fast-growing economies. There are negligible researches available on comparative study of India vs. China with special reference to SMEs. This is being a wide area; researcher studied the functioning of SMEs in India and China of selective segments i.e. Chemical Sector, Pharmaceutical Sector and Textile Sector. Researcher have studied many books, articles related the above topics associated to the Chemical Sector, Pharmaceutical
Sector and Textile Sector but there is no literature or articles available in these topics and there is a need to fill this gap. Therefore, there is a need to study the role and contribution of SME sector in India and China.

1.1 Role and Importance of SME

In a developing country like India, the role and importance of small-scale industries is very significant towards poverty eradication, employment generation, rural development and creating regional balance in promotion and growth of various development activities. It is estimated that this sector has been contributing about 40% of the gross value of output produced in the manufacturing sector and the generation of employment by the small-scale sector is more than five times to that of the large-scale sector. This clearly shows the importance of small-scale industries in the economic development of the country. The small-scale industry has been playing an important role in the growth process of Indian economy since independence in spite of stiff competition from the large sector and not very encouraging support from the government.

1.1.1 Employment generation:

The basic problem that is confronting the Indian economy is increasing pressure of respondents on the land and the need to create massive employment opportunities. This problem is solved to larger extent by small-scale industries because small-scale industries are labour intensive in character. They generate huge number of employment opportunities. Employment generation by this sector has shown a phenomenal growth. It is a powerful tool of job creation.

1.1.2 Mobilization of resources and entrepreneurial skill:

Small-scale industries can mobilize a good amount of savings and entrepreneurial skill from rural and semi-urban areas remain untouched from the clutches of large industries and put them into productive use by investing in small-scale units. Small entrepreneurs also improve social welfare of a country by harnessing dormant, previously overlooked talent. Thus, a huge amount of latent resources are being mobilised by the small-scale sector for the development of the economy.
1.1.3 Equitable distribution of income:

Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive. Thus small-scale industries ensures equitable distribution of income and wealth in the Indian society which is largely characterised by more concentration of income and wealth in the organised sector keeping unorganised sector always undeveloped. This is mainly because small industries are widespread as compared to large industries and are having large employment potential.

1.1.4 Regional dispersal of industries:

There has been massive concentration of industries in a few large cities of different states of Indian union. People migrate from rural and semi urban areas to these highly developed centres in search of employment and sometimes to earn a better living which ultimately leads to many evil consequences of over-crowding, pollution, creation of slums, etc. This problem of Indian economy is better solved by small scale industries which utilise local resources and brings about dispersion of industries in the various parts of the country thus promotes balanced regional development.

1.1.5 Provides opportunities for development of technology:

Small-scale industries have tremendous capacity to generate or absorb innovations. They provide many opportunities for the development of technology and technology in return, creates an environment conducive to the development of small units. The entrepreneurs of small units play a strategic role in commercialising new inventions and products. It also facilitates the transfer of technology from one to the other. As a result, the economy reaps the benefit of improved technology.
1.1.6 **Indigenization:**

Small-scale industries make better use of indigenous organisational and management capabilities by drawing on pool of entrepreneurial talent that is limited in the early stages of economic development. They provide productive outlets for the enterprising independent people. They also provide a seed bed for entrepreneurial talent and a testing ground for new ventures.

1.1.7 **SMEs Promotes exports:**

Small-scale industries have registered a phenomenal growth in export over the years. The value of exports of products of small-scale industries has increased tremendously. This contributes more than 40% India's total export. Thus they help in increasing the country's foreign exchange reserves thereby reduces the pressure on country's balance of payment.¹

1.1.8 **SMEs Supports the growth of large industries:**

The small-scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing, components, accessories and semi finished goods required by them.

1.1.9 **SMEs industrial relations:**

Better industrial relations between the employer and employees help in increasing the efficiency of employees and reducing the frequency of industrial disputes. The loss of production and man-days are comparatively less in small-scale industries. There is hardly any strikes and lock out in these industries due to good employee-employer relationship. Naturally, increase in number of units, production, employment and exports of small-scale industries over the years are considered essential for the economic growth and development of the country.

In the economic development of the country the small-scale industries are very important. The small-scale industry has been playing an important role in the growth process of Indian economy since independence in spite of stiff competition from the large sector and not very encouraging support from the government.

SMEs are also larger contributors to exports and employment and major contributors to Gross Domestic Product (GDP). Small businesses are particularly important for bringing innovative products or techniques to the market. SMEs are playing a critical role in the social development of emerging markets by creating jobs and generating income for low-income groups. Due to the significance of SMEs to local economies, it is necessary to study and evaluate their performance. Such study helps to design governmental and non-governmental SME support programs. This promotes economic growth and social stability and contributes to the development of a dynamic private sector. Studying SMEs can enhance our understanding of their needs in respect to growth and development. Such understanding would enable scientists, practitioners, and policy-makers to formulate sound support strategies for SMEs.

1.2 Definition of SMEs in India & China

1.2.1 Definition of SME in India

The traditional small-scale industries clearly differ from their modern Small & Medium Enterprises in many respects. The traditional units are highly labour consuming with their age-old machineries and conventional techniques of production resulting in poor productivity rate whereas the modern small-scale units are much more productive with less manpower and more sophisticated equipments. Khadi and Handloom, Sericulture, handicrafts, Village Industries, Coir, Bell Metal, Pharma, Chemical, Food are some of the traditional small-scale industries in India. The modern small industries offer a wide range of products starting from simple items like hosiery products, garments, leather products, fishing hook etc to more sophisticated items like television sets, electronics control system, various engineering products especially as ancillaries to large industrial undertakings.
Small scale sector has remained high on the agenda of all political parties, intelligentsia and policy makers since Independence as a legacy of Gandhian philosophy. The special thrust to this sector has been with the multiple objectives of employment generation, regional dispersal of industries and as a seed bed for Entrepreneurship. The contribution of small scale industries (SSIs) has been remarkable in the industrial development of the country.

At the time of India's independence in the year 1947, the nation had a plethora of serious problems to face, viz. shortage of food-grains, poor infrastructure, lack of financial resources, high rate of illiteracy and poor industrial base. To build the nation's economy, following the socialist path of development an overwhelming importance was attached to the public sector units, which the first Prime Minister of India called them "Modern Temples of India".

The Industrial Policy Resolution of 1948, which marked the evolution of Indian Industrial Policy, outlined the broad contours of the policy and defined the role of the state in industrial development both as an entrepreneur and as a regulatory authority. In order to optimize the utilization of scarce resources and reduce the threat of re-colonization by the multinationals, centralized planning was adopted with wide ranging controls on private trade, investment, land ownership and foreign exchange. The foundations of the policy for the small scale industry were laid in the Second Five Year Plan. In 1956, the government announced its second industrial policy which unambiguously chose equity as the guiding principle for small industry development. “Small scale industries provide instant major employment, offer a method of ensuing a more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilised”.

In 1967, it was then that the protection of small industry touched its height; the guarded initiatives of the reservation of products for exclusive manufacturing by the small industry. By the ‘Industrial Policy Statement’ of 1977-A high watermark in the evolution of the policy for small industry was greatly extended too many more products.
In 1996, the number of products reserved for SSI was increased from 180 to 504 a further to 836 items. It was then that the protection of small industry touched its acme; the guarded initiatives of earlier years were cast aside by a heightened zeal for an expanded role for this sector, in particular, the reservation of products for exclusive manufacturing by the small industry, begun in 1967 items in 1996.\(^2\)

In 1995, Government grouped small scale industries into two categories- those using power but employing less than 50 persons and those not using power but employing less than 100 persons.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

Manufacturing Enterprises- The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and Regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use.

The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

Small Enterprise - A small enterprise is, where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees; or

Medium Enterprise - A medium enterprise, where the investment in plant and Machinery is more than five crore rupees but does not exceed ten crore rupees.

Service Enterprises are defined in terms, the enterprises engaged in providing or rendering of services are defined in terms of investment in equipment.

Small Enterprise - A small enterprise is, where the investment in equipment is more than ten lakh rupees but does not exceed core rupees; or

\(^2\) General review study of small & medium enterprise (SME) clusters in India Retrieved on 29.5.2013
Medium Enterprise - A medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

Periodical Census is conducted to collect data on units registered with District Industries Centers. The Office of the Development Commissioner (MSME) has in the past conducted three censuses of registered SSI units. The First Census was conducted in 1973-74 in respect of 2.58 lakh SSI units registered up to 30-11-1973. The reference year for this Census was calendar year 1972 in respect of units not maintaining accounts and the actual accounting year closing between 1-4-1972 and 31-3-1973 for those units maintaining accounts. Some information was also collected for 1970 and 1971. During this Census, only 1.4 lakh units were found working.\

The Second Census was conducted during 1990-92 in respect of 9.87 lakh SSI units registered up to 31-3-1988. The reference year for this Census was financial year 1987-88 in respect of units not maintaining accounts and the actual accounting year closing between 1-4-1987 and 31-3-1988 for those units maintaining accounts. During this Census, only 5.82 lakh units were found working.

In the Third census, the units registered permanently up to 31.3.2001 were covered on complete enumeration basis. A total of 22,62,401 units were surveyed. Out of these, 13,74,974 units were found to be working and remaining 887427 units (39%) were found closed.

The unregistered SSI sector was surveyed for the first time in the third census. This sector was surveyed using a two-stage stratified sampling design. Out of 9,94,357 rural villages and urban blocks, 19,579 rural villages and urban blocks were surveyed to identify the units of unregistered SSI sector. The size of the unregistered SSI sector was estimated to be 91,46,216. This comprises 38.75% SSIs and 61.25% SSSBEs.

The Fourth Census (2006-07), conducted post MSMED Act 2006 implementation, which mandate coverage of all components of non-agricultural segments expanded scope of both Registered and Unregistered sector. Under Registered sector, in addition to DIC registered

\(^3\) Ministry of Small Scale Industries Notification vide S.O. 1642(E) dttd.29-09-2006
enterprises, units under coverage of KVIC, Coir Board and identified MSMEs registered under Factories Act 1948 were covered.

During the fourth All India Census, enterprises not registered as per the list available with DICs as on 31.3.2007, were also covered on sample survey basis under unregistered sector. The census of Registered Sector and sample survey of unregistered sector was carried out separately leading to publication of the final report of registered sector by 2011. During the census operation, information on enterprises are collected on their operation and production details.

The small and medium enterprises as classified above are required to file Entrepreneurs Memorandum (EM) Part-I to District Industries Centre for starting an industrial project. On completion of the project, the entrepreneur is required to file Entrepreneurs Memorandum (EM) Part-II with DIC.

The items manufactured in Small-scale service & Business enterprises in India include Pharma Products, Food products, Textile Products, Jute products, rubber products, plastic products, chemical products, glass and ceramics, mechanical engineering items, hardware, electrical items, transport equipment, electronic components and equipments, automobile parts, bicycle parts, instruments, sports goods, stationery items and clocks and watches.4

1.2.2 Definition of SME in China

With the opening up of China to market economy in the 1980s as part of the market-oriented reforms initiated by Chinese leader Deng Xiaoping, private SMEs were finally recognised as vital to the country’s economic development. The definition of a small-medium enterprise is most commonly based on the number of employees that usually with fewer than 500 employees. In China, the definition of an SME is complex, which depends on the industry category and based on the number of employees, annual revenue and total assets, and this criteria on small and medium-sized enterprises are based on the SME Promotion Law of China in 2003, which sets the guideline for classifying SME’s.

The relevant size of the SMEs is significantly smaller than the large and listed companies in China due to the size of their capital stock, credit allowance. The Structural characteristics of SMEs in China have grown really large in size due to their continuous improvement and technological improvements.

After the reformations of government legislations in 2005 for the favour of SMEs in China, SMEs have been operating in different branches of businesses such as manufacturing, services, construction, transport and retailing. This support has helped the emergence of many more SMEs in China which means there is even greater demand for financing all these SMEs.

Small enterprises also make up huge proportion of SMEs in China which usually lack the degree of specialization and cooperation in the production areas. This is mainly because there is lack of government legislations that supports and shows guidelines for SMEs in China.

The main market for SMEs is the domestic market of China which is due to the fact that SMEs cannot cope with fierce competition in the international markets or does not have advantage over foreign-invested companies with high-tech. Due to shortage of funds, most SMEs operate mainly in labour-intensive small and medium industries as the technological progress is slow for them.


SME definition in China depends on the industry category and is defined based on the number of employees, annual revenue, and total assets comprising a company.
<table>
<thead>
<tr>
<th>Category</th>
<th>Industries</th>
<th>Employment</th>
<th>Total assets</th>
<th>Business revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>Industry</td>
<td>&lt;300</td>
<td>&lt;¥ 40million</td>
<td>&lt;¥ 30million</td>
</tr>
<tr>
<td>Construction</td>
<td>&lt;600</td>
<td>&lt;¥ 40million</td>
<td>&lt;¥ 30million</td>
<td></td>
</tr>
<tr>
<td>Wholesale</td>
<td>&lt;100</td>
<td>&lt;¥ 30million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>&lt;100</td>
<td>&lt;¥ 10million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>&lt;500</td>
<td>&lt;¥ 30million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post</td>
<td>&lt;400</td>
<td>&lt;¥ 30million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hotel &amp; Restaurant</td>
<td>&lt;400</td>
<td>&lt;¥ 30million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>Industry</td>
<td>300-2000</td>
<td>&lt;¥ 40million - 400million</td>
<td>&lt;¥ 30million - 300million</td>
</tr>
<tr>
<td>Construction</td>
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<td>&lt;¥ 40million - 400million</td>
<td>&lt;¥ 30million - 300million</td>
<td></td>
</tr>
<tr>
<td>Wholesale</td>
<td>100-200</td>
<td>&lt;¥ 30million - 300million</td>
<td></td>
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<tr>
<td>Retail</td>
<td>100-500</td>
<td>&lt;¥ 10million - 150million</td>
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<tr>
<td>Transport</td>
<td>500-3000</td>
<td>&lt;¥ 30million - 300million</td>
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<td>Post</td>
<td>400-1000</td>
<td>&lt;¥ 30million - 300million</td>
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<tr>
<td>Hotel &amp; Restaurant</td>
<td>400-800</td>
<td>&lt;¥ 30million - 150million</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Specific criteria apply to the industrial sector, construction, transportation, wholesale and retail business, and hotels and restaurants. Guidelines for the industrial sector requires SMEs to employ a maximum 2,000 people, and to have an annual revenue not exceeding RMB300 million. Their total assets should not exceed RMB 400 million. Medium-sized enterprises should employ a minimum of 300 people. Their annual revenue and total assets should not exceeding RMB30 million and 40 million respectively. The rest are classified as small enterprises. SME definition in China depends on the industry category and is defined based on the number of employees, annual revenue, and total assets comprising a company.

An industrial SME is defined as having up to 2,000 employees; while a medium-sized business has between 301 and 2,000 employees; and a small business has less than 300. SMEs are an important part of China’s economy. Based on regional distribution maximum SMEs are located in the eastern area part of China. In China by industry distribution maximum business revenue coming from manufacturing industry.
SMEs are an important part of China’s economy. In 2007 a total of 4,459 large companies accounted for 0.19 percent of the total number of enterprises registered in the country; 4,2291 medium-sized businesses, or 1.78 percent; and 2,327,969 small enterprises, or 98 percent, of the total. Overall, SMEs account made up for 99.7 percent of the total number of companies operating in China at the time. Business revenue of SMEs accounts for 60.42 percent of total earnings; small enterprises, 6.54 trillion, or 23.70 percent. The industrial income of SMEs accounts for 66.28 percent; 11.77 trillion of the small enterprises are about 37.29 percent. The SMEs are increasingly playing an important part role in employment generation. Large enterprises employ 20,877.8 thousand individuals, or 18.11 percent of the total employment; medium enterprises, 35,464.3 thousand, or 30.76 percent; small enterprises, 58,947.8 thousand, or 51.13 percent.5

1.3 Overview of Industrial Growth in India & China before 1950

1.3.1 Overview of Industrial Growth in India before 1950

During the Harappan age, there were great progress of economic activity in the fields like agriculture, industry and crafts and trade. Main crops grown were sesame, mustard as well as cotton, wheat and barley. There were surplus grain and stored in granaries. Animals like sheep, goats and buffalo were domesticated. There were specialized groups of artisans like goldsmiths, brick makers, stone cutters, weavers, boat-builders and terracotta manufacturers. The outstanding examples of Harappan metal craft were bronze vessels and copper vessels. They were used gold and silver ornaments. They were manufactured wide variety of semi-precious stones from Beads. There was extensive internal trade with other parts of India and foreign trade was mainly conducted with Mesopotamia, Afghanistan and Iran. They were imported gold, copper, tin and several semi-precious stones and main exports were agricultural products like wheat, barley, peas, oil seeds and a variety of finished products including cotton goods, pottery, beads, terracotta figures and ivory products. They were used bullock carts and oxen for land transport and boats and ships for river and sea transport.

BC 300: Chandra Gupta Maurya was the emperor. He had unified most of the Indian subcontinent and had brought the entire administration under one roof. He had introduced a common economic system and developed trade and commerce as well as increased the productivity of agriculture. Due to the enhanced infrastructure along with better security and greater uniformity in measurement as well as wide usage of coins and currency the trade and business improved.

1st century India had (32.9%) share of world GDP and in AD 1000 it was 28.9%. During the medieval period from the 12th to the 16th centuries, the country was prosperous as well as the towns in various parts witnessed considerable growth despite the regular political turmoil. Delhi, Lahore, Bombay, Ahmedabad, Sonargaon and Jaunpur. Coastal towns grew into trade and industrial centres which in turn led to the general prosperity.6

During the Seventeenth century India under Aurangzeb's Mughal Empire was economically more advanced than most of the European nations. India had (32.9%) share of world GDP. During the 18th century the estimated India’s economy was 24.4% and India was the second largest in the world. During this period, India’s trade covered about 90% of South Asia. During this period systematic and unified customs and tax-administration was introduced. Due to the quality and low cost as well as its craftsmanship the Indian products have better demand outside India. Also Indian cotton textiles, saltpeter, tobacco, indigo, silk, brocades have also very good demand all over the world. Therefore the traders from other countries came to India for purchasing these goods by exchanging gold and silver thus India was the richest nation in the world.7

Under colonial rule, India, as with most other developing countries, followed a non-industrial model. But many Indians believed that progress was retarded by this. It was believed that true economic progress lay in industrialisation; Smith’s and Ricardo’s ideas of international specialisation and mutually advantageous free trade were rejected, at least until India became an exporter of more sophisticated goods.

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6 Economic history of India From Wikipedia as on 22.5.2012
India had the world's largest economy till the 18th century. India carried out most of its business with gold based countries, especially Britain. At this time a huge divide between silver-based and gold-based economies resulted. The worst affected countries who were dealing with a silver standard with economies with a gold standard.

In the eighteenth and nineteenth centuries the growth of Indian industries declined, due to various reasons like political disintegration, end of the Mughal Empire etc. Also in 1757 when Britain’s successes in Plassey was smoothened the way for Europeanization of Indian trade and industry. When British conquest India the industrial revolution occurred in England and they have taken full advantage of Technological Inventions at the same time even though India had commercial class have no industrial background. The entry of the British East India Company in the mid 18th century dealt a fatal blow to the prosperity of the country. The Indian cotton industry declined due to the imposition of a heavy tariff on Indian cotton and cotton goods exported to England and at the same time they have exempted the duty on British goods imported to India. The Company increasingly monopolised the foreign trade in India thereby reducing the mercantile community to economic failure. Thus the once glorious arts and crafts of India died a natural death.8

India was famous for her handicrafts right from Pre-British times. During the Mughal Period, India had a considerable variety of arts and handicrafts. In several handicrafts, specialization of jobs had advanced to such an extent that particular classes of artisans undertook distinct processes in the class of production; and the products commanded wide range of foreign markets. At that time no other country produced products that could be imported to India in exchange for cotton and silk goods which were in world-wide demand.

The Industrial Revolution of 1770 has come to be thought of as the great turning point in human history. In 1770 was launched the modern era of unending economic growth, of liberation from the constraints of the land base under the old organic technology. There

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8 Usha Rani B, Industries in India during 18th & 19th Century, 1984 pp18
has followed from this an intense debate on the features of the British economy in 1770 that precipitated the break from the past.

The history of modern industrial development in India dates back to about last 150 years which got acceleration during the post-independence period. The first charcoal based iron smelting was attempted in 1853 which failed by 1874. The first successful adventures were in the field of textile industry, i.e. cotton press by a Parsi C.N. Dewar at Mumbai in 1854 and a jute spinning mill by George Acland at Risra (near Kolkata) in 1855. By 1860 ten other cotton mills were started in Mumbai. The real expansion in cotton textile industry was noticed during 1870's following the spurt in demand in the wake of American civil war. By 1875-76 the number of mills rose to 47, of which about 62 per cent were located within the city of Mumbai (21 per cent in Bombay Presidency). The laying of first rail line between Mumbai and Thane in 1854 proved beneficial in this context. Until 1913-14, before First World War, the number of cotton textile mills rose to 271 with total employment of 2,60,000. The progress was not very encouraging in case of jute textile industry. The second jute mill was set up in 1859 with spinning and weaving facilities. Two more mills were added by 1862. A spurt came during 1869-1884 with the addition of 23 new mills accounting for an average daily employment of 47,863. By 1913-14 the number of jute mills increased to 64 which provided average daily employment to 2,19,288 people. Majority of these mills were located in and around the city of Kolkata. The owners were exclusively Europeans (British). The impact of World Wars, on the whole, was beneficial for the growth of Indian industries, because India became the source of supply for allied operations east of Suez due to obstruction in foreign sources of supply.9

Till 1914 trade and industry’s general conditions was prosperous on account of rich flow of British capital. In the year 1929 even though there was a Great Depression in the world wide, the traditional Indian and modern secondary sector was no big impact. The World War I (1914-18) (which was fought on a global basis and the years immediately following the war experienced a sort of industrial boom. The crisis of 1921, the widely fluctuating exchange rates of 1921 to ‘27, the depression of 1929-‘33, the recovery of 1934-‘37, the adoption of constitution in 1935 and the formation of Ministries in various provinces

during 1937-'39 were some of the main events that influenced India's industrial development during the inter-war period.

It was during this period that Indian Industrial Commission 1916-18 the Fiscal Commission (1921-'22), the External Capital Committee (1925), the Rota1 Whitley Commission and Labour (1929-'31) and Central Banking Enquiry Committee (1940) were appointed to make a deep enquiry into their respective fields. This directly or indirectly helped the development of Indian industries.\textsuperscript{10}

Second World War gave boost to Indian industrial output, but the capacity was not much increased due to the problem of importing capital goods and the need of a domestic capital goods industry.

The limitations of the growth of industrial output were the extreme poverty of the rural respondents. Even though the government provided the tariff protection alone did not help to create industrial plants, sponsor development banks or give preference to local industry in allotting contracts. The banking system helped industries little bit but technically educated people were very less. When India became independent most of these things have changed except rural respondents’ poverty, which limited the expansion of the market for industrial goods.

The development of chemical industry in modern times dates from the middle of the 19th century. It followed a natural course and industries sprang up in localities where the necessary raw materials existed. In England, on account of limestone, coal and salt occurring in close proximity, the great alkali industry of Cheshire came into existence. Similarly, the bromide industry grew up in Strassfurt in Germany, and so on. In the pre-World War I era, there was very little tendency for any country to develop a closed economy. England was quite content to receive her supplies of nitrates from Chile without wanting to start a synthetic nitrate industry. In a world of free trade, this is perhaps the most logical course to follow. But the World War I gave a rude shock to this feeling of self complacency. England found that she had not only to import most of her food but also to fetch from far away Chile all nitrates for growing her food and for making explosives.

\textsuperscript{10} Gregory C, The secret history of the industrial, 2001 pp4
and dyestuffs. There was no manufacture of dye-stuffs in England and she had to import 90 per cent of her requirements from abroad. Practically, the same position obtained with regard to pharmaceuticals. The position was so acute that during 1914-18, the price of a common chemical like salicylic acid rose from a few shillings to £2.10-0 per lb. It was, therefore, not unnatural that England would revise her policy after the World War I and aim at a policy of self-sufficiency. Moreover, the World War I taught England that many products essential for the wartime economy had to be produced internally.

Steps were taken in 1920-21 to formulate future development plans. Protection was given to manufacture of fine chemicals as a key industry by the imposition of a protective duty of 33.13 per cent under the Safeguarding of Industries Act 1921. The result was that between the period 1920-1938, the capital employed in the fine chemical industry in England was trebled and the amount spent on research was quadrupled. The total weight of fine chemicals produced in 1938 was eleven times that produced in 1920.11

In India, the chemical industry in its modern form began after the World War I, although the oldest chemical factory in India was established in the early years of the 19th century. In 1921, 14 large chemical works in India employed about 2,500 workers. In 1939, the number of factories rose to 38 employing about 8,000 workers.

At the time of the Tariff Board Enquiry of 1931, only sulphuric acid and chemicals derived from it were manufactured in India. There was no manufacture of alkali at all. The Indian manufacturers referred their case to the Indian Tariff Board of 1931, which suggested certain measures for protecting the heavy chemical industry. In 1935 as a result of the protective measures recommended by the Tariff Board, 23 large factories employing 4,200 workers came into existence. But the development of the chemical industry as a result of the protection given was comparatively slight and could in no way be compared to the phenomenal growth of this industry in the UK India had to import nearly Rs. 3 cores worth of chemicals excluding dyes every year. The UK supplied nearly 60 per cent of India's total imports, thanks primarily to the reorganisation of the chemical industry in UK after the World War I. The production of heavy chemicals requires knowledge of large

11 Raja K, Industrial Development during Pre-independence Period in India, 2012
scale technique and, consequently, a well-developed engineering industry. The production of complex chemicals, however, is not attended usually with similar difficulties. In India, occasionally, some firms produced synthetic chemicals of a very complex nature with imported basic chemicals.\textsuperscript{12}

The origins of the pharmaceutical industry in India can be traced back to the colonial (pre-independence) era. Most of the pre-independence pharmaceutical companies were owned by the British, perhaps with the only exception of Bengal Chemical and Pharmaceutical Works established in 1901 by the eminent chemist Prafulla Chandra Ray. However, during the British Raj, India continued to remain import dependent. The Second World War gave a boost to the Indian pharmaceutical industry with respect to its size as well as product range. Besides vaccines for infective diseases, the industry started producing various other drugs including alkaloids, chemotherapeutic drugs and calcium preparations.

During the colonial regime the traditional textile industry of India was virtually decayed. However, in the early nineteenth century the modern textile industry took birth in India when the first textile mill was established at Fort Gloster near Calcutta in 1818. Next to Agriculture India mainly is into the Textile Sector. Indian Textile Industry is one of India's oldest industries and has a formidable presence in the national economy as it contributes to about 14% of manufacturing value-addition, accounts for around one-third of our gross export earnings and provides gainful employment to millions of people.

In 1850's the cotton textile industry, however, made its real beginning in Bombay. In the year 1854 the first cotton textile mill of Bombay was established by a Parsi cotton merchant then engaged in overseas and internal trade. Indeed, the vast majority of the early mills were the handiwork of Parsi merchants engaged in yarn and cloth trade at home and Chinese and African markets.\textsuperscript{13}

The first cotton mill established in the year 1861 was at Ahmedabad, which was eventually to emerge as a rival centre to Bombay, which later spread the textile industry largely due to the Gujarati trading class. The cotton textile industry made rapid progress in

\textsuperscript{12} Ray. J. N, The Chemical Industry of India, 1950

\textsuperscript{13} Amit SR, Saradindu B, Competing Through Technological Capability: The Indian Pharmaceutical Industry in a Changing Global Landscape, 2012 , Paper No.3 - ISSN: 0976- 2051 – pp3
the second half of the nineteenth century and by the end of the century there were 178 cotton textile mills; but during the year 1900 the cotton textile industry was in bad state due to the great famine and a number of mills of Bombay and Ahmedabad were to be closed down for long periods.

1.3.2 Overview of Industrial Growth in China before 1950

In the fourteenth century, China was the lead country in terms of per capita income and maritime technology. Early in the Ming dynasty, it turned its back on the world economy. By 1500, China pushed back by western Europe in per capita real income, technological and scientific capacity.

1820 China was the world's largest economy followed by the UK and India. Till the nineteenth century, China was able to accommodate a fourfold increase in respondents while maintaining average per capita income more or less stable. Its capacity for extensive growth was most clearly demonstrated in the eighteenth century. Its GDP grew faster than that of Western Europe from the year 1700 to 1820, even though European per capita income grew by a fifth. Between the year 1820 and 1950, per capita income fell from 90 per cent to 20 per cent of the world average due mainly to civil wars and the intrusions of foreign colonialists.

In the 1930s Chiang Kai-shek unification and political stability in China, industries developed continuously. From 1927 to 1931, Industries in China had developed and grew. But from 1931 to 1935 due to Great Depression Chinese industries had badly affected. But again 1936, industrial output had recovered and came to the year 1931position. In 1932, China's GDP pointed at 28.8 billion, but in the year 1934 it was 21.3 billion and in the year 1935 it was 23.7 billion.14

The main reason for the low impact on the Chinese economy during the financial crisis is due to the substantial monetary and fiscal incentive, which has been introduced by the Chinese government.

1.4 Overview of Industrial Growth in India & China between 1950 to 1999 i.e. up to Liberalization

1.4.1 Overview of Industrial Growth in India between 1950 to 1999 i.e. up to Liberalization

India’s first Prime Minister Jawaharlal Nehru declared on the eve of the departure of the British, on 14 August 1947, that India’s task in the future included "the ending of poverty and ignorance and disease and inequality of opportunity". These measures will be used to determine the success of the inward-looking policies he initiated, as well as to compare their success with the success of the reform policies. Therefore, growth of income per capita, alleviation of poverty and reduction of income inequalities are amongst the most important indicators. To measure advances regarding inequality of opportunity and ignorance, several indicators pertaining to education and health will be used. These are two important public goods to which every individual is entitled; both for their intrinsic importance and for their enhancement of instrumental personal, social and process roles, and also empowerment and distributive roles.

From 1947 to 1964, Prime Minister, Jawaharlal Nehru, saw industrialisation as the key to alleviating poverty. Industrialisation not only promised self-sufficiency for his nation that had just regained political sovereignty, but also offered external economies accruing from technical progress. Believing the potential of agriculture and exports to be limited, Indian governments taxed agriculture by skewing the terms of trade against it and emphasising import substitution, thus giving priority to heavy industry. Nehru believed a powerful state with a centralised planned economy to be essential if the country was to industrialise rapidly. The Industries (Development and Regulation) Act (IDRA) in 1951 laid the foundations for this administrative control on industrial capacity. But, over time, the licensing requirements became increasingly stringent and were accompanied by a gamut of procedures that required clearance by a number of disparate and uncoordinated ministries. In order to pursue IS, the Import Trade Control Order of 1955 subjected almost
all imports to quantitative restrictions in the form of import licenses. These were supplemented by tariffs at rates that were among the highest in the developing world.\textsuperscript{15}

Indian state intervention in industrial development has been extensive. Unlike many East Asian countries, which used state intervention to build strong private sector industries, India opted for state control over key industries. At different times, nationalised industries included chemicals, electric power, steel, transportation, life insurance, portions of the coal and textile industries, and banking. To promote these industries the government not only levied high tariffs and imposed import restrictions, but also subsidised the nationalised firms, directed investment funds to them, and controlled both land use and many prices.

In the year 1950 - The government of India constituted the planning commission under the leadership of Jawaharlal Nehru. The main responsibility of Planning Commission was making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilization of resources and determining priorities and to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community. Accordingly in the year 1951, the first five year plan was launched and a maximum resource was directed to the agricultural sector. As a result of the plan, the food production rose by 18\%\textsuperscript{16}.

With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small-scale industries and medium scale industries in the Indian economy. Due protection was accorded to both sectors, and particularly for small-scale industries from 1951 to 1991, until the nation adopted a policy of liberalization and globalization. Certain products were reserved for small-scale units for a long time, though this list of products is decreasing due to change in industrial policies and climate. In today’s India, industries, particularly small and medium – sized manufacturing industries (SMEs), operate under various conditions and constraints, which stand on the way to the achievement of organisational goals.

\textsuperscript{15} http://www.indianmirror.com/indian-industries/textile.html( accessed on 22.12.2013)
\textsuperscript{16} Angus Maddison, China in the World Economy: 1300-2030
From the year 1952 to 1978, per capita GDP grew by 1.7% per year because Nehruvian policies involved high levels of public investment in heavy industry and detailed controls on the private sector. From the year 1978–90, these policies were modified and per capita growth rose to 2.6%. From the year 1991 this policy became liberal more and more from time to time.\(^{17}\)

When India’s industrial history is reviewed, it is found that the country has mainly followed three regimes after independence. These are the planned or controlled period till the end of the 1970s, the limited liberalization period of the 1980s and the post-reform period beginning in early 1990s. It is seen that the performance of the industrial sector as a whole coupled with the manufacturing sector has witnessed substantial growth in terms of output after the 1980s, which further stabilized in the 1990s. However, mining and quarrying as well as electricity, gas and water supply sectors of industry have decelerated in the post-reform period.

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Under Prime Minister Indira Gandhi (1966-77), two major shifts took place in the role of the state. First, the neglect of agriculture was reversed through state activism in subsidising new seeds and fertilisers, agricultural credit, and rural electrification. The green revolution took off and by the mid-1970s India was self-sufficient in grain. The second shift was the further tightening of state control over every aspect of the economy.

\(^{17}\)www.planningcommission.gov.in/aboutus/history/index.php?about=aboutbdy.htm
\(^{18}\)planningcommission.gov.in/aboutus/history/index.php?about=aboutbdy.htm
Banks were nationalised, trade was increasingly restricted, price controls were imposed on a wide range of products, and foreign investment was squeezed.\textsuperscript{19}

In 1973, dealings in foreign exchanges as well as foreign investment came to be regulated by the Foreign Exchange and Regulation Act (FERA). The act virtually shut out the inflow of new technology from abroad in the 1970s and 1980s, particularly when these involved large equity participation.

The Indian system of state planning went far beyond the usual inward-looking industrialisation policies that most developing countries pursued after World War II. The government regulated the most basic business decisions for all firms above a certain size: borrowing, investment, capacity utilisation, pricing and distribution.

The over-restrictive, and often self-defeating nature of the regulatory framework, began to become evident by the late 1960s and early 1970s. Comprehensive planning was increasingly criticised as planned targets were not met and many plans were not even implemented. The lack of success in some dimensions led to a new and more restrictive set of regulations. One example is the attempt to reserve sectors for small industries and to restrict the growth of large firms.

Beginning in the early 1980s, a mild trend towards deregulation started. Economic reforms were introduced, starting to liberalise trade, industrial and financial policies, while subsidies, tax concessions, and the depreciation of the currency improved export incentives. These measures helped GDP growth to accelerate to over 5% per year during the 1980s, compared to 3.5% during the 1970s, and reduced poverty more rapidly. However India’s most fundamental structural problems were only partially addressed. Tariffs continued to be among the highest in the world, and quantitative restrictions remained persistent.\textsuperscript{20}

\textsuperscript{19} Ministry of MSME annual report 2011-2012
Moreover, a significant government influence continued in the allocation of credit to firms and a discouragement of foreign investment. Relatively inefficient public enterprises, controlling nearly 20% of GDP, remained a drag on economic growth.

The government expanded antipoverty schemes, especially rural employment schemes, but only a small fraction of the rising subsidies actually reached the poor. Competition between political parties drove subsidies up at every election. The resulting fiscal deficits (8.4% of GDP in 1985) contributed to a rising current account deficit. India’s foreign exchange reserves were virtually exhausted by mid-1991 when a new government headed by Narasimha Rao came to power.

In July 1991, India launched a second major economic reform program. The government committed itself to promoting a competitive economy that would be open to trade and foreign investment. Measures were introduced to reduce the government’s influence in corporate investment decisions. Much of the industrial-licensing system was dismantled, and areas once closed to the private sector were opened up. These included electricity generation, areas of the oil industry, heavy industry, air transport, roads and some telecommunications. Foreign investment was suddenly welcomed.

Greater global integration was encouraged with a significant reduction in the use of import licenses and tariffs (down to 150% from 400%), an elimination of subsidies for exports, and the introduction of a foreign-exchange market. Since April 1992, there has been no need to obtain any license or permit to carry out import-export trade. As of April 1, 1993, trade is completely free, barring only a small list of imports and exports that are either regulated or banned. The WTO estimated an average import tariff of 71% in 1993 which has been reduced to 40% in 1995. With successive additional monetary reforms, the rupee, since 1995, can nearly be considered a fully convertible currency at market rates. India now has a much more open economy.  

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21 Jana Hambrock and Sebastian Hauptmann– Industrialisation In India, 1999
1.4.2 Overview of Industrial Growth in China between 1950 to 1999 i.e. up to Liberalization

After the People’s Republic of China was established in 1949, the Chinese Communist Party government, like governments of many other countries at the time, thought the most effective way to speed up the industrialization process was by increasing investment in heavy industries such as steel, concrete, and heavy machinery. China’s government mobilized the resources for investment by limiting household consumption and setting low prices for agricultural goods so that forced savings and surpluses extracted from the agricultural sector could be used for investment in such industries.

This strategy of extensive growth based so heavily on capital accumulation was not sustainable and had grave welfare consequences. The big push towards industrialization during the Great Leap Forward years (1958–1960) not only failed to raise the GDP growth rate, it also had such disruptive effects on agricultural production that a severe famine occurred when China was hit by adverse weather shocks in 1959. The Great Leap Forward became the Great Leap Famine of 1959 –1961, when the official statistics admit to 15 million deaths and unofficial estimates suggest double that number or more. Despite these disastrous results, the Chinese government continued its unbalanced growth strategy with only minor adjustments after the famine. Unfavourable terms of trade were set on farm products, which effectively imposed heavy taxes on farmers. The hukou or household registration system was implemented to keep heavily taxed farmers from leaving rural areas. Furthermore, farmers were prohibited from engaging in any nonfarm activities. These policies initially helped to ensure that the government could extract surpluses from the agricultural sector to support the capital accumulation in the industrial sector. However, they also created incentive problems that significantly reduced the productivity of farmers. As a result, agricultural output grew slowly. In the late 1970s, the agricultural sector included more than 70 percent of China’s labour force. Emergency grain imports were frequently needed to meet food deficits. China’s non-agricultural sector was little better. It was dominated by the state-owned enterprises in which resource allocation and production activities were carried out according to government plan rather than market signals. Most of the state-owned enterprises at that time were inefficient, overflowing with redundant workers, and often producing output for which there was no market demand. At
the same time, there were very few firms in the light industries like home appliances, furniture, and clothing and there were constant shortages of consumer products. The period from 1952 to 1978 Chinese government have created adverse incentives and gross misallocation of resources that resulted in declining aggregate productivity, recurring food crises, and relatively little improvement in living standards.22

In the earliest stages of development, income inequality between the urban and rural sectors often increases. Surplus labor in agriculture moves to cities to seek higher productivity employment and urban incomes grow more rapidly than rural ones. However, the gap peaks, declines and eventually disappears as surplus labor shrinks and the rural sector modernizes. In the course of economic development, the largest cities evolve to become financial and business service centers, while industrial production decentralizes to small- and medium-sized cities which tend to highly specialize in particular lines of activity such as steel, autos, electronics, textiles, apparel, and wood products, as well as specialized services such as entertainment, insurance, and certain forms of health care. Most manufacturing and service production is more efficient when undertaken in urbanized areas where firms can more readily copy best practice in technology and management from more advanced firms, and more easily access skilled workers as well as transport services and other intermediate inputs. As places where innovations are incubated and sophisticated skills developed, cities are engines of growth. Most cities in China have too low Respondents to properly exploit the scale benefits of clustering local economic activity, thereby limiting urban productivity gains and economic growth. Relative to the rest of the world, China distinctly lacks cities in the range of 1-12 million in respondents. While Shanghai, Beijing and Guangzhou, for example, have evolved into mega-cities. In China, manufacturing should be decentralizing from the largest cities to medium- and small-sized cities. The comparative advantage and future growth potential of the largest cities lie in business and financial services. The rapid urbanization forthcoming in the next decade provides China with enormous opportunities to maintain high growth through more efficient uses of its existing resources (rather than just more investment), through increased growth of higher value manufacturing and services, and through increased domestic demand relative to export demand as hinterland cities accelerate their

growth. In the early stages of industrialization, the largest cities in a country are the focal points for development and importation of technology, and are the initial centers of industrialization. However, as development proceeds, technologies used in manufacturing production standardize, which permits decentralization of industrial production to small and medium-sized cities with lower labor and land costs. The natural economic base of the very largest cities is the business-service and financial sector, but in China these sectors are very small. In China have limited opportunities to invest in and establish life in cities, given lack of portability of rural wealth and lack of access to urban credit markets. Reform of capital markets to create an integrated national market complements labour market reform and is an integral part of integration of the urban and rural sectors. It seems economic growth in China would be better served by focusing on development of cities.

In the year 1952-78, per capita GDP growth in China was well below the Asian average. In China’s, domestic policies bore some of the responsibility. In China, the establishment of the People’s Republic brought a sharp change in the political elite and mode of governance. The degree of central control was much greater than under the Ch’ing dynasty or the KMT. Landlords, national and foreign capitalist interests were eliminated by expropriation of private property and there were negligible links to the world economy. The political changes had substantial costs. China’s version of communism involved risky experimentation on a grand scale. Self–inflicted wounds brought the economic and political system close to collapse during the Great Leap Forward (1958–60), and again in the Cultural Revolution (1966–76) when education and the political system were deeply shaken. Allocation of resources was extremely inefficient.23

The market-oriented reform that began in the late 1970s, particularly the success of the economic reform in rural areas, has brought about fundamental changes to China's economy. On the one hand, reform has brought the country into a new development period marked by the expansion of demand for non-essential commodities. On the other hand, it has changed the economy from a supply-motivated one to a demand-restricted one. In the past, the supply of necessities had been put under planned production, unified procurement and marketing, price control, rationing control and consumption subsidy. In a strict sense, they were not commodities under the old system. On such a basis, supported by the

motivation of extraordinary growth of rural economy, the national economy has entered a new development period marked by the expansion of demands for non-essential commodities. And such an economy inevitably carries congenital deficiencies which are mainly reflected in the irrational relationship and structures between supply and demand, the separation of markets, identical structures of production and consumption, and the skewing of market indicators. China has entered the process of economic take-off and rapid urban development.24

In view of the international environment and the very poor industrial base of the country following the founding of New China, the government decided to first develop heavy industry. Beginning with the First Five-Year Plan (1953-1957), China concentrated the energy of the entire respondents on large-scale industrial development. Some industries started from zero and others from a very weak base to build up an independent, fairly comprehensive industrial system within a fairly short time. Industry became the main driving force behind the country’s economic development. Under the conditions of a planned economy, social and economic development proceeded at a fast pace as a result of industrialization, but this also led to the emergence of certain problems, which manifested in a number of ways. The cost of industrial development in the framework of the highly concentrated planned economic system was negligence of development in other areas, especially agriculture because of the high differential set between the prices of industrial and agricultural products to support high investment, high accumulation and high consumption in industry. Moreover, the economic performance of industry was poor and the industrial structure was irrational. Since the institution of the reform and opening up policy, China has taken a more pragmatic approach by actively pursuing a path to industrialization more suited to conditions in the country, following a strategy of putting equal emphasis on industrial growth and improvement in the industrial structure, relying more on the role of market forces in the economic system, and taking advantage of both domestic and foreign resources and both domestic and foreign markets through opening up the country to the outside world. In this way, China has entered a period of accelerated industrialization during the institution of the reform and opening up policy, accumulating experience with global significance.

24 Economic history of China before 1911 From Wikipedia, the free encyclopaedia
1.4.2.1 Changes of Industrial systems and mechanisms in China

Industrial growth to become the strong engine that drives economic development beginning in 1978, the industrial systems and mechanisms began shifting from a planned economy to a market economy, allowing the force of competition to accelerate industrial development, putting constant pressure on industrial enterprises to upgrade technology and make innovations and promoting sustained industrial growth. Chinese industry grew at an annual rate of 11.98% between 1978 and 2008, supporting a high national economic growth rate of 9.6% and creating the “Chinese miracle” in the history of global economic growth. At the same time, the entire chain of industrial production has been growing and constantly gaining in strength, giving a strong boost to the process of Chinese economic modernization.²⁵

1.4.2.2 Making use of the comparative advantage in China

China has created a strong core competency to promote the development of an industrial base for rapid industrialization. In the 1980s and 1990s, China took advantage of its cheap production factors to actively participate in domestic and foreign market competition in an open manner, rapidly expanding production capacity and market share. Although industrial growth in China was still effected by high consumption and high cost during this period, the country’s industry was still able to develop a basic core competency marked by independent technological development, a historical contribution not easily denied. Even today, the competency of Chinese industry relies primarily on comparative advantages such as a cheap labor supply and is insufficiently based on technological advances. The Chinese economy, including industry, is still facing the huge task of transforming the mode of development, and the task of improving the core competency of industry will be an arduous and long-term effort.

1.4.2.3 Promoting industrialization in China

Promoting industrialization is the fact that industry promotes concomitant development in other areas. The beneficial experience gained from developing industry first, such as the

principle of industrial efficiency, corporate management, independent responsibility system and rules for competition within an industry, provides a greater and greater stimulus for the reform and development of other areas, and the reform and development of other areas is actually based mainly on the experience gained in the reform and development of industry. The rapid development of other areas has not only resulted in an expanded domestic market for the development of industry, but provided a strong boost for reform and opening up, which further eliminated institutional and structural barriers to efforts to deepen industrial reform and promoted long-term industrial progress as well.

Stable, sustained industrial growth is the basis and prerequisite for smooth operation of the economy. When a country industrializes, industrial growth becomes an important factor affecting overall social and economic development. Sluggish industrial growth can cause all kinds of problems in economic and social development, such as difficulties in employment, incomes, markets and government budgets. Maintaining growth has become a top priority objective in China’s economic policy, particularly during this international financial crisis, and industrial growth is crucial for addressing the crisis. It is precisely because industry has been put first during the last 30 years of reform and opening up that Chinese industry has become a powerful international competitor in the face of strong competition. For this reason we can confidently said that China will be one of the first countries to recover from this international financial crisis and resume steady and rapid economic development. And, looking at the long term, a country’s potential for economic growth and development is in the end determined by how competitive its industry is. Therefore, strengthening of the ability of Chinese industry to compete in the international arena and rapid industrialization are the basis for resolving the current and all future major economic and social issues.

Improving the core competency must be the priority objective in upgrading the industrial structure. Today’s world is, in general, still in an age of industrialization in which countries around the world are following the lead of countries that were the first to industrialize. In developed countries such as the US, for example, industry still constitutes an important foundation for the country’s economic system. China is a developing country that is now in the intermediate stage of industrialization. The upgrading of Chinese industry not only consists of upgrading in relation to different industries. Even more important, and of even greater general significance, is upgrading within each industry to
create lean manufacturing by upgrading manufacturing processes, upgrading the value chain and upgrading product quality. Therefore, upgrading industry is not simply a process of substituting “high end for low end,” but a process of “allowing the cream to rise to the top” through competition. Only by constantly working to develop more competitive industries or industry chains in promoting industrialization can China carry out effective industrial upgrading on the basis of sustained strong growth and control of the risks involved in upgrading.

Technological innovation and mechanism optimization represent the core solutions to resolving resource and environmental issues. The division of the materials of the world as “resources” and “waste” is determined by industrial technology and industrial demand. The higher the level of industrial technology and the more developed the economic system of industry, the more “resources” there are in the world, i.e., the more materials of the world can be classified as “resources,” and even garbage can become resources. From a basic scientific perspective, any material can be turned into a resource with the right industrial process. We can see that, in essence, industrialization is a constant process of creating “resources.” Therefore, only by developing industry and never stopping the process of industrial development can we overcome the restrictions presented by lack of resources. In the same way, industrialization can make more places on earth suitable for human habitation, making the environment and human society more in harmony and bringing people closer to nature. Naturally, there are conditions to beneficially balance industrial development and environment and resources. In developing industrial technology, we must place the emphasis on making resource utilization more efficient and improving the environment and ensure that systems and mechanisms encourage resource conservation and environmental improvement in making advances in technology. Therefore, the key now to resolving issues with the environment and resources is to accelerate efforts to develop systems and mechanisms that promote innovations in industrial technology that lead to greater resource conservation and environmental improvement.

Industrialization must first of all benefit the people. Starting with the new century, China has made application of the Scientific Outlook on Development the highest priority in all matters. Applying the Scientific Outlook on Development does not mean putting aside the pursuit of material wealth, but rather putting greater emphasis on human values in the
process of developing material civilization and creating material wealth. In other words, the criteria for judging development include more than just the material results and material wealth produced. Another important criterion is whether development benefits or promotes improvement in the lives of all the people and improvement in the living environment. Therefore, China believes that industrialization must put people first and not harm nature in the process of using natural resources so that generation after generation of people can enjoy the benefits of nature and thus enjoy the freedom, equality and dignity under affluent material conditions and the civilization, justice and harmony under thriving economic conditions. In this sense, the pursuit of wealth must and should be a kind of social responsibility and action. This means that enterprises in the process of creating wealth must both have responsibility to their stakeholders and have social responsibility and requires that the process of creating and accumulating wealth not only allows the process to continue generation after generation, but also should and must ensure that society and all of humankind can continue and that the process has value to them. Industrialization has not only been the main thrust of economic and social development during the 60 years since the founding of New China, but has also had great value to society and all of humankind. We firmly believe that as long as we promote industrialization bearing in mind our responsibility to all of humankind and taking practical steps, we can ensure that the entire Chinese respondents of 1.3 billion people can fully enjoy the benefits of modern industrial civilization and the accomplishments and values of Chinese industrialization will have an even greater impact on people around the world.

China’s share in world trade did not change much between the year 1970 and 1978, while after the year 1978 China’s share increased substantially, consistent with a trade liberalizing impact of the year 1978 reforms. Other breakpoints around the year 1990 and around the year 2000, the rate at which China gains in terms of her world trade share increased, with China’s rate of trade growth increasing overall during this period. Chinese industry has been developing rapidly transforming the country from a backward nation to an economic power, from a poverty-stricken land to a country with the world’s largest accumulation of foreign exchange reserves, and from a country subjected to the forces of international free trade to a country able to actively implement and protect the free trade principles. Today we can proudly said that China’s industrialization has had a profound impact on global development. Industrialization in China over the past 60 years has taken a
tortuous path, with some great successes and many issues that need to be considered. Chinese industry has been growing and developing rapidly over the past 60 years, especially during the past 30 years, transforming the country from a backward nation to an economic power, from a poverty-stricken land to a country with the world’s largest accumulation of foreign exchange reserves, and from a country subjected to the forces of international free trade to a country able to actively implement and protect the free trade principles. China’s industrialization has had a profound impact on global development.

By the mid-1980s, industrial reforms had achieved substantial success in some areas. Industrial output was about twenty-five times that of 1952. A wide range of modern industries had been established, and the country was one of the world's leading producers of coal, textiles, and bicycles. There were major plants in almost every key industry, and a strong effort had been made to introduce manufacturing into undeveloped and rural areas. Light-industry output of consumer goods had increased dramatically. In some cases, enterprises reduced operating costs, managers were able to exercise greater autonomy, and technical innovations were implemented to increase efficiency.

Despite these bright spots in the 1980s, overall results were disappointing to Chinese economy. Major problems included failure to reform the price system, interference of local cadres in the managers' operation of enterprises, and perpetuation of the life tenure, "iron rice bowl" system for workers. Rapid industrial growth made energy shortages one of the most critical problems facing the economy, limiting industrial enterprises and mines to 70 or 80 percent of capacity. For a quick increase in output, the industry emphasized short-term development of thermal power plants. In the long term China planned to rely on its vast hydropower potential and nuclear power to meet electricity demand.

In the 1980s large-scale, centrally controlled plants dominated manufacturing. These large plants were supplemented with many small-scale town and township enterprises, which accounted for significant percentages of national output of coal, construction materials, and leather products.
1.4.2.4 Reform of the industrial economy in the 1980s in China

Before the market-oriented reform began in 1978, China's cities developed along an anti-market road. Cities were able to develop at all simply because they provided space and environment for the implementation of the industrialization policy of giving priority to heavy industry. The central government carefully adopted a series of policies and systems that were discriminating against rural development and rejecting competition so as to achieve the objectives of social stability and industrial accumulation. The unified purchase and marketing system for the supply of agricultural products had replaced trade with paying tribute to the centre, thus facilitating the effort for capital accumulation and industrialization on the basis of a backward economy. In urban areas, technology and capital intensive industries were encouraged so as to ensure the development of productivity, while in rural areas, efforts concentrated on promoting labour intensive undertakings. Through this policy the government was able to contain the surplus rural labour to rural areas and to ensure the development of heavy industry in cities. The unique way of industrialization and urbanization created many features in China's economy: (1) while the per capita income remained low, the level of industrialization was relatively high. In 1978, industry accounted for 49.4% of GDP. During the same period, the same statistics in Spain was 38.7%, Yugoslavia was 33% and Mexico was 35%. (2) Within the manufacture sector the proportion of supply to heavy industry was extraordinarily high (64.1%) while the production for final consumption was un-proportionally low. (3) Industrial output value accounted for a very big proportion while the social employment structure remained true to the tradition of the agricultural state. In 1978, rural labour accounted for 76.3% of the total social work force (the 1952 figure was 88%). Due to these features, China's success in fast industrialization did not bring about corresponding increase in GNP and respondents urbanization. From 1960 to 1978, the proportion of industrial output value to GNP increased by 14 percentage points. But during the same period urban respondents had dropped by 1.8 percentage points.26

The industrial sector employed only about 17 percent of the labour force in 1985 but, as a result of much higher labour productivity than the agricultural sector, accounted for over 46 percent of national income. Industrial units were very diverse in size and technological

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sophistication, ranging from tiny handicraft manufacturing enterprises to giant modern complexes producing such goods as steel, chemical fertilizer and synthetic fibers.

The majority of the country's large industrial units were clustered in the major industrial centers in the northeast, the Beijing-Tianjin-Tangshan area, the Yangtze River Valley, and Shanghai. Small and medium-size units were found throughout the country, and a number of first-rank plants were located far from the leading cities. Ownership of industrial enterprises fell into three general categories: state ownership, urban collective ownership, and rural collective ownership. Industry was dominated by the state-owned sector, which included the largest, most technically advanced, and most important enterprises.

In 1985 state-owned enterprises produced 70 percent of national industrial output by value, held 75 percent of fixed industrial assets, and employed 46 percent of the industrial labour force (including rural industrial enterprises). Although all of these units were owned by "the state" in the abstract sense, operational control and effective ownership of specific enterprises were divided among the different levels of government. A few of the largest enterprises were under the direct authority of their respective ministries in the central government. Most major enterprises were owned by the province, autonomous region, or special municipality where they were located or were subject to shared control by the central ministry and the provincial-level government. Small and medium-size units usually were owned by city, prefecture, county, or town governments. Control of some enterprises was shared with higher administrative levels.27

The problem lies with the urban structure and functions. Before the start of reform, China's cities were merely self-reliant concentration venues of industries rather than centers promoting regional economic growth, trade and technological progress. Besides the strategy of giving priority to heavy industry and "surpassing Britain and catching up with the United States," factors contributing to this phenomenon also included the rigid urban land system, housing system, municipal finance system, employment system and planning system. Individuals were deprived of the rights to free job selection, self-accumulation, and consumption. National economy and urban development were at the mercy of central decision-makers' preferences and the dictatorial economic structure. The state was fully

occupied with providing food for every citizen, and the impediments in the systems blocking urban development were not too obvious.

In the year 1985 due to the continued expansion in treaty port facilities and the manufacturer in China contributed substantially to the growth of the modern sector, including railways, banking, commerce, industrial production and mining. There was also an associated growth of Chinese capitalist activity, which had its origins mainly in the comprador middlemen in the Treaty ports. There was an inflow of capital from overseas Chinese who had immigrated in substantial numbers to other parts of Asia.

After the reformations of government legislations in 2005 for the favour of SMEs in China, nowadays, SMEs have been operating in different branches of businesses such as manufacturing, services, construction, transport and retailing. This support has helped the emergence of many more SMEs in China which means there is even greater demand for financing all these SMEs. Small enterprises also make up huge proportion of SMEs in China which usually lack the degree of specialization and cooperation in the production areas. This is mainly due to the fact that there is lack of government legislations that supports and shows guidelines for SMEs in China. The main market for SMEs is the domestic market of China which is due to the fact that SMEs can not cope with fierce competition in the international markets or does not have advantage over foreign-invested companies with high-tech. Due to shortage of funds, most SMEs operate mainly in labour-intensive small and medium industries as the technological progress

1.4.3 Overview of Industrial Growth in India between 2000 to 2014 i.e. after Liberalization

Indian business scenario changed in the post-liberalization period which started after 1991. The new industrial, foreign trade and economic policies encouraged the foreign companies entry into Indian market. Due to this the manufacturing sector of India faced stiff competition in almost all the sectors. After liberalization process started, the Government of India aimed at deregulations in various sectors, encouragement to foreign direct investment and privatization in the manufacturing sectors restricted for

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government and public sector undertakings. This initiative of the government resulted in opening of the economy and created competition among the manufacturing sectors comprising large, medium and small-scale sector. The central and state Governments in India have taken certain measures for improving the small-scale sector’s performance in the era of liberalization. The era of globalization will benefit mostly the industrialized countries or multinational companies operating in developing countries like India. Globalization will bring prosperity to the country only if government and multinational companies are willing to adopt a code of conduct which permits their profit motives to be harmonized with the self-reliant interest of the developing nations like India.

In the late 1980s, government expenditure began to exceed its revenue by such large margins that it became unsustainable. Prices of many essential goods rose sharply. Imports grew at a very high rate without matching growth of exports. Foreign exchange reserves declined to a level that was not adequate to finance imports for more than two weeks. There was also not sufficient foreign exchange to pay the interest that needs to be paid to international lenders.

India approached the International Bank for Reconstruction and Development (IBRD), popularly known as World Bank and the International Monetary Fund (IMF), and received $7 billion as loan to manage the crisis. For availing the loan, these international agencies expected India to liberalise and open up the economy by removing restrictions on the private sector, reduce the role of the government in many areas and remove trade restrictions.29

India agreed to the conditionality’s of World Bank and IMF and announced the New Economic Policy (NEP). The NEP consisted of wide ranging economic reforms. The thrust of the policies was towards creating a more competitive environment in the economy and removing the barriers to entry and growth of firms. This set of policies can broadly be classified into two groups: the stabilisation measures and the structural reform measures. Stabilisation measures are short-term measures, intended to correct some of the weaknesses that have developed in the balance of payments and to bring inflation under

control. In simple words, this means that there was a need to maintain sufficient foreign exchange reserves and keep the rising prices under control. On the other hand, structural reform policies are long-term measures, aimed at improving the efficiency of the economy and increasing its international competitiveness by removing the rigidities in various segments of the Indian economy. The government initiated a variety of policies which fall under three heads viz., liberalisation, privatisation and globalisation. The first two are policy strategies and the last one is the outcome of these strategies.

Development policies required that even though the revenues were very low, the government had to overshoot its revenue to meet problems like unemployment, poverty and respondents explosion. The continued spending on development programmes of the government did not generate additional revenue. Moreover, the government was not able to generate sufficiently from internal sources such as taxation. When the government was spending a large share of its income on areas which do not provide immediate returns such as the social sector and defence, there was a need to utilise the rest of its revenue in a highly efficient manner. The income from public sector undertakings was also not very high to meet the growing expenditure. At times, our foreign exchange, borrowed from other countries and international financial institutions, was spent on meeting consumption needs. Neither was an attempt made to reduce such profligate spending nor sufficient attention was given to boost exports to pay for the growing imports.

Rules and laws which were aimed at regulating the economic activities became major hindrances in growth and development. Liberalisation was introduced to put an end to these restrictions and open up various sectors of the economy. Though a few liberalisation measures were introduced in 1980s in areas of industrial licensing, export-import policy, technology up gradation, fiscal policy and foreign investment, reform policies initiated in 1991 were more comprehensive. Let us study some important areas such as the industrial sector, financial sector, tax reforms, foreign exchange markets and trade and investment sectors which received greater attention in and after 1991.

1.4.3.1 Deregulation of Industrial Sector

In India, regulatory mechanisms were enforced in various ways (i) industrial licensing under which every entrepreneur had to get permission from government officials to start a
firm, close a firm or to decide the amount of goods that could be produced (ii) private sector was not allowed in many industries (iii) some goods could be produced only in small scale industries and (iv) controls on price fixation and distribution of selected industrial products.

The reform policies introduced in and after 1991 removed many of these restrictions. Industrial licensing was abolished for almost all but product categories — alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace and drugs and pharmaceuticals. The only industries which are now reserved for the public sector are defence equipments, atomic energy generation and railway transport. Many goods produced by small scale industries have now been de-reserved. In many industries, the market has been allowed to determine the prices.

1.4.3.2 Financial Sector Reforms:

Financial sector includes financial institutions such as commercial banks, investment banks, stock exchange operations and foreign exchange market. The financial sector in India is controlled by the Reserve Bank of India (RBI). You may be aware that all the banks and other financial institutions in India are controlled through various norms and regulations of the RBI. The RBI decides the amount of money that the banks can keep with themselves, fixes interest rates, nature of lending to various sectors etc. One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.

The reform policies led to the establishment of private sector banks, Indian as well as foreign. Foreign investment limit in banks was raised to around 50 per cent. Those banks which fulfil certain conditions have been given freedom to set up new branches without the approval of the RBI and rationalise their existing branch networks. Though banks have been given permission to generate resources from India and abroad, certain aspects have been retained with the RBI to safeguard the interests of the account-holders and the nation. Foreign Institutional Investors (FII) such as merchant bankers, mutual funds and pension funds are now allowed to invest in Indian financial markets.
1.4.3.3 Tax Reforms

Tax reforms are concerned with the reforms in government’s taxation and public expenditure policies which are collectively known as its fiscal policy. There are two types of taxes: direct and indirect. Direct taxes consist of taxes on incomes of individuals as well as profits of business enterprises. Since 1991, there has been a continuous reduction in the taxes on individual incomes as it was felt that high rates of income tax were an important reason for tax evasion. It is now widely accepted that moderate rates of income tax encourage savings and voluntary disclosure of income. The rate of corporation tax, which was very high earlier, has been gradually reduced. Efforts have also been made to reform the indirect taxes, taxes levied on commodities, in order to facilitate the establishment of a common national market for goods and commodities. Another component of reforms in this area is simplification. In order to encourage better compliance on the part of taxpayers many procedures have been simplified and the rates also substantially lowered.

1.4.3.4 Foreign Exchange Reforms

The first important reform in the external sector was made in the foreign exchange market. In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange. It also set the tone to free the determination of rupee value in the foreign exchange market from government control. Now, more often than not, markets determine exchange rates based on the demand and supply of foreign exchange.

1.4.3.5 Trade and Investment Policy Reforms

Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investments and technology into the economy. The aim was also to promote the efficiency of the local industries and the adoption of modern technologies. In order to protect domestic industries, India was following a regime of quantitative restrictions on imports. This was encouraged through tight control over imports and by keeping the tariffs very high. These policies reduced efficiency and competitiveness which led to slow growth of the manufacturing sector. The trade policy reforms aimed at (i) dismantling of quantitative restrictions on imports and exports (ii) reduction of tariff rates and (iii) removal of licensing procedures for imports.
Import licensing was abolished except in case of hazardous and environmentally sensitive industries. Quantitative restrictions on imports of manufactured consumer goods and agricultural products were also fully removed from April 2001. Export duties have been removed to increase the competitive position of Indian goods in the international markets.

1.4.3.6 Privatisation

Privatisation implies shedding of the ownership or management of a government owned enterprise. Government companies can be converted into private companies in two ways (i) by withdrawal of the government from ownership and management of public sector companies and or (ii) by outright sale of public sector companies.

Privatisation of the public sector undertakings by selling off part of the equity of PSUs to the public is known as disinvestment. The purpose of the sale, according to the government, was mainly to improve financial discipline and facilitate modernisation. It was also envisaged that private capital and managerial capabilities could be effectively utilised to improve the performance of the PSUs. The government envisaged that privatisation could provide strong impetus to the inflow of FDI.

1.4.3.7 Globalisation

Globalisation is the outcome of the policies of liberalisation and privatisation. Although globalisation is generally understood to mean integration of the economy of the country with the world economy, it is a complex phenomenon. It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration. It involves creation of networks and activities transcending economic, social and geographical boundaries. Globalisation attempts to establish links in such a way that the happenings in India can be influenced by events happening miles away. It is turning the world into one whole or creating a borderless world.

1.4.3.8 Outsourcing

This is one of the important outcomes of the globalisation process. In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country (like legal advice, computer
service, advertisement, security — each provided by respective departments of the company). As a form of economic activity, outsourcing has intensified, in recent times, because of the growth of fast modes of communication, particularly the growth of Information Technology (IT). Many of the services such as voice-based business processes (popularly known as BPO or call centres), record keeping, accountancy, banking services, music recording, film editing, book transcription, clinical advice or even teaching are being outsourced by companies in developed countries to India. With the help of modern telecommunication links including the Internet, the text, voice and visual data in respect of these services is digitised and transmitted in real time over continents and national boundaries. Most multinational corporations, and even small companies, are outsourcing their services to India where they can be availed at a cheaper cost with reasonable degree of skill and accuracy. The low wage rates and availability of skilled work force in India have made it a destination for global outsourcing in the post-reform period.

The reform process has completed one and a half decades since its introduction. Let us now look at the performance of the Indian economy during this period. In economics, growth of an economy is measured by the Gross Domestic Product. The growth of GDP increased from 5.6 per cent during 1980-91 to 6.4 per cent during 1992-2001. This shows that there has been an increase in the overall GDP growth in the reform period. During the reform period, the growth of agriculture and industrial sectors has declined whereas the growth of service sector has gone up. This indicates that the growth is mainly driven by the growth in the service sector. The Tenth Plan (2002-07) has projected the GDP growth rate at 8 per cent. In order to achieve such a high growth rate, the agriculture, industrial and service sectors have to grow at the rates of 4, 9.5 and 9.1 percentage points respectively. However, some scholars raise apprehensions over the projection of such high rates of growth as unsustainable. The opening up of the economy has led to rapid increase in foreign direct investment and foreign exchange reserves. The foreign investment, which includes foreign direct investment and foreign institutional investment, has increased from about US $ 100 million in 1990-91 to US $ 150 billion in 2003-04. There has been an
increase in the foreign exchange reserves from about US $ 6 billion in 1990-91 to US $ 125 billion in 2004-05.\(^{30}\)

On the other hand, the reform process has been widely criticised for not being able to address some of the basic problems facing our economy especially in the areas of employment, agriculture, industry, infrastructure development and fiscal management.

1.4.3.9 Growth and Employment:

Though the GDP growth rate has increased in the reform period, but the reform-led growth has not generated sufficient employment opportunities in the country.

1.4.4 Overview of industrial Growth in China between 2000 to 2013 i.e. after Privatization and Trade Liberalization

The 15th Congress of the Chinese Communist Party held in 1997 was a milestone in China’s economic policies. The Congress formally sanctioned ownership reforms of the state-owned firms and also legalized the development of private enterprises. With the reduction of legal barriers, private enterprises grew rapidly. Collective enterprises such as township and village enterprises lost their edge, some were closed and many of them were privatized, also in the form of management buyouts. As part of the lead-up to China’s joining the World Trade Organization in 2001, China’s government also started to cut tariffs, broadened trade rights, and liberalized its regime for foreign direct investment.

Between 1998 and 2007, the share of total urban employment in domestic private enterprises and foreign-invested enterprises increased from 8 to 24 percent. The increase in the manufacturing sector was even more pronounced. By 2007, domestic private enterprises alone accounted for 51 percent of total urban employment in the manufacturing sector according to National Bureau of Statistics of China, 2008. The combination of privatization and trade liberalization had strong effects on productivity growth in both the state and nonstate sectors. Between 1998 and 2007, the average annual total factor productivity growth rates of the state and nonstate sectors were 5.50 percent and 3.67

\(^{30}\) Neepur, Liberalisation-Privatisation and Globalisation: An Appraisal, 2014 (http://schools.aglasem.com/15450)
percent, respectively. After stagnating for much of the first two decades of reform, the state sector finally experienced productivity growth in the last decade. In the manufacturing sector, productivity growth during this period is even higher. For the manufacturing sector, the total factor productivity growth rate is 13.4 percent a year. Because even state-owned enterprises were allowed to go bankrupt and exit during this period, reallocation through the process of entry and exit contributed significantly to productivity growth, accounting for 72 percent of the aggregate growth of total factor productivity in the manufacturing sector. Contribution of capital and labor reallocation among the existing firms to aggregate the total productivity growth in the manufacturing sector. They find that between 1998 and 2005, a more efficient allocation within four-digit-level manufacturing industries contributed 2 percentage points per year to aggregate total factor productivity growth in the manufacturing sector, with a significant portion of it coming from the reallocation from state-owned to nonstate enterprises. In short, privatization and trade liberalization reduced barriers to entry and exit, and increased competition, which in turn led to rapid productivity growth in the manufacturing sector by raising within-firm productivity and through reallocation along both the extensive and intensive margins.31

However, China’s non-tradable sectors—primarily construction and services—have faced much less international competition. There have also been significant barriers to entry of private and foreign-invested firms into service industries, and significant barriers to exit of state-owned enterprises in services. In 2007, the state sector still accounted for 77 percent of total urban employment in services, in contrast to 15 percent in manufacturing. In China productivity growth in the non-tradable sector lagged behind growth in the tradable sector.

China’s economy has large opportunities for raising productivity growth through reducing the still-existing distortions and inefficiencies in its production. The reduction in distortions between 1998 and 2005, but estimated potential total factor productivity gain of 30 percent for China’s manufacturing sector if the distortions are reduced to the U.S. level.

The potential total factor productivity gain in China’s non-agricultural economy was at least 20 percent, in which half the gain comes from eliminating cross-province dispersion in returns to labour and the other half comes from eliminating within-province difference in returns to capital between the state and the non-state sectors.

In the last three and half decades, China’s leaders have chosen to carry out economic reform without political reform or the establishment of rule of law. Instead, they have implemented institutional changes and policy reforms in a piecemeal fashion that usually provided benefits to key interest groups within the state sector. Giving monopoly rights to state-controlled or politically connected firms is one example. While this approach has helped to reduce political resistance to economic reform, it has also resulted in corruption and income inequality in addition to economic distortions. If reducing the state sector’s monopoly rights in various industries is important for reducing distortions and solving associated social-political problems of corruption and income inequality, it remains to be seen if China’s leadership will be flexible enough and strong enough to do so.

1.5 Overview and Development of SMEs in India & China

1.5.1 Overview and Development of SMEs in India

With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small-scale industries and medium scale industries in the Indian economy. Due protection was accorded to both sectors, and particularly for small-scale industries from 1951 to 1991, until the nation adopted a policy of liberalization and globalization. Certain products were reserved for small-scale units for a long time, though this list of products is decreasing due to change in industrial policies and climate. In today’s India, industries, particularly small and medium–sized manufacturing industries (SMEs), operate under various conditions and constraints, which stand on the way to the achievement of organisational goals.

Small industry has been one of the major planks of India’s economic development strategy since independence. India accorded high priority to SMEs right from independence and pursued support policies to make these enterprises viable and vibrant and over time, these
have become a major contributor to the GDP of the nation. Despite numerous protections and policy measures, SMEs remained mostly small, technologically backward and lacked competitiveness. The decade of 1990 was characterized by policy changes, nationally as well as internationally. These policy changes took place at the three levels – global, national and sectoral, which had the major implication on the functioning of small industry of India as well as their performance. The policy marked: 1) the beginning of end of protective measures for small industry and 2) promotion of competitiveness by addressing the basic concerns of the sector; namely technology, finance and marketing. These resulted in the decline of number of items reserved exclusively for small industry, to be brought down from 842 in 1991 to 239 in 2007. These policy changes led to the radical change in the environment for the functioning of small industry.

In the recent past the SMEs have performed better. Between 2001 and 2006, net companies with the net-turnover of Rs 1 Crore – 50 Crore had a higher growth rate of 701% as compared to 169% for large companies with turnover of over Rs. 1000 Crore. After a steep fall in the production between 1991 and 2000, there are has been a continuous growth in number of units, production, employment as well as the exports of the sector. Now the scenario of Indian SMEs has changed completely. Some of the SMEs are acquiring companies abroad as part of the globalization process. The SME sector has transformed themselves to the need of large local manufacturers and suppliers to global manufacturers. SMEs have also started investing in R&D activities in order to compete in the global market. SMEs occupy a position of strategic importance in the Indian economic structure due to its significant contribution in terms of output, exports and employment. The small scale industry accounts for over 40% of gross industrial value addition and over 50% of total manufacturing exports. Further, there are approximately 30 million SME units, that are spread all over the country and account for production of over 8000 different types of the products, right from very basic to highly sophisticated. They have also become the biggest employment generating engine in the country, providing 1.3 million jobs each year.\(^{32}\)

\(^{32}\) Ministry of MSME annual report 2011-2012 p-3
With the positive outlook of Indian economy, Indian SMEs plan to increase their capital expenditure and hire more staff in the coming months. To add to this there is an increasing number of SMEs that are eyeing offshore expansion for their businesses.

Major strength for many small and medium sized enterprises (SMEs) is their close customer contact and their ability to maintain close customer relationships. Nevertheless, in the light of today’s business environment all SMEs have to take a closer look at their situation, even if they want to go on with their local strategy and if business outside their traditional region has no strategic logic. The role SMEs play in today’s global economies is a highly interesting matter. Initially, it was assumed SMEs would play a minor role in the rapid globalizing world economy. Multinational corporations (MNCs) would be the drivers of globalization and together with consumers they would reap the benefits. At least, this was the story as depicted in the popular press and by scholars. Much of the conventional wisdom about SMEs and globalization appeared not to be true, and many aspects were challenged. It seems clear that SMEs also have to find a way to deal with the increased competition as a result of globalization. Instead of competing with merely local companies, SMEs now compete with various international competitors, be they MNCs or other SMEs. Given this context, it is assumed that innovation and forming strategic alliances are the answers to survive in the (local) marketplace.33

SMEs are increasingly able to benefit from each other’s strengths and realize increased bargaining power; this would be an example of exploiting economies of scale so that costs can be saved. Conventional wisdom about SMEs operating in an international setting has been that SMEs, given their size, cannot enjoy as much success as larger companies in foreign markets. In fact, it was believed there would only be two options for SMEs; to stay home and continue to do business domestically or to expand abroad with the help of larger players. These convictions are false, according to Audretsch (2003:52) “evidence shows that small firms are, against the expectations of many traditional scholars, active players in the international arena”. Even more surprisingly, the small firms that venture abroad do this mostly by themselves; they tend not to seek help from bigger players. However, the international activities SMEs generally engage in depend on the development of the industry they are operating in. Small and even more so medium-sized, foreign investing

33 Doing Business with India by Europe - India SME Business Council
firms come from the least mature industries. It is in these emerging industries that small firms can be active international players. An explanation for this occurrence is that mature industries tend to be consolidated to a very large extent and, consequently, dominated by huge corporations. The second way globalization has affected SMEs is that it has changed the role of SMEs within domestic economies. Initially, SMEs were generally viewed as less efficient enterprises than their larger counterparts were and conventional wisdom would have predicted that increased globalization would present a more hostile environment to small businesses.  

1.5.2 Overview and Development of SMEs in China

With the opening up of China to market economy in the 1980s as part of the market-oriented reforms initiated by Chinese leader Deng Xiaoping, private SMEs were finally recognised as vital to the country’s economic development. The ensuing economic reforms involving state-owned enterprises (SOEs) in China, major SOEs rapidly changed into small and medium non-SOEs until the end of 2004. Meanwhile, more SMEs sprouted, spurred by the implementation of non-SOE promotion policy. Since then urban collective enterprises, town and village enterprises (TVE), alongside the private and self-employment sector, have been sprouting and thriving all over China. The development of SMEs has increasingly contributed to China’s economic growth. They make up over 99 percent of all enterprises in China today. The output value of SMEs accounts for at least 60 percent of the country's gross domestic product, generating more than 82 percent of employment opportunities in China. SME clusters greatly enhance SMEs’ global competitiveness, generate and spread innovations, and distribute broad-based benefits. 

The small and medium enterprises (SMEs) in China have achieved rapid and sustainable growth in the past two decades. Such growth has increasingly contributed to China’s economic development. Yet, weak linkages with external market, weak technological innovation, and limited SME financing have limited SMEs’ growth. This brings to the fore the need for more efficient and professional government services to SMEs to enhance their competitiveness. The absence of high-quality services for enterprises should prompt

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35 Liu Xiangfeng, (IIER) & (NDRC), SME Development in China: A Policy Perspective on SME Industrial Clustering Chapter 2, 2008, pp3
government to provide SMEs with services that are more professional, more convenient and more individualized to enhance their competitive capability.

Many small towns in China depend on township enterprises for their economic growth. Such enterprises are expected to generate more employment opportunities for the rural surplus labor force. A small town’s development must be supported by its industry. Such support can come from SME clusters of enterprises in the secondary and tertiary industry, could provide this kind of industry support, and attract rural surplus labor force to enter into the small town, which could accelerate the transfer of the rural surplus labor force. In Guangdong and Zhejiang provinces, typical SME clusters are mainly engaged in costume, textile, ceramics, hardware, household electric home appliances, among others and so on. These enterprises are basically traditional labor-intensive manufacturers, employing rural surplus labor force work.

Most SMEs clusters are based in towns found in the developed areas along the eastern coastal areas of in China, such as small towns in the Pearl River Delta and Yangtze River Delta. Well established enterprise clusters have found that small enterprise clusters develop very well in Jiangsu, Zhengjiang and Guangdong provinces. The more small enterprise clusters are specialized, the more competitive they are. SME clusters in the in mid-area and western area of China are still in the early stage of their development.

The more specialized small enterprise clusters are, the more competitive they are. A large number of SME clusters based on private enterprises are economic drivers for small towns.

The cluster economy is made up of professional towns and villages functioning as production hubs, with one or more towns focusing on one product. Some areas have set up large-scale specialized production and marketing, which shows great potential for success. This essentially illustrates the concept of “one village, one product” or “one town, one industry” as exemplified by provinces like Jiangsu, Zhejiang, and Guangdong. The concentration of production of certain products in these areas has given rise to such catch phrases as Shengze textiles, Hengshan sewing machines, Ningbo costumes, Wenzhou shoes, Shaoxing synthetic textiles, Haining leather coats, Yiwu small
commodities, Yongkang hardware, to name a few.

The SME cluster facilitates information exchange and knowledge extension sharing, which not only attracts talent and other vital components of production but also encourages the entry of new enterprises, or industry players, into the trade. Therefore, clustering has become a major strategic choice of key SMEs to enhance their competitiveness, which benefits their host small towns economically.

From a regional economic perspective, the drive for greater profit pushes SMEs to pursue industrial cluster formation. This results in a host of economic benefits to the individual enterprises making up the cluster, which a single enterprise may not have. Through economies of scale, SMEs could enhance their efficiency and reduce their operational costs. Their collective presence in a small town pushes the latter to improve its infrastructure and develop new services that serve as incentive to existing enterprises and boost the town’s development. A cluster’s development fuels the host town’s competitive power.

Due to Deng Xiaoping’s, reformed free-market system improved the standard of living of the Chinese people and the competitiveness of the Chinese economy. Therefore, China became one of the fastest growing and most important economies in the world as well as most rapid industrialized country in world history.

After the reformations of government legislations in 2005 for the favour of SMEs in China, SMEs have been operating in different branches of businesses such as manufacturing, services, construction, transport and retailing. This support has helped the emergence of many more SMEs in China which means there is even greater demand for financing all these SMEs. Small enterprises also make up huge proportion of SMEs in China which usually lack the degree of specialization and cooperation in the production areas. This is mainly because there is lack of government legislations that supports and shows guidelines for SMEs in China. The main market for SMEs is the domestic market of China which is because SMEs cannot cope with fierce competition in the international markets or does not have advantage over foreign-invested companies with high-tech. Due to shortage of funds; most SMEs operate mainly in labour-intensive small and medium industries as the technological progress
Small and medium-sized enterprises (SMEs) play a vital role in China’s economy as generators of employment, revenue and innovation. Companies are regarded as SMEs if they are owned by private entrepreneurs, employ 300 to 2,000 people, have annual sales of 30 to 300 million RMB and own assets worth 40 to 400 million RMB (Zhong & Zhang, 2010). In 2009, China’s registered SMEs exceeded 43 million in number and accounted for 58.5 percent of the country’s gross domestic product, half of its tax revenues and 68 percent of its exports, created about 80 percent of the country’s jobs according to the China Association of SME (Xinhua, 2012a). SMEs are a vibrant force for the sustained development of the Chinese economy.36

After decades of unprecedented growth China now needs a new growth model based on innovation and higher value manufacturing and service. Focusing on the right areas to enhance its innovation ecosystem will be important and SMEs may have to be at the centre of this; SMEs are key drivers of innovation in most countries. Countries like Germany have fully taken advantage of this SME strength, but China has significant work to do to address obstacles its SMEs face. There are several obstacles, but two are the focus of this paper: the lack of access to low-cost finance and the significant inefficiencies in their financial supply chain. While other issues, notably human capital and fair regulation and rules of law are of great importance too, we shall stay focused on the two financial ones we lay out above.

Based on this scope and our global assessment and China’s position, China implemented a number of measures to address the obstacles faced by SMEs including 1) Subject SOEs to market discipline 2) Develop an SME lending focus 3) Reform its interest rate regime and 4) Leverage innovative solutions to improve financial supply chain efficiency. China has succeeded in rapid industrialization to become the world’s factory where the tasks of industrial production across most industries are being outsourced to China. This wave of growth in China has been driven by a global division of labour as the world has recognized China’s comparative advantages including large-scale labour, low costs, and relatively good infrastructure. China’s entry into the WTO magnified this phenomenon by

36 Randriamalala JLS, Mijitaba M M, & Pertiwi E, Analysis of the Emerging China Green Era and Its Influence on Small and Medium-Sized Enterprises Development: Review and Perspectives, Journal of Sustainable Development; Vol. 6, No. 4; 2013
giving China unprecedented access to world markets, an opportunity that China seized well. However, this wave of growth is not sustainable at the same pace any more, as some of the premises of the success so far are changing. On the demand side, the world demand for manufactured goods made in China is not as robust and importers are looking for better and more creative products. On the supply side, China’s low cost labor based comparative advantages are shrinking.

To remain globally competitive, China urgently needs to embark on a new wave of industrial growth driven by innovation rather than relative labor cost advantages. By innovation, we mean not just new products or technologies, but also continuous process and design improvements to established products such as automobiles or machine tools. Chinese leadership has made it clear that a new development model is required: a shift of focus to domestic consumption and higher value manufacturing and service figures prominently in the current five-year plan.

1.5.2.1 Socialized coordination

Service-oriented enterprises have developed systems that make efficient and coordinated operations possible. For example, Hengshan town in Wujiang city is widely known as the national hub for wool-sweater production. Producing 100 million sweaters yearly, the cluster of enterprises operating in this town carries out all operations—from production to distribution in its base of operation. Order, transaction, packing, and delivery systems services are all also provided in a coordinated manner by those service enterprises. One town, for instance, has 3,500 enterprises producing wool sweaters; 600 enterprises handle the nationwide distribution; 500 others are engaged in affiliated operations; 400 enterprises produce materials; 200 are engaged in transportation; 100 enterprises repair equipment, all of them form an enterprise cluster with firm connection.37

Meanwhile, people, products, capital and information are all essential components of enterprises cluster, which collectively can accelerate the development of transportation,

storage, telecommunications, restaurant, hotel, entertainment, education, sanitation, agency, financial insurance and real estate, etc.

1.5.2.2 Local government support

Local government units provide an enabling environment through appropriate policies and regulations as well as vital infrastructure, which are all essential to business. Small enterprises located in the areas between Shanghai and Zhejiang enjoy the convenience of having these facilities, which allow them to do business with local and foreign enterprises. Besides, local governments arrange for enterprise visits to other places, and organize them to participate in international trade exhibits every year. These governments also support various spare part associations and service companies and provide technical and R&D services.

1.5.3 Industrial policy in India

Government’s attitude and intention towards industries in general and SSIs in particular are reflected in Industrial policy Resolutions.

1.5.3.1 Industrial policy resolution 1948

The government stressed the role of SSIs for balanced industrial growth. It was stated that SSIs are particularly suited for the utilization of local resources and creation of employment opportunities. The primary responsibility for developing small industries by creating infrastructure has been provided to state governments. Central government frames the broad policies and coordinates the efforts of State Governments for the development of SSIs.

1.5.3.2 Industrial policy resolution 1956

It stated that besides continuing the policy support to cottage, village and small industries by differential taxation or direct-subsidies, the aim of state policy would be that the development of this sector is integrated with that of large scale industry. The focus was to improve the competitive strength of SSIs. To achieve this 128 items were exclusively reserved for
production in SSIs, and 166 items were reserved for exclusive purchase by government from this sector.

1.5.3.3 Industrial policy resolution 1977

It emphasize that whatever can be produced by SSIs must only be so produced. The main thrust of policy was effective promotion of cottage, village and small industries widely dispersed in rural areas and small towns. This thinking specified the following things:

- 504 items were reserved for exclusive production in the small-scale industries.
- The concept of District Industries Centres (DICs) was introduced so that in each district a single agency could meet all the requirements of SSIs under one roof.
- Technological up-gradation was emphasized in traditional sector.
- Special marketing arrangements through the provision of services, such as, product standardization, quality control, market survey, was laid down.

1.5.3.4 Industrial policy resolution 1980

The policy focused on the need of promoting SSIs through integrated industrial development between large and small sectors. Industrially backward districts were identified for faster growth of existing network of SSIs. Following measures were specified in the policy:

a) Investment limit was raised for tiny, small, and ancillary units to Rs.2 lacs, Rs.20 lacs, and Rs.25 lacs respectively.

b) “Nucleus plants” in each industrially backward district replaced the “District Industries Centers.” These were to concentrate on assembling the products of SSIs and to produce inputs needed by large number of small units.

c) Reservation of items and marketing support for small industries was to continue.

d) Availability of credit to growing Small Scale units was continued.

e) Buffer stocks of critical inputs were to continue.

f) Agricultural base was to strengthen by providing preferential treatment to agro based industries.

g) An early warning system was to establish to avoid sickness and take appropriate remedial measures.
1.5.3.5 Industrial policy resolution 1990

Main features of this Resolution are as follows:

a) It raised the investment ceiling in plant and machinery for SSIs.

b) It created central investment subsidy for this sector in rural and backward areas. Also, assistance was granted to women entrepreneurs for widening the Entrepreneurial base.

c) Reservation of items to be produced by SSIs was increased to 836.

d) Small Industries Development Bank of India was established to ensure adequate flow of credit to SSIs.

e) Stress was reiterated to upgrade technology to improve competitiveness.

f) Special emphasis was laid on training of women and youth under Entrepreneurial Development Programme.

g) Activities of Khadi and Village Industries Commission and Khadi and Village Industries Board were to expand.

1.5.3.6 Industrial policy resolution 1991

The basic thrust of Industrial policy resolution passed in the year 1991 was to simplify regulations and procedures by de-licensing, deregulating, and decontrolling. Its salient features are:

a) SSIs were exempted from licensing for all articles of manufacture.

b) The investment limit for tiny enterprises was raised to Rs. 5 lacs irrespective of location.

c) Equity participation by other industrial undertakings was permitted up to a limit of 24 percent of shareholding in SSIs.

d) Factoring services were to launch to solve the problem of delayed payments to SSIs.

e) Priority was accorded to small and tiny units in allocation of indigenous and raw materials.

f) Market promotion of products was emphasized through co-operatives, public Institutions and other marketing agencies and corporations.

1.5.3.7 Comprehensive policy package for SSIs and Tiny sector 2000

Main focus of Comprehensive policy package for SSIs and Tiny sector 2000 policies are :-

- The exemption for excise duty limit raised from 50 lacs to Rs One crore to
• improve the competitiveness.
• Credit linked capital subsidy of 12% against loans for technology up gradation was provided in specified industries.
• The third census of small scale industries by the ministry of SSI was conducted, which also covered sickness and its causes in SSI’s.
• The limit of investment was increased in industry related service and business enterprises from Rs 5 lacs to Rs 10 lacs.
• The scheme of granting Rs 75000 to each small scale enterprise for obtaining ISO 9000 certification was continued till the end of 10th plan.
• SSI associations were motivated to develop and operate testing laboratories. One time capital grant of 50% was given on reimbursement basis to each association.
• The limit of composite loan was increased from Rs. 10 lacs to Rs 25 lacs.
• A group was constituted for streamlining of inspection and repeal of redundant laws and regulations.
• The coverage of ongoing Integrated Infrastructure Development was enhanced to cover all areas in the country with 50% reservation for rural areas and 50% earmarking of plots for tiny sector.
• The family income eligibility limit of Rs. 24000 was enhanced to Rs 40000 per annum under the Prime Minister Rozgar Yozna (PMRY).

1.5.3.8 Industrial policy package for SSI 2001-02

This policy emphasizes the following:

a) The investment limit was enhanced from Rs 1 crore to Rs 5 crore for units in hosiery and hand tool sub sectors.
b) The corpus fund set up under the Credit Guarantee Fund Scheme was increased from 125 crore to 200 crore.
c) Credit Guarantee cover was provided against an aggregate credit of Rs 23 crore till December 2001.
d) 14 items were de-reserved in June 2001 related to leather goods, shoes and toys.
e) Market Development Assistant Scheme was launched exclusively for SSI sector.
f) Four UNIDO assisted projects were commissioned during the year under the Cluster Development Programme.
1.5.3.9 Industrial policy on SSIs 2003-04

The following are the highlights of this endeavour:

- 73 items reserved for exclusive manufacture in the SSI sector were de-reserved in June 2003. These consist of chemical and their products, leather and leather products, laboratory reagents etc.
- Selective enhancement of investment in plant and machinery from Rs one crore to Rs 5 crore. It was for 13 items in stationary sector and 10 items of drugs and pharmaceuticals sector, from June 2003.
- Banks were directed to provide credit to SSI sector within an interest rate band of 2 percent above and below their Prime Lending Rates (PLR).
- The composite loan limit for SSI was raised from Rs 25 lacs to Rs 50 lacs.
- The limit of dispensation of collateral requirement was raised from Rs 15 lacs to Rs 25 lacs on the basis of good track record and financial position of the unit.
- The lower limit of Rs 5 lacs on loans covered under the Credit Guarantee Scheme was removed. All loans up to Rs 25 lacs were made eligible for Guarantee cover under the Credit Guarantee Scheme.
- 417 specialized bank branches were made operational for SSIs.
- Third all India census for SSI was conducted throughout the country and its final results were released on January 17, 2004.
- 60 clusters were identified in July 2003 for focused development.
- Small and Medium Enterprise (SME) fund of Rs 10000 crore was set up under SIDBI to solve the problem of inadequate finance for SSIs.
- Laghu Udyami Credit Card Scheme was liberalized. Under this scheme, the credit limit was increased to Rs 10 lacs from Rs 2 lacs. But, it was only for borrowers with satisfactory track record.

1.5.3.10 Policy initiatives on SSI 2004-05

Policy initiatives for this year are as follows:

- The national commission on Enterprises in the Un-organized/Informal Sector was set up in September 2004. It suggested measures considered necessary for improvement in
the productivity of these enterprises, generation of large scale employment opportunities, linkage of the sector to institutional framework in areas like credit, raw material supply, and infrastructure, technology upgradation, marketing facilities, and skill development by training.

- 85 items were de-reserved in October 2004.
- The investment limit in plant and machinery was raised from Rs one crore to Rs 5 crore in October 2004, in respect of seven items of sports goods to help to upgrade the technology and enhance competitiveness.
- The Small and Medium Enterprise (SME) fund of Rs 10000 crore was started by SIDBI since April 2004, with 80% of the lending for SSI units. The interest rate was 2% below the prevailing Prime Lending Rate (PLR) of the SIDBI.
- The reserve Bank of India raised the composite loan limit from Rs 50 lacs to Rs 1crore.
- Promotional Package for small enterprises was initiated.

1.5.3.11 Policy package for SME 2005-06

This policy package contains the following points:

a) The Ministry of Small Scale Industries has identified 180 items for de-reservation.

b) Small and Medium Enterprises were recognized in the services sector, and were treated on par with SSIs in the manufacturing sector.

c) The corpus of the Credit Guarantee Fund was raised from Rs.1132 crore in March 2006 to Rs.2500 crore in five years.

d) Credit Guarantee Trust for Small Industries (CGTSI) was advised to reduce the one time guarantee fee from 2.5 per cent to 1.5 per cent for all loans.

e) Insurance cover was extended to approximately 30,000 borrowers, identified as chief promoters, under the CGTSI. The sum assured would be Rs.200000 per beneficiary and the premium will be paid by CGTSI.

f) The emphasis was laid on Cluster Development model not only to promote manufacturing but also to renew industrial towns and build new industrial townships. The model is now being implemented, in nine sectors including khadi and village industries, handlooms, handicrafts, textiles, agricultural products and medicinal plants.38

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38 Madhu Bala(Dr.), Policy support to small scale industries (lesson – 20) 2013 p1,p2,p3
1.5.3.12 New initiatives by the Government

The following new initiatives have been taken by the government:

a) Advisory and Mentoring Services: Inadequate management skills are often the cause of non-performance of small enterprises. NSIC's advisory and mentoring services are aimed at effectively addressing this impediment to growth. It offers Mentor-pupil relationship services in which the Mentor, a person with wide experience is running his own business, will volunteer his services to individual or a group of units - the pupil. An advisor, a senior professional, generally retired and a specialist in a specific area will assist in the process. Mentors and advisor will provide the necessary professional and moral support in the early lifecycle of an enterprise or to existing units facing critical operational problems.

b) Technology Business Incubators: Innovative entrepreneurial ideas have to be fostered and developed in a supportive environment before they become attractive for Venture Capital Institutions. Incubation centre enable technical entrepreneurs to conduct their Research and Development programs in a professional, friendly and supportive environment, without making any further investment. Technology Business incubators are an important tool for entrepreneurial development. Recognizing this need, NSIC has setup the following Technology Business Incubators.
   - Information Technology.
   - Product Design.
   - Energy and Environment.
   - Bio-Technology.
   - Electronics and Communications

c) Suppliers Rating Accreditation Services: Accreditation, a necessity for buyer comfort, speaks of the enterprise's ability to supply reliably and effectively a product, in accordance with the customer’s changing needs. NSIC provide accreditation to SSI units by developing an effective accreditation system process through collaboration with Indian and International Accreditation agencies. Accreditation
is provided at two levels - for all Government purchases and for private national and international buyers. Inventory implies the goods held for the sale in the ordinary course of business, goods currently in the process of business, or goods waiting to be replaced in the production.

Government is aware of the challenges faced by SSIs and has been trying to improve their competitiveness through various measures. These consist of the following:

- Tax concessions have been provided to SSIs to promote investment in this sector and also to grant relief to small entrepreneurs.
- Technological facilities have been increased.
- Facilitate adequate flow of credit.
- Measures to improve infrastructure facilities and promote marketing of products.
- To access the latest information, automation of the Ministry of SSI Office of DC (SSI), Directorate of Industries and District Industries Centres have been set up.
- Other initiatives, such as, Advisory and Mentoring Services, Technology Business Incubators, Suppliers Rating Accreditation Services have been taken up.

1.6.1 Overview of policies adopted by Chinese Government for the growth of SMEs

Since 1990s’, the SMEs in China entered a prosperous period. It is important to keep in mind that SME policy in the PRC (People's Republic of China) is largely guided by the Act on the Promotion of SMEs, which came into effect in 2003, and is the only such act dealing with SMEs. The Act includes policy measures such as financial support, support for start-up businesses, and support for technological innovation and market expansion. The Act also states that the PRC's government have to be involved in information provision and training services for SMEs.

A joint benchmarking exercise may have a catalytic effect in terms of encouraging more intense exchanges between firms on technical issues, such as when employees from different firms are jointly trained in benchmarking techniques. In order to promote SMEs’
development, Chinese government had taken various efforts for building the capacity of SMEs to make effective use of the Intellectual Property System.\textsuperscript{39}

In 2003, Law of the People’s Republic of China on the Promotion of SMEs was promulgated to encourage and support the SMEs’ innovations. In Oct. 2007, the policy of supporting technology innovations of SMEs was also put into effect. Through this policy Chinese government planned to take various actions to build the capacity of SMEs by making effective use of IP system in their business strategy. Main contents:

- The government supports the SMEs to put greater efforts on performing R&D activities and establishing research institutes to support innovation activities.
- The government encourages the SMEs to provide inspriring measures for inventors to share the company’s profit with their own inventions.
- All levels of SMEs & IP authorities helped SMEs by promoting the banks to provide more favor for SMEs’ projects, especially for those with excellent patented technology and sound market potential.
- The government also promotes the SMEs’ patented technologies to be commercialized by establishing new service systems to provide services on the field of information, research and technology transfer, etc. The government also opened research facilities for SMEs’ convenience. All levels of IP authorities in China have cooperated with related units to build databases and issue relevant information for SMEs.
- Enhance the measures on IP protection.

Besides the policies, Chinese government also took many other measures for building the capacity of SMEs by making effective use of the IP system. For instance:

- To encourage the SMEs to enhance IP protection by applying patent, the State Intellectual Property Office of People’s Republic of China (SIPO) quickened the speed of patent examining and approving by optimizing the examination processes, recruiting more examinants, ameliorating the examination system.

\textsuperscript{39} Yang, T, Lim Jamus, J, and Kanamori, T, Strategies for the People’s Republic of China’s Small and Medium Enterprise Development within the National Innovation System, ADB Institute Research Paper Series No. 73 November 2008 p.16
• To meet the SMEs’ great demands on patent information, SIPO set forth to establish IP information centers in most of the provinces in China since 2001, providing daily consultant, patent information searching and collecting, patent information processing and analyzing etc.

• In order to provide better services on consultancy about patent policies and related patent affairs, SIPO set up a customer service center, providing free services to the public by telephone, e-mail, or letter and so on.

• In order to help SMEs’ financing, SIPO cooperates with other related units to help SMEs to carry out the IPR mortgage, patent licensing and patent transfer.

• In order to upgrade the SMEs’ capacities on using IP system as soon as possible, IP offices nationwide established sound IP pilot program for enterprises (includes SMEs). This program provides many services for SMEs, such as publicity, training and communication platforms etc.

• The IP offices nationwide also provided many other services, such as:
  o Held intercourse meetings and forums for enterprises to share experience.
  o Published guidance on IP management for enterprises.
  o Provided IP management information with magazines.
  o Instructed the enterprises to improve the capacity on innovation and the ability to perform IP strategy research.
  o Provided in-depth extensive training to help enterprises ameliorate their IP management system.
  o Some municipal IP offices in China succeeded to establish local professional IP management instruction committee or enterprises IP special system or patent assistant system for building the capacity of SMEs to make effective use of the IP system.

1.6.2 Network Clusters and the National Innovation System in China

In addition to cooperation between SMEs in a cluster, the cluster also allows SMEs to interact with institutions in their surrounding environment. These institutions include universities and R&D institutes, banking and other types of financial intermediaries, non-financial intermediaries (such as marketing and human resource firms), and relevant government departments; these institutions as functional agents. Moreover, certain policies also affect the cluster. Essentially, our model locates the network cluster within the broader
NIS; this national innovation system is comprised of the set of innovation actors, the linkage mechanisms among them, and the policies and institutional factors that influence the performance of each of the innovation sectors. As per the central policy of the Chinese government that foreign investment must be made in a manner that is consistent with Chinese policy and have to promote China’s development. China therefore follows a policy of guided investment, and the Catalog is the guide. The first Catalog was issued in 1995 and revised many times. 2011 version of the Catalog have taken effect on January 30, 2012 through this Catalog, if any changes to existing foreign invested projects that take effect after the effective date must comply with the terms of the new Catalog.40

1.6.3 Government Capacities - Changing mind-set

The government only took care of SOEs in the past, but now has largely de-emphasized ownership and extended supports to all sorts of firms. This has been done through several major efforts among which:

- The 1999 Constitutional amendment formally acknowledged the role of the private sector
- The establishment of an SME agency in the central government institutionalized a framework of supports to SMEs
- The 2002 SME Promotion Law set guidance and standards for government supports to SMEs

1.6.4 Government Administration

Relatively clean governments, a recent survey of 600 firms in Sichuan province found that corruption ranked sixth in firms’ concerns but unstable government policies and implementation. The same survey found that they ranked the third in firms’ concerns (following finance and unfair competition).

1.6.7 The SME Innovation Fund

The fund was established in 1999 to provide merit-based free funds to technically advanced start-up SMEs. It is managed by the Ministry of Science and Technology. The budget for the fund ranges from 500 million to 1 billion RMB.

The major criteria for selection are technology, profitability, and the management team. Evaluation of individual proposals takes place in Beijing by experts in technology, accounting, and management. The fund is regarded as the fairest in terms of the evaluation process. As a result, it has a very good reputation.

The fund has played a significant role of leverage for a recipient firm to attract more equity investment and bank loans. In Sichuan, it is estimated that 1 yuan from the fund can bring to the firm 5 yuan from the market.

Funding to start-up companies generally has a low success rate. Among 15 such firms financed in Sichuan in 2002, only 3 have shown a sign of good performance. The problem is the lack of managerial capacity of the team. The evaluation process can be improved by adding more weights on economic performance. There are cases of frauds in which firms provide false information just for the purpose to get free money.

1.6.8 The SME Guarantee Fund of Sichuan Province

The fund is managed by the Sichuan SME Service Center under the provincial economic and trade commission. Its registered capital is 20 million yuan. In 2002, it guaranteed 170 million yuan of loans. The term is usually 1 year, but can be extended to a maximum of 3 years. Up to now, less than 1% of the guaranteed loans have been defaulted. The fund is applying to the provincial government for 20 million RMB to expand its operation.