CHAPTER - II

Review of Literature

2.1 Review of literature related to SME sectors in India

2.2 Review of literature related to SME sectors in China

2.3 Identification of Research Gap
2.1 Review of literature related to SME sectors in India

Every research study is built on past knowledge, which is an outcome of constant human endeavour. No research study can progress in isolation of other studies done in similar field. A thorough review and survey of related literature forms an important part of research. It deals with the critical examination of various published and unpublished works related to the present study. Knowledge of related research enables the study to define the frontiers of this fields; it helps in comparing the efficiency of various procedures and instruments used. Further review of literature avoids unintentional imitation of previous studies and also places this study in a better position to interpret the significance of Researcher’s own results.

Desai (1983) also stated that SMEs has vast potential in terms of creating employment and output, promotion of export, expansion of base for indigenous entrepreneurship and dispersal of industries and entrepreneurship skills in both rural as well as backward areas. Desai also stated that rapid industrialization in India depends on the growth of SMEs. Most of the SMEs are operating under certain hindrance like shortage of raw materials, low levels of technical knowledge and counselling, poor infrastructure, inadequate capital and credit facilities, improper distribution system, lack of facilities for market analysis, research and development. They are also weak in marketing their products beyond their localities especially in international markets.

As per the India's New Industrial Policy, 1991, The industrial Reforms (1991) were introduced in five areas namely Industrial Licensing, Foreign Investment, Foreign Technology Agreements, Public Sector Policy and Monopolies and Restrictive Trade Practices Act (MRTP). The government permitted foreign investments with a limit of 51% in industries that required the use of advanced technology and large scale investments. The terms of agreement with regard to the transfer of technology was left to beneficiaries of the contract with minimal government interference. Regarding the MRTP Act, major attention was paid on monitoring unfair trade practices. No mandate of the central government was necessary for setting up and expansion of business units and mergers.

Gregory Clark, University of California & Davis Susan Wolcott, University of Mississippi-mentioned in their report on One Polity, Many Countries: Economic Growth in India 1873-2000, 2003 pp3 & 6 stated that The Indian economy experienced its decline in a long period
of relative political and social stability, first under British colonial rule until 1947, and even after independence. Indeed the erosion of India’s relative economic position has continued across three different political regimes. The accelerated economic growth since 1987 has been associated by many with liberalization of the economy. But the era of reform properly dates only from 1991. Independence did create a substantial change in economic management. After 1947 there was a gradual move from a laissez faire policy, with low taxation rates and taxation based heavily on lump sum taxes on land rent, to an interventionist policy that relied more on taxes that could at some deadweight cost be evaded. But India has remained a lightly taxed economy.

Stephen Broadberry and Bishnupriya G. (2005), in his paper, “Cotton textiles and the great divergence: Lancashire, India and shifting competitive advantage” (p.29) emphasis that due to the growing imports of cotton cloth from India via the East India Company during the seventeenth century, which opened up new opportunities for import substitution as the new cloths, patterns and designs became increasingly fashionable. However, high silver wages in Britain as a result of high productivity in other tradable goods and services meant that British producers of cotton textiles could not use labour-intensive Indian production methods. This stimulated a search for new methods of production that economised on the use of labour. As labour productivity increased in Britain and stagnated in India, comparative unit labour costs moved in Britain’s favour.

S. Venkataramanaiah and S.P. Parashar (2007), Indian Institute of Management, in their paper titled “Enhancing the competitiveness of SMEs through industrial clusters: The Indian experience, International Journal of Technology Management and Sustainable Development Volume 6, 2007 pp1,2 & 15), stated that Indian industry is undergoing a major change due to the liberalisation, privatisation and globalisation (LPG) of the economy. Many investors and corporate organisations from developed economies are looking at India as one of the best locations for their global operations. The role of SMEs is becoming increasingly crucial for meeting the growing demand of both domestic and overseas firms operating in India. In transition economies like India and China, SMEs provide the best illustration of the changes in ownership structures, business culture and entrepreneurial behaviour. The SMEs that survived the downturn in 1990s have emerged as competitive global players. Many small and medium size organisations are on the way to becoming medium and larger ones. Many SMEs are also trying the initial public offer (IPO) channel to
raise funds, but the capital market is still not SME-friendly. The inherent strength of SMEs and their potential for growth have nonetheless started winning them the sympathy of many banks, financial institutions (FIs), state financial corporation’s (SFCs) and other support agencies.

Dr. Raju KD in his working paper titled Small and Medium Enterprises (SMEs): Past, Present and Future in India PHDCCI, (2008) pp7 & 12 mentioned that Small and medium industry occupies a position of strategic importance in the Indian economic structure due to its significant contribution in terms of output, exports and employment. Small industry has been one of the major planks of India's economic development strategy since Independence. India accorded high priority to small and medium enterprises (SMEs) from the very beginning and pursued support policies to make these enterprises viable and vibrant and over time, these have become major contributors to the GDP. Despite numerous protection and policy measures for the past so many years, SMEs have remained mostly small, technologically backward and lacking in competitiveness.

Jadhavar & Sawant, 2005, in the paper WTO and its impact on Indian SMEs, stated that the opening of the Indian economy in added more problems to the SMEs compare to China. At the beginning, small scale enterprises in India found it difficult to survive. Small industry in India has been confronted with an increasingly competitive environment due to, liberalisation of the investment regime in the 1990s, favouring foreign direct investment (FDI); the formation of the World Trade Organisation (WTO) in 1995, forcing its member-countries (including India) to drastically scale down quantitative and non-quantitative restrictions on imports, and domestic economic reforms. The cumulative impact of all these developments is a remarkable transformation of the economic environment in which small industry operates, implying that the sector has no option but to 'compete or perish'. It is important to re-look into the basic issues of SMEs, past, present and future prospects, especially in the policy framework.

Export-Import Bank of India, Quest Publications, August 2008 (Indian textile and clothing industry in global context: salient features and issues, p no.22, 24,29) stated that “Post MFA (Multi Fiber Arrangement), the Indian textile and clothing industry has been growing and has made India as one of the league countries involved in export of textile as well as apparel products. The world’s largest exporter of textiles (excluding clothing) in the case of
individual countries, China was topping the list and India stood at the 6th position in 2006. One of the key advantages of the Indian textile industry is abundant availability of raw material. One of the challenges faced by the Indian textiles and garments sector in 2007-08 was the sudden appreciation of Indian Rupee vis-à-vis US dollar. This has slowed down the growth momentum of textiles and clothing industry in India. Though, the growth trends in US dollar terms are not very much affected during the period April-February 2007, in Rupee terms, exports witnessed negative growth rate with regard to both textiles and clothing”.

Rakesh Mohan, Deputy Governor, Reserve Bank of India during his Keynote address at the Conference “Growth and Macroeconomic Issues and Challenges in India” organised by the Institute of Economic Growth, New Delhi on February 14, 2008) stated that - The Indian economy witnessed near stagnation in real GDP growth till the late 1970s. A closer review of the performance of the Indian economy, however, suggests a continuing increase in real GDP growth over each decade since Independence, interspersed with an interregnum during the 1970s. The growth of manufacturing production, in terms of decade averages, was roughly constant at around 5.6-5.9 per cent in the first five decades after Independence, except for the 1970s.

Pratik Kadakia, Abhishek Nigam and Ankur Singhai of Tata Strategic Management Group in their report on Indian specialty chemicals: An unfolding growth story published on April, 2008 stated that, the specialty chemicals industry, consisting of approximately fifty segments including construction chemicals, electronic chemicals, polymer additives, textile chemicals and oil field chemicals. The market is concentrated largely in the US, Europe and Japan but future growth is expected to come from the emerging Asian markets. The high growth rates in these economies are ushering in prosperity and improved life style which mandate a greater usage of productivity and performance enhancing materials. The Indian specialty chemicals market including knowledge chemicals is likely to double. Typically this industry grows twice the GDP growth rate in emerging economies, which further strengthens the projected estimate. The industry is driven by twin growth engines: domestic demand (consumption in end user industries) and exports based production (India becoming a preferred destination to build global presence). The growth in domestic demand is attributed to both, growth in the end user industries and to the increased usage of specialty chemicals. As per the report the textile industry, one of the most significant consumers of specialty chemicals is expected to grow at 20% p.a. over the next five years. In future increased
domestic availability of raw materials will support the growth of the Indian SMEs especially chemicals industry.

Jatinder S. Bedi(Dr.) in his paper titled, Assessing the Prospects for India’s Textile and clothing sector, 2009 - pp3, 35 & 137, mentioned that the industry is afflicted by slow and uneven modernisation across various segments. Insufficient modernisation is especially the case with dying and processing, weaving, garments, non-woven and technical textiles segments. Existing policies for modernization such as Technology Up gradation Fund Scheme (TUFS) and policy to attract FDI need to be properly designed to allow investments where they are most essential. Presently small size units will get benefits of various microfinance and credit schemes of government. There is a need to be taken into consideration as small scale sector seems to have definite edge in Textile and Clothing sector and modernization in this sector is crucial for the overall growth of this sector.

Bhatt .S, & Narayanan. K, in their study on Technological Strategies, Firm Size and Exports in Indian Basic Chemical Industry 02 Jun 2009 pp2 & 5, mentioned that the Indian Basic Chemical sector through foreign direct investments are some of the technological strategies which are being used by the firms in this industry. The Basic Chemical industry can be thought to be producer of products from resource based and medium technology process industries where competitiveness is principally in reducing the costs of production for the standardized products either through process innovations or through high scale operations. But sometimes development of specialized product based on unexploited revolutionary technology can give competitive edge to a firm over its rivals. The studies that have found a positive relationship between R&D and export competitiveness include Aggarwal (2001) for medium-high technology industry in India. The policy of import substitution policy regime, Indian government gave tax reduction and other incentives to encourage firms to invest on in-house R&D for product and processes innovations. However, the amount spent by Indian firms on R&D was, and still is, hardly anything compared to the world players especially with neighbor China. Many small and medium scale chemical enterprises flourished during the protected and licensing regime in the Indian Chemical industry. The few larger and older firms that could have become their competitors did not invest in any meaningful R&D or marketing or human resource development. A few multinationals that existed during that time fared better than the domestic firms in
performance because they had access to R&D and technological options from their parent firms in other countries.

Industrial Policy document government of India, (2005-2010), empowered the small and micro units and they made eligible to categorized as SME and consequently more than 17500 micro and small industrial units were classified as SMEs. After the year 2006 till 2010 more than 3000 new units have been converted into SMEs. The consequence of this, it appears that there is tremendous growth in number of SME Units under textile sector in India. Similarly the production level and employment generation in SMEs has shown significant growth. It is significant to note that, despite of huge increase in number of SME Units under textile sector in India, the export could not increase in proportion of increase in number of SMEs, which shows that the micro and small SMEs which had been added into SMEs sector in 2005-06 were producing goods for the Indian consumer and they were not able to produce the export quality goods.

Nagaraja and Murthy N, in his study on Problems Being Faced by SMEs in India (An Attempt to Study MSME Segment Minutely), 2010 (Pg4), mentioned that the major constraint faced by SMEs in India is "Power" i.e. Man Power, Electric Power, Money Power, Purchasing Power, Political Power. He had advocated that to make the sector to become more vibrant and significant player in development of the Indian economy the Government of India have to setup a Board for developing policy frameworks and indicating procurement policy.

Handbook on Indian Chemical Industry prepared by Tata Strategic Management Group, FICCI and Roland Berger Strategy Consultants in its study reports on “Sustaining the India Advantage a Handbook on Indian Chemical Industry,2010, (Page 10,13& 159) mentioned that Global chemicals industry grew at a healthy rate of 9% p.a. during the period 2004-2008. However, the industry went through a dramatic downturn in 2008-2009 due to the global economic recession. In 2009, the global chemical industry is estimated to have seen a decline of 4.5 - 5% over 2008 levels as demand from large end-use industries such as construction, automotives, electronics etc. fell massively worldwide. The downturn witnessed shutting down and idling of significant capacities and other cost cutting measures like workforce reduction. Increasing local production requires global competitiveness to withstand imports as well as for exports of surplus. Key success factors needed are feedstock
cost & availability, value chain access, technology, capital investment, presence of strong local players as well as access to a rapidly growing large domestic market. India is today seen as a growth market for many western companies. Domestic companies have built significant assets and have the opportunity to leverage them and will need to strengthen them further to withstand global competition. It could be worthwhile to explore partnerships, in select areas, for mutual beneficial development.

N. Prasanna, in his research titled, “Impact of Foreign Direct Investment on Export Performance in India” (2010, p.3 & 7) described that local firms grow and become international competitors; it becomes harder for them to obtain technology from Transnational Corporations (TNCs) through FDI. If the Government of India aspires to continue on the export-oriented strategy and benefit from it in the long run, it needs to concentrate more on domestic efforts to expand manufacturing in line with the FDI policy framework.

P Nayak & Shakeel Ahmed in his paper titled, “Implementation of the Free Trade Agreement (FTA) with Association of South East Asian Nations (ASEAN) from 1st January 2010, India has achieved an important milestone in pursuance to its objective to expand its economic and political relationship with the neighbouring nations. ASEAN consists of 10 countries namely Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. Textiles and Clothing (T&C) has been identified as a sensitive sector under the Free Trade Agreement (FTA). The sector has its own importance as far as its contribution to the Indian economy is concerned. During 2008-09, the sector accounts for 13 percent of Indian exports, contributes 4 percent to Gross Domestic Product (GDP), 26 percent to manufacturing output, 18 percent to industrial employment. As the second largest employer, the sector employs as large as 38 million directly and another 53 million indirectly. India is a significant exporter of textiles and clothing to the world. In case of Indo-ASEAN textile and clothing trade, India has been consistently performing better than ASEAN and has favourable trade balances. Overall, the T&C exports of India look quite encouraging before the FTA was signed”.

Virambhai S. Zalain his study Productivity and Financial Efficiency of Textile Industry of India, Profile of textile industry. Historical Background, 2010, chapter-1 P1 & 15, stated that, during the year 1990 in line with the general policy of liberalization, several measures
were undertaken to reduce controls and bring about greater transparency in the textile sector. The textile industry was de-licensed as per the Statement of Industrial Policy 1991 and the Textile Development and Regulation Order of 1992. Reforms on the fiscal and external fronts were also pursued with renewed zeal. Those measures liberated the Indian textile industries from the shackles of regulation that were in place up to the late 80s. These steps were only a beginning in ensuring that the different segments of the textile industry become competitive in the wake of liberalization. Fashions have always influenced creation of demand in this industry, especially after the rise of retailers; control of the commodity chain. Given their closeness and greater understanding of the market than manufacturers, these traders sought to compete through market innovations like new designs and fashion marketing rather than through cost reductions by innovations in production techniques.

Shambhu Ghatak’s article “Micro, Small and Medium Enterprises (MSMEs) in India: An Appraisal” 2010, said that Banks show their reluctance to extend credit to small enterprises because of High administrative costs of small-scale lending due to Asymmetric information as well as High risk perception and Lack of collateral. Credit guarantee schemes diminishes the risk incurred by lenders and are mainly action to small firms’ lack of collateral. Such schemes do have the potential to reduce the costs of small-scale lending and to improve the information available on borrowers. They enable small firms to access formal credit and also improve the terms of a loan. Such schemes assist small enterprises to obtain finance for working capital, investment and/or leasing purposes at reasonable conditions. This enables SMEs to improve their competitiveness and to extend their economic activity. Weaknesses of credit guarantee schemes can be avoided through proper design and private sector involvement. More support is needed for MSMEs from the government in the form of priority sector lending, government procurement programme, credit and performance ratings and marketing support. Technology transfers (such as green technology) and networking can revive the growth of MSMEs.

Chemexcil 49th Annual Report (2011) stated that India’s geographic location provides easy access to the world markets; and low-cost advantage, availability of talent and skilled manpower make India the destination of choice. It also states that the Indian Government’s extensive support to give impetus to the Indian Chemical Industry by setting up the Task
Force to consider suggestions for National Chemical Policy to ensure steady growth of the country’s chemical sector.

In the occasional paper (no. 117) of Indian chemical industry: a sector study conducted by Export-Import Bank of India (2011), Page Nos.65-73 mentioned that Indian chemical industry holds a recognized position in the global map; however, there are few factors, which hinder the growth of the industry. These include: High prices of basic feed stock, SSI reservation / Fragmented nature of industry, Low levels of R&D, ICT interface, Brand Development, Common Infrastructure and Environmental Regulations etc. The said paper also indicated that due to globalization many Indian chemical companies enter into strategic alliances or merge operations to achieve economies of scale for clean technology, process consultancy, feedstock linkages, R&D, waste management, safe manufacture and environmental protection. In addition, Indian chemical companies are attempting to achieve global standards by improving productivity through various measures such as better raw material utilization, by-product reduction and use, energy reduction and conservation, effluent management, water management, up-gradation of plant and equipment, skill development.

Suganya. C & Muthukannan. K (2011) in his research titled, An Analysis of Current Scenario of Indian Textile Industry (Published in Textile Review) revealed that the Indian Textile Industry is one of the leading textile industries in the world. Though was predominantly unorganized industry even a few years back, but the scenario started changing after the economic liberalization of Indian economy in 1991. The opening up of economy gave the much-needed thrust to the Indian textile industry, which has now successfully become one of the largest in the world. According to them the Cotton exports couldn't pick up owing to disparity in domestic and international cotton prices. Also Imports of cotton were limited to shortage in supply of extra long staple cottons.

Department of Chemicals & Petrochemicals, Govt. of India’s Annual Report 2011-2012, (Page No.4) mentioned that the fiscal concessions granted to the small-scale sector in mid-eighties led to establishment of a large number of units in the Small Scale Industries (SSI) sector. It also mentioned that currently, the Indian Chemical industry is in the midst of a phase of major restructuring and consolidation. With the shift in emphasis on product innovation, brand building and environmental friendliness, this industry is increasingly moving towards greater customer orientation. Even though India enjoys an abundant supply
of basic raw materials, it will have to build upon technical services and marketing capabilities to face global competition and increase its share of exports.

Morakar P.R (2012) in his study titled, Problems and prospects of small scale industries of Goa: a geographical study Indian Streams Research Journal (P.2) state that, the Small Scale Industries are not free from challenges as the policies of deregulation and de-reservation have resulted into increased competition for the MSME sector. Due to the globalization the labour force has changed tremendously and paved the way for getting avenues according to their skills and has helped to improve the life style. A recurrent opinion in industry and policy making bodies that there is lack of skilled labour to cater the need to meet out the demand for the product. Hence, there are a lot of opportunities for skilled workers.

Reetu Sharma(2012) in her research study titled, Problems and prospects of small scale industrial units’’, published in Asia Pacific Journal of Marketing & Management Review reveals that the basic marketing problems related to exporting and non-exporting units. It is a well known fact that marketing mix is the combination of product, price, promotion and physical production. On basis of above variables it can be said that marketing activities start with origin of a product and continues after sale of product in shape of post sale services etc.

Corporate Catalyst India’s brief report on chemical & petrochemical industry in India – 2012, p. 2 & 9 said that the fiscal concession granted to small sector in mid-eighties led to establishment of large number of units in the Small Scale Industry sector. With the shift in emphasis on product innovation, brand building and environmental friendliness, this industry is increasingly moving towards greater customer orientation. With the initiation of economic reforms in 1991, industrial policy has been liberalized and except for few sectors, licensing has been discontinued.

In the Study Group Report on New Paradigms for Textiles Industry (Texcon’12) by Confederation of Industries, 2012, mentioned that, the global trade in textiles and apparel is estimated at US$ 650 bn. in 2011. This is approximately 4% of the total global trade of all commodities. In previous 15 years (1995 to 2010) the textile and apparel trade has grown at a modest Compound Annual Growth Rate) CAGR of 5% per annum During 1995 to 2000, the trade growth remained muted @ 3% CAGR. However, it accelerated to 7% during 2000 to 2005 and then fell in subsequent 5 years to 4% CAGR. In the last 10 years, world has
witnessed a gradual shift in textile production from developed / western countries to developing/Asian countries. The textile industry, being one of the most significant sectors in the Indian economy, has been a key focus area for the Government of India. Government policy has played a fundamental role in shaping the growth, structure and technological evolution of the textile sector in India over the last decade. The strong demand from domestic and export market coupled with conducive policy environment provided by the Government has catalyzed the growth of the textile industry. With the objective of accelerating growth in investments and exports; Government of India has launched several schemes.

Asian SMEs and globalization –ERIA(Sept 2013) : Economies, mentioned that in India Small enterprise promotion has continued to remain an important and integral part of Indian development strategy well before the First Five-Year Plan. Some of the most persisting constraints facing the sector, dominated by smaller units in the informal sector, include poor or non-availability of loan finance, low levels of technology, inadequate physical and economic infrastructure, and a policy of product reservation for small scale industries, which excludes entry of Large Enterprises. Poor monitoring of implementation and effect of various small firm policies has been an issue of concern. There has been a definite decline in the access to credit by small enterprises among SMEs. Given the large scale attempts to promote industrial clusters in the SME sector, cluster promotion in the Indian context must move beyond the ‘sectoral’ bind. In China, SME clusters have been formed in developed coastal areas. Each cluster consisting of one or more towns concentrates on one product. By obtaining economies of scale and scope, SMEs in the clusters can enhance efficiency and reduce costs. In these clusters, cooperation among SMEs for procurement and marketing is found common. Division of labour among SMEs is also is observed in these clusters.

Report of the India-China Joint Study Group on Comprehensive Trade and Economic Cooperation 2013, mentioned that Competition between India and China in textile exports has pushed Chinese enterprises to the manufacturing and export of garments, importing textile materials from India. The two countries can thus convert competition into new opportunities for cooperation through intra-industrial trade. The presence of Indian companies in China has also increased significantly, especially in sectors such as iron and steel, textiles, chemicals, automobile components, and pharmaceuticals. The two countries should increase the role of industry organizations and strengthen cooperation with particular attention to market information. For instance, the development of the textile industries of
both China and India plays a significant role in boosting their economy and employment generation. The textile industries of the two countries should therefore reinforce consultations, as well as, establish cooperative mechanisms to hold joint research and coordinate their responses to the problems of the industry. Strengthening cooperation and exchanges in the area of development experiences vis-à-vis SMEs could be of great significance to the two countries. Governments should play an active role in pushing forward China-India cooperation and exchanges in this area. First, the successful experiences in the development of SMEs should be shared, including government policies, management system, laws and regulations; second, the governments should create favourable conditions for the SMEs of the two countries to cooperate with each other; for example, by holding some exhibitions and information briefings for the products of SMEs so as to encourage the enterprises to communicate and cooperate with each other. Third, there is immense scope for Indian companies to improve productivity by forming alliances with their Chinese counterparts for establishing energy efficient and environment friendly projects, including in the area of biotechnology. Fourth, the two countries could consider cooperation in knowledge-based industries.

2.2 Review of literature related to SME sectors in China

Yongzheng Yang and Chuanshui Zhong, China’s Textile and clothing exports in a changing world economy- The Developing Economies, XXXVI-I, 1988:p.4 said that world’s largest clothing exporter and second largest textile exporter, China had to play an important role to this global issue. In the 1980s, it was feared that industrial economies may not be able to accommodate China’s continued expansion of textile and clothing exports (Whalley 1992). Multi-fibre Arrangement (MFA) restrictions have indeed become increasingly severe, but China has managed to increase its exports rapidly. In the fourteen years from 1980 to 1994, China’s exports of textiles and clothing increased eight fold. With rapid increases in domestic costs, however, China’s exports of textiles and clothing are approaching their peak and have begun to shift from textiles, clothing, and other labour-intensive manufactures to more capital- and technology-intensive products (Garnaut 1996). The rapid growth of China’s textile and clothing exports has led to major changes in the world textile and clothing markets. However, the shift from labour-intensive to capital-intensive production will not proceed as fast as with more rapid economic growth. While China’s annual real GDP growth rate is reduced by one-third over the period 1992–2005, annual output growth is only reduced by
25 per cent for textiles and 19 percent for clothing. The growth rate of total exports also falls by 19 per cent. Because textiles and clothing are more labour-intensive than other manufactures on average, their growth rates slow down to a lesser extent, 12 per cent and 14 per cent, respectively.

Carsten Herrmann-Pillath, Li Kai and Pan Jiancheng, mentioned in their “Developmental Challenges to Small and Medium Scale Industrial Enterprises in the People’s Republic of China”, 2002 pp37 & 39 that depending on the general political mood and on the prevalence of different theoretical positions, SME are regarded either as a problem or as a high potential. In general, even in the most developed competitive market economies there is a widespread use of special support schemes for SME, which are based on the diagnosis of certain market failures in SME development. Nonetheless it is interesting to note that the share of companies established after 1993 is the highest in the food and beverages industries, textile and garment and chemical/pharmaceutical industries (above 40%) which means that these industries grew with the general economic expansion of the Nineties. Another interesting observation results to be that there are two branches in which there is a very high share of exporters, namely textiles/garments. Shortages in funding are always mentioned as prime reason of troubles, for example, in marketing and training. SME suffer from very serious shortages in qualified technical personnel. SME policies cannot be formulated on the national level, with the possible exception of finance. SME policies in China, therefore, should follow the recent approaches in developed industrial countries which favour a “regionalization of regional policy” and a decentralization of enterprise support policies, with tight budget constraints.

Hung-gay Fung, (2005), A study on China’s Foreign Trade and Investment: An Overview and Analysis by p.1 & 2, mentioned that, it is found that since the inception of economic reform in 1978, China has achieved remarkable economic growth. As China is still in the process of moving toward a market-oriented economy many earlier policy tools such as the use of a fixed exchange rate regime and inconvertibility of capital account for the balance of payments remain intact. Apparently, these adopted polices serve several functions, First they intend to insulate Chinese economy from shocks of speculative external forces that can be destabilizing. Second, they enable Chinese policymakers to have better control of fund inflow and outflow in order to maintain more economic stability for the Chinese economy. Finally they allow China to accumulate sufficient foreign reserves, which can potentially represent a symbol of stability and strength. As China encourages foreign firms to invest in China, Better
incentives (such as differential tax packages and lower import tariffs) are provided to them, creating a differential tax treatment or non-uniformity of policy incentives between domestic and foreign firms.

Study report of European commission on China’s Textiles & Clothing Industry and its Market Expansion Strategy (2005), it is stated that the restructuring of the textile industry has an encouraging effect on the performance of the clothing industry mentioned that A vibrant fibre processing industry has further integrated the various links in the supply chain, which is one of China’s key competitive advantages. Nevertheless, even as China’s Textile and Clothing (T&C) industry makes significant absolute gains in terms of fibre-processing and garment production capacity, the sector’s relative overall export performance as a percentage of total exports has been steadily decreasing. On the upstream side of the sector, Chinese textile companies have been adding new capacity last few years and have made significant headway in enhancing efficiency and quality of production. Textile enterprises will not benefit directly from the phase-out of the quota system in a significant way. But they will stand in a better position to reap the benefits of greater internationalization by the government’s efforts to rationalise the sector. The Chinese clothing sector will be the biggest market-share winner in the restructuring of the global textile trade system, as buyers strengthen their purchasing activities in China. Recent economic projections suggest that the share of China’s exports of clothing products in key markets will vastly outstrip its share of textile exports. A recently published WTO report, for instance, projects that China’s share of the combined US/Canada garment market will balloon from 16% to 50%, whereas its share of these countries’ textile market will rise marginally from 11% to 18%. In the EU, China’s share of the garment market is projected to reach 29%, up from 18%. The projected increase in China’s share of the EU textile imports however is negligible. Accession to the WTO has strengthened China’s textile and clothing sector as key importers of textiles and clothing, including the United States, the European Union and Canada, have begun to phase out quotas on Chinese imports as outlined in the ATC. Indeed, the sector has demonstrated a burgeoning export performance since the implementation of the third stage of ATC came into effect in 2002. In the EU, China’s textile and clothing products removed from quota restrictions surged by 46% in value and 188% in volume in 2002, while average prices decreased by 50%, according to EU estimates. Indeed, China has become the largest exporter of textile and clothing products to the EU, ahead of the combined top three Mediterranean exporters to the EU (Turkey, Tunisia and Morocco), in spite of the duty- and quota-free import benefits
enjoyed by the latter. Furthermore, experts predict that continued export growth in the sector coupled with the coming into effect of the final round of ATC liberalisation will significantly increase imports of Chinese textile and clothing products by the EU. China’s textiles and clothing industry has achieved remarkable growth and plays an important role in the domestic economy as both a foreign exchange revenue-earner, as well as a key source of employment.

Cheung, 2009, in his research stated that, because of the open-door policy from the year 1980 onwards and especially from the year 2000-01 onwards, the world has been amazed by China’s elevated economy, whose growth rate is matched by no other country. The China Government formulated and implemented the industrial policies that have made aggressive effect on the economy. The promotional industrial policies related to achieve goals of economies of scale through massive production and export in several fields including automobiles, textile, chemical, pharmaceuticals have made china number one in the world.

Selin Ozyurt of EURIsCO, in his article Total Factor Productivity Growth in Chinese Industry 1952-2005, 2006 pp1 & pp12 mentioned that China has undergone a continuous and spectacular economic growth since the beginning of the economic reform policy, in the early 1980’s. Along with the rapid economic takeoff, Chinese economy has experienced a progressive transition from a centrally planned to a market based economy. The structural transformation of Chinese economy over the past two decades is striking: Prior to 1978 China was, above all, an autocratic country isolated from the global economy. Since 1978, it emerged progressively in the global economy as a major trading partner. Besides, China’s opening up to the world boosted inward foreign direct investment (FDI). Starting from the late 1990’s, China has become the first recipient of FDI among developing countries. Economic reform program implemented in the early 1980’s was built, largely, on the promotion of industry at the expense of agriculture. Over the past two decades, the rapid industrialization of China was mainly marked by the surge of small-scale enterprises in rural areas which absorbed huge amounts of surplus labour in agriculture. As a consequence, during the reform era, substantial efficiency gains have been reaped from the reallocation of resources to higher productivity sectors (Maddison, 1998; Wu, 2004; World Bank, 1972). Alongside the reform policies, Chinese industry underwent substantial structural changes that may have had an effect on production technologies. Chinese industry, between 1952 and
2004 capital accumulation has been the main engine of economic takeoff. Over the same period, TFP growth contributed significantly to economic growth. The report also said that the TFP gains have exhibited a sharply increasing pattern since the early 1990’s, along with the accelerated integration of China into the world economy.

Kahn and Yardley, 2007, in his study reveals that on the basis of various promotional schemes and incentives, the textiles and clothing industry has made remarkable contribution to the growth of China’s economy. This includes the protection and supply of free or concessional labor, concessional electricity, import and export subsidies, rebate in income tax etc, the Chinese industries particularly SMEs have shown tremendous growth during 1990-91 to 2001. After signing agreement of WTO, till 11th five year plan i.e. up to 2010 the SME sector were enjoying all benefits. After the year 2010, the most of the rebates and subsidies were almost intact for the SME sector but slightly on reducing way. With the consecutive soaring double-digit growth rates in recent fiscal years, the escalating industrial development places China’s environment under pressure.

The World Bank Report (2007) revealed that China’s GDP rose sharply in the first three quarters of 2007, and achieved an overall 11.5% growth in the same year. As per the World Bank statistics, China’s average income was USD 2025 in 2006 compared with USD 293 in 1985. Among the myriad commodities produced in China, textiles and clothing are some of the main income-generating sources.

According to the World Trade Organisation (WTO 2008), China is now the world’s largest exporter of textiles and clothing. As shown in Figure 1, within the period of 1990–2007 (the latest year), the value of textile exports has increased significantly from over USD 7.21 billion to USD 48.68 billion. This is an increase of over six-fold in less than two decades (WTO 2008). In addition to the prominent impact that the textile export value has on China’s economy, the industry employed about 10 million people in 2006, which accounted for over 13% of the country’s total labour force. As illustrated in Figure 2, the number of textiles and clothing enterprises has climbed steadily in the past seven years (National Bureau of Statistics of China 2006).

There is a great deal of literature describing how the economic activities result in a negative impact on this historic land (Smil 1996, The World Bank 2001, Chai 2002). The direct
relationship between economic development and environmental deterioration has been investigated. Smil (1996) stated that environmental exploitation is related to economic expansion because all economies are just a part of the world’s ecosystem. It is devastating for a country to continue prospering without considering environmental problems (Fang 2001).

Alberto Bagnai, in his paper titled “Rising China in the Age of Globalisation, 2007 Pp7, pp12 mentioned that the China, after a moderate decline in the Nineties, is now experiencing again very high rates of investment. The specification of the Chinese sub model differs in several respects from the common framework in order to take into account some important features of the Chinese economic structure and data. The most important departures from the basic framework are that in the Chinese sub model the supply side features a set of production functions disaggregated by main economic sector (hence the labour demand function and the investment function are disaggregated accordingly), and that total respondents is disaggregated into urban and rural respondents (therefore, disposable income and the consumption function are disaggregated accordingly). As far as the specification of the supply side is concerned, the departure from the structure adopted for the other countries was called for basically for addressing a rather severe data issue concerning the measurement of unemployment.

Hongji Zhu Moustgaard, in his Master Thesis 2008, mentioned that, since 1978, the Chinese government has made the policy to encourage farmers to take over the arable lands by making contract. Under the system, the efficiency of farming has increased significantly that has lead to the situation of manpower surplus. Many farmers instead of leaving their hometown have chosen to build their own enterprises locally in consuming the extra manpower for profitability, and many of these enterprises have targeted the textile industry because it has low entry barriers such as low requirements towards technology and capitals. So the Chinese textile industry has strong regional distinctiveness. The half of China’s textile industry is characterised by the regional clusters. In the world, today, “Made in China” has another image which is “Made by Clusters”. In the U.S., the most important 60 products imported from China that are mostly produced by the clusters.

Marco Biselli in his article “China’s Role in the Global Textile Industry” 2009 pp11 & 12 mentioned that China’s position in the textile industry is extremely strong and undoubtedly
leads the global production, even under the negative effects of the global financial crisis, China is still the most competitive location in the world for the textile industry (China’s competitiveness index for this industry was evaluated at 102.8 in 2009). During the financial crisis, while the overall decrease in Chinese exports amounted around 15%, the textile industry felt only partially the downturn effects. Textile export amounts decreased by a relatively low 7% in 2009 and it took very little time of to show significant signs of recovery. In the first 10 months of 2010, China exported more than US$ 62 billion dollars in textile, a rise of 29% comparatively to the same period in 2009. In this same period, exports of clothes also grew, totalling more than US$ 100, presenting an increase of nearly 20% compared to 2009. However, the textile industry is changing in China, and it could reshape the country’s competitiveness in the sector. High amounts of foreign investment and technical expertise were attracted to China in the past decades. Consequently, China stepped forward into the production of more sophisticated, value added products. This is a good outcome to China, as it moves to higher margin and less commoditized products. In recent years, China started to focus on more sophisticated textile products, and the production of some basic products shifted to other countries in Southeast Asia as Cambodia and Vietnam. The higher risks for the industry stability are: labour pressure for higher salaries, which could damage the existing strong labour cost advantage; and internal and external pressure to appreciate the exchange rate, which could drastically reduce the competitiveness of Chinese products abroad. Another risk the Chinese textile industry might suffer is the appreciation of the exchange rate. The massive trading surplus in China puts high pressure on the Yuan. In addition, strongly affected by the financial crisis, developed countries are desperate to reduce their trading deficit and to increase their domestic producers’ competitiveness.

As per the news bulletin, Economy Watch dated 30 June 2010 the Economic reforms started in China in the 70s and 80s with the initial focus on collectivizing agricultural activities in the country. The leaders of the Chinese economy, at that point in time, were trying to change the center of agriculture from farming to household activities. The reforms also extended to the liberalization of prices, in a gradual manner. The process of fiscal decentralization soon followed. China's economy is huge and expanding rapidly. In the last 30 years, the rate of Chinese economic growth has been almost miraculous, averaging 8 percent growth in Gross Domestic Product (GDP) per annum. The economy has grown more than 10 times during that period, with Chinese GDP reaching 3.42 trillion US dollars in 2007. China already has the biggest economy after the United States and most analysts predict China will become the
largest economy in the world in the forthcoming century. China’s respondents in 2010 was 1.341 billion, and it’s expected to grow to 1.375 billion in 2015. In 2010, China’s unemployment rate stood at only 4.1 percent, decreasing 4.65 percent from the previous year and expected to decrease further to 4 percent in 2011. Forecasts for 2015 predict China’s unemployment rate to remain at 4 percent between 2011 to 2015. However, there are still inequalities in the income of the Chinese people. The per capita income of China is only about 2,000 US dollars, which is fairly poor against global standards. As part of the reforms, more independence was granted to business enterprises that were owned by the state government. This led to the creation of a number of various types of privately held enterprises within the services sector, as well as the light manufacturing sectors.

Dilip Parekh & Sameer Patel, (2011), in their research found that, the cotton textile industry in China is facing difficulties as the sales have been poor due to domestic factors and weak recovery of the international market.

As per James J. Shen, in the China Pharmaceutical Guide (PP.5&30 )2011 said that, inspite of many challenges and difficulties, the Chinese pharmaceutical industry and market have achieved remarkable growth in the past two decades. Also the country’s new healthcare reform will ultimately led to a more stable and healthier market environment. With revival of China's export incentive policies, the Chinese import and export of medicines and health products swelled 24.57% in 2010 to US$60,197 million, according to data from the China Chamber of Commerce for Import and Export of Medicines and Health Products (CCCIEMHP). Among the total, export surged 24.87% to US$39,733 million last year, while import grew 23.98% to US$20,464 million. Despite the anticipated growth, the future outlook of the Chinese pharmaceutical industry in the near future will continue to be heavily influenced by new government policies in areas such as healthcare reform, drug pricing, drug registration, basic medical insurance, and healthcare administration.

Study Report on the Textile and apparel market in China by EUSME Centre- 2011 pp1, 5,12,13 & 17 mentioned that China has been the biggest textile and apparel exporter in the world since 1994, occupying 40% of world exports in 2010. Online purchases have been rapidly increasing in the past five years in China. In a broad product sector such as fashion, the average annual growth of B2C retail is over 130% between 2005 and 2010. After over a decade of double digit growth, the Chinese textile and apparel industry is now at a
Companies in this sector have to battle challenges on many fronts: increasing cost of raw materials, labour, energy and power; inadequate supply of labour; and the credit crunch brought by the central government’s recent credit tightening. For export oriented companies: weak demand from developed markets since the beginning of the financial crisis, slow recovery, currency strengthening, lower export tax rebates, and an increasing shift to lower cost countries in Asia (Vietnam, Indonesia, Bangladesh, Pakistan), Eurasia (Turkey), and Central America (Honduras) add further difficulties. The government aims to rebalance China’s economic structure by eliminating over capacity, lowering energy consumption and pollution, promoting industry upgrade and boosting domestic consumption. To move up the value chain and be better positioned for a world market, both Chinese companies and foreign companies in China need to invest more in the development of new fibre, fabric and garment innovations. There will be opportunities for experienced European SMEs that can offer professional design, development and consultancy services. For example, a large Chinese cashmere yarn exporter is working with Italian designers and engineers to produce cashmere coated water-soluble PVA, cashmere/metallic blends, de-haired yak and pearl fibre. Counterfeiting or imitation of brand name products is rampant in China while IPR legislation is still in the developing stage and IPR enforcement is weak. Proper trademark registration and short innovation cycles will help mitigate the risks. Wholesale markets are mostly dominated by low and medium-end products. Because of a lack of national distributors, European SMEs have to deal with local distributors in each region which is a heavy tap on an SME’s limited resources. It is not easy to find a sales agent who is able to both execute a high-end product image and have strong connections with different sales channels.

China Textile Network Company, Textile and Apparel Weekly January 20, 2012 p.1 & P.9 mentioned that, in 2011, under the supporting role of the relatively stable domestic macroeconomic environment, the growing income and other factors, the overall domestic market of China’s textile industry still maintained a steady growth momentum. In the same period, China’s large-scale textile enterprises realized sales value of 4839.781 billion Yuan, up 27.57 percent year on year, of which domestic output value is 4010.112 billion Yuan, up 30.32 percent year on year. Proportion from the data structure, the output value of China’s domestic textile industry output accounted for 82.86 percent of the whole sales output value, compared with the same period last year continues to rise 1.75 percentage points. However, overall growth in the domestic market also shows a slowdown in performance. From January to November 2011, domestic output growth of China’s textile industry was down 0.83
percentage points compared with the date 31.15 percent from January to October. The global market for technical textiles is set to grow rapidly driven by the expanding use of the material in emerging markets. Asia, in particular, is expected to emerge as a force to reckon with in the technical textiles market due to rapid growth in local markets, and the rising installation of local production capacity. Asian countries such as Japan, China, Taiwan, India, and Korea are expected to drive global consumption of technical textiles. In particular, India is expected to emerge as a major player largely due to the abundance of raw materials, and availability of skilled manpower. The Geo-textiles segment is expected to register the fastest growth in view of climate changes that are increasing the threat of hurricanes, and floods, among other disasters. Germany, France, Japan, UK, Korea, India, China, and the US are the leading producers of technical textiles, globally. China dominates the global textile market in terms of annual production capacity for cotton textiles, woollen fabrics and chemical fiber garments. In view of the recession, China adopted a different strategy to focus on domestic market, as against the earlier export-oriented operations. Improving economic conditions, coupled with favourable government support policies as well as industrial up-gradations contributed to the increase in industry's production output. Domestic demand is expected to drive production, sales and exports growth in the Chinese textile industry. Factors such as favourable infrastructure, liberal labour laws, and social security are expected to contribute to the industry growth. Cotton is a major raw material used in about 40-50% of textiles. In addition, cotton makes up for about 85% of all natural fibers, other than wool, hemp and linen. Cotton consumption is largely driven by respondents growth, as evident by the fact that consumption has tripled during the period 1950 and 2009. In addition, factors such as rising per capita incomes, stable or falling prices of cotton in comparison to other fibers, and extensive promotional campaigns of market participants have contributed to substantial growth in demand for cotton. India, China, Pakistan and the US dominate the global cotton production.

Aruvian's Research analysis “Chemical Industry in China”, 2012 stated that, Textile products are significant foreign trade products of China, occupying an important position in Chinese foreign trade. Also the Textile Industry is a labor-intensive industry, the textile industry provides China with a lot of occupational opportunities, while as the major raw materials of garments and other daily-used products, the development of textile industry also determines the supply-demand relation and price change of garment industry, and other industries. The study also predicted that in the coming years, Chinese textile industry will
remain the strong advantage globally owing to the perfect industry chain and large domestic market. The textile industry is the China's traditional advantageous industry, playing an important role in the national economy. China is the largest production and export country of textiles and clothes.

The said report also mentioned that although after US, China is the second largest consumer of chemical, like basic chemical products 45% of the total for Asia. China has a net chemical deficit with the world market and is heavily dependent on imported materials. This dependency has been affected by price trends in the world market caused by heavy international demand for raw materials, petroleum and other chemical inputs.

Research Report on China's Textile Industry, 2012 by China Research and Intelligence Co., Ltd. Mentioned that in 2009, with the deterioration of economic situation, the Chinese government issued a large number of industrial supporting policies including constant increase of export rebates, Planning on Adjustment and Promotion of Textile Industry, the exemptions and deductions of exit & entry quarantine fee, etc. In 2011, the sales revenue of China's textile industry was CNY 3,277.3 billion, with an increase of 25.68% YOY. In 2011, both the exports of Chinese textiles and garments comprehensively increased and the export amounts were separately USD 94.71 billion and USD 153.24 billion, respectively increasing by 22.9% and 18.4%. The growth rate of garment export lagged behind that of textiles. With the development of China's industrialization and urbanization, the rising living standards of customers and demand levels, the demand for textiles gradually shifts from low to medium-end products to high-end products, fostering the increase of market scale. Under the condition of export pressure, China's domestic market becomes the key market needed to be developed for textile enterprises, which will become the first driving force for the development of textile industry. In 2011, the import amount of Chinese textiles was USD 19.03 billion, increasing by 7.4% YOY, among which the growth rate of finished textile products was the sharpest, with a rise of 11%. In 2011, the import volume of China's textile raw materials reached 5.108 million tons, with an increase of 7.4% YOY; the import amount was USD 15.33 billion, up by 48.2%. Among them, the import volume of cotton achieved 3.365 million tons, rising by 18.5%, and the import amount was USD 9.47 billion, increasing by 67.4%; the import volume and amount of wool separately increased by 1.3% and 45.7%; the import volume and amount of chemical fibre respectively rose by 3.4% and 26%. It is predicted that in the
coming years, Chinese textile industry will remain the strong advantage globally owing to the perfect industry chain and large domestic market.

Louis Kuijs of Fung Global Institute in his working paper titled, “Economic Growth Patterns and Strategies in China and India: Past and Future”, (2012), mentioned that China and India have both seen rapid growth, development and opening up in recent decades, especially China. They have combined rapid economic growth with substantial improvements in living standards, poverty alleviation, and health and education indicators. China and India are leading the shift in the centre of economic gravity towards Asia, and the economic prospects of economies throughout the world have become increasingly dependent on sustained demand in the two Asian giants. It tentatively characterises the existing economic growth patterns and problems; summarises how governments want to adjust their growth strategies; introduces some key features of the policymaking process and some of the institutional and political economy problems; and sketches some tentative economic scenarios. Their 12th five-year plans (5YPs) reflect their visions and objectives. However, adjusting growth and development strategies is complex and difficult from both economic and political economy perspectives. Thus, there is a lot of uncertainty about the direction of policy and about whether and how China and India will adjust their pattern of growth. India has since the mid-1980s also embarked on market-oriented reform. India’s policies have typically not explicitly targeted at industrialisation and investment as much as in China and India’s growth pattern has been less industry- and export-oriented. India’s potential GDP growth rose over time because of higher investment and total factor productivity (TFP) growth.

Guillermo Cardoza, Gaston Fornes and Ning Xu in their Working Paper titled Institutional determinants of Chinese SMEs’ internationalization: the case of Jiangsu province, (2012) pp11 & 12 mentioned that SMEs account for 60% of China’s GDP, are responsible for 66% of the country’s patent applications and more than 80% of its new products. They are also responsible for 68% of China’s exports and provide more than 80% of total employment. They are also responsible for 68% of China’s exports and provide more than 80% of total employment. In addition, according to the Ministry of Industry and Information Technology (MIIT) (People's Daily Online, 2010), there are more than 10 million Chinese SMEs and they account for 99 percent of the total enterprises, 50 percent of tax revenue, and 80 percent of urban employment. Until 1988 private enterprises were not allowed to exist in China and the institutional environment (mainly, property rights protection and contract enforcement) in which they have emerged was mostly hostile during the transition from a centrally planned
economy to a market-based economy. These barriers have also affected Chinese SMEs in their process of internationalization. More specifically, limited access to private and public financial resources, lack of adequate policy frameworks, weak protection systems for intellectual property rights, and suitable regulations for SMEs and the isolation of these companies from the research centres and universities limit the possibilities of strengthening the SMEs’ management and the financial and technological capabilities needed to compete in domestic and foreign markets. In order to mitigate risks associated with market imperfections a growing number of Chinese SMEs are opting to internationalize their business activities. SMEs from Jiangsu tend to internationalize their business activities in order to overcome the competitive disadvantages associated with limited access to financial resources in the home markets found that restricted access to finance is not a barrier to the internationalization of SMEs from China’s Ningxia Hui Autonomous Region.

As mentioned in the Guide to IPR Protection in China for the Textile Industry by China IPR SME Helpdesk 2012, China apparel designs may also be protected as works of copyright. Copyright protection is granted automatically on creation of a work, allowing a design to enjoy double protection through a design patent and copyright. Having a registered copyright in China is a convenient way to show evidence of ownership. Companies licensing technologies to Chinese entities in the form of technical solutions or services should comply with China’s technology transfer regulations. Apart from the protection of their designs, apparel companies can also use copyright to protect their catalogues, brochures and websites. Apart from direct copying of a trademark, unscrupulous competitors may sell products with similar marks or designs, but not identical. Although the marks or designs may not be similar enough to be considered trademark infringement, such imitations may be dealt with through the Chinese Anti-Unfair Competition Law. The Anti-Unfair Competition Law may also be used when someone has used your brand without authorisation at retail outlets or other products for which you do not have a trademark registration.

Data released by the National Bureau of Statistics 2013, show that the added value of the textile industry from January to June was greater than the same period last year. However, exports to Europe, Japan and other major overseas markets have dipped.
Chen Camgsong, Vice president of the Fujian textile and apparel business association, (2013) stated in his paper that the slow demand from the global market, soaring cotton prices, high labor costs and the appreciation of the Chinese currency have led to fewer overseas orders, which dampening the growth of SMEs in China.

Article “Consecutive Decline in Textile and Clothing Export to EU and Japan File Date : 2013-03-11” mentioned that, while favoured by the gradual growth of textile and clothing export in Southeast and South Asia, China’s textile industry suffered a setback in the EU market for the last two consecutive years, 2011 and 2012. China’s textile and clothing market share in EU market decreased from 42.5% in 2012 to 41% in 2011, further declined to 39.9% in 2012. In Japan, our market share also declined from 77.1% in 2010 to 74.9% and 73.2% in 2011 and 2012, respectively. Meanwhile, the products volume export from ASEAN increased gradually in EU and Japan, rising to 8.3% and 13.7% in EU and Japan, respectively. The export revenue of textile and clothing from Bangladesh to the two main markets also rose to 9.4% and 1.2%, respectively.

UHY’s New Article on “China’s declared backing for SMEs may open doors to foreign investors” (2013), pp1 & 5 mentioned that Small-medium sized enterprises (SMEs) contribute 60% of China’s industrial output and create 80% of China’s jobs. But for the year just past, Chinese SMEs have been experiencing hardships: some have been at risk of collapse. Shortages of electricity, capital and labour have led them to this predicament, and soaring costs have made things worse. Faced with this indictment of faltering growth, the Chinese government’s 12th Five-Year Plan contains a key strategy specifically in support of SMEs. According to the plan, the total number of China’s SMEs will grow steadily over the next five years and achieve an average annual growth rate of 8%. Five primary missions underpin the plan: to improve the capacity of establishing business and creating jobs; to optimise the structure of SMEs; to boost the development of “new, distinctive, specialised and sophisticated” industries and industrial clusters; to upgrade enterprise management; and to refine SME support systems.

Sun Xuegong in his article “Integrating China’s Small and Medium Enterprises into International Production Networks: Barriers and Policy Responses” 2013, said that the survey confirms that internal financing is a predominant source of SMEs’ financing. This is especially true for capital expenditure. In our sample, retained earning accounts for
91.51% of capital spending and 71.77% of working capital respectively. Bank lending serves as the second important source of SME financing. It is quite significant for financing working capital of SMEs, accounting for 21.73%. In capital spending, bank lending is less important, accounting for only 5%. The other sources of financing are negligible, their combined shares in the total SME financing, including both working capital and capital spending, are less than 10%. The financing difficulties of SMEs are not limited to the availability of finance, but also include its cost. The survey showed that the interest on borrowings of SMEs is as high as 20% while the prevailing rate of one year lending now stands at 5.31%.

2.3 Identification of Research Gap

Small & Medium Enterprises has emerged as India’s engine of growth in the New Millennium. The primary objective of the Small Scale Industrial Policy during the nineties was to impart more vitality and growth-impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially de-licensed. Efforts made to deregulate and de-bureaucratize the sector with a view to remove all restraints on its growth potential, reposing greater faith in small and young entrepreneurs. All statutes, regulations and procedures were reviewed and modified, wherever necessary, to ensure that their operations did not militate against the interests of the small and medium enterprises. The most important factor for economic development of a country is its industrialization. As per the industrial policies and planning in all five year plans major emphasis is given to the three major groups of industries; large-scale industries, small-scale industries and cottage industries as a process of industrial development. The reviews and reports of government show that the Small and Medium Enterprises (SMEs) are showing their impact on national and regional economies throughout the world. They have been recognized in both developed and developing countries as an effective instrument for creating employment opportunities with a small amount of capital investment.

The small scale and cottage industries also play an important role in removing regional disparities. 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. 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.

Small and medium-sized enterprises are the backbone of all economies and are a key source of economic growth, dynamism and flexibility in advanced industrialized countries. SMEs are also larger contributors to exports and employment and major contributors to Gross Domestic Product. 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. This promotes economic growth and social stability and also contributes to the development of a dynamic private sector.

This is being a wide area; the researcher proposes to study 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. To fill this gap Researcher will study the working and performance of SME sectors in India and China with special reference to Chemical, Pharmaceutical and Textile SME sectors then briefly review the main reason in these areas and end with a brief evaluation.

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. Both countries also have low wages for most workers in many industries. However, despite a number of similarities between China and India, there are still a larger number of differences between these two countries in the areas related to Chemical, Pharmaceutical & Textile manufacturing. Thus there is an imperative need to undertake a comprehensive research to evaluate the performance of SMEs in India and China and also find out whether there is any relationship between the Performance Indicators of SMEs and Government Policies.
The review of more than fifty literature thus reveals that there are lots of materials available on performance of SMEs in India and performance of SMEs in China, but there are very negligible studies have been conducted on the SMEs’ role and contribution with special reference to Chemical, Pharma & Textile sectors in India and China. Therefore the Comparative Study of SMEs’ Contribution in India and China: A Study of Selected Sectors with special reference to Chemical, Pharma & Textile sectors has been selected for study. The present study is an earnest attempt in the direction of bridging this gap. The study is devoted to the selected but important sectors of both Indian and Chinese Economy, i.e. Chemical sector, Pharma sector and Textile sector. Through this study the efforts have been made to measure the financial performance of SMEs in selected three sectors in terms of the growth of units, production, Employment and export during the period of last 24 years i.e. from the year 1990-91 to 2013-2014. Through the research the effort is made to make a comparison of the performance of Chemical, Pharma and Textile industries in SME sector in India and China on the basis of selected three sectors and four parameters namely number of unit, production, employment and exports.