CHAPTER – V

Facilitating & Limiting Factors for the growth of SME in India and China with special reference to Government Policies

5.1 Government Policy & Programs in India

5.1.1 Government Policies & Programs for SMEs in India
5.1.2 Micro, Small and Medium Enterprises Development Act, 2006
5.1.3 Foreign Direct Investment (FDI) Policy
5.1.5 De-reservation
5.1.6 Credit/Finance
5.1.7 Priority Sector Lending
5.1.8 Credit Guarantee Scheme
5.1.9 Performance & Credit Rating Scheme
5.1.10 Competitive Technology
5.1.11 ISO 9000/14001 Certification Fee Reimbursement Scheme
5.1.12 Micro and Small Enterprises Cluster Development Programme
5.1.13 Credit Linked Capital Subsidy Scheme
5.1.14 National Manufacturing Competitiveness Programme
5.1.15 Skill Development
5.1.16 Marketing and Procurement
5.1.17 Export Promotion
5.1.18 Infrastructure Development
5.1.17 Fiscal Concessions
5.1.20 Strengthening of Database
5.1.21 Outreach Programme
5.1.22 India’s History and Approach to Competition Law in Pharmaceutical Industries
5.1.23 The legal system for Pharma Industry in India
5.1.24 Patent law changes will lead to innovative drugs
5.1.25 Development of Bio-Technology
5.1.26 Indian Regulatory Framework with regard to Drugs
5.1.27 Intellectual property rights
5.1.28 Patent Laws in India:
5.1.29 Drugs and Cosmetics Act, 1940

5.2 Government Policy & Programs in China

5.2.1 SME Policies and Programs
5.2.2 Financing for SME development
5.2.2.1 SME financing.
5.2.2.2 Market access
5.2.2.3 Networking with other enterprises
5.2.2.4 Efficient SME supervision
5.2.2.5 Improved social services for SMEs
5.2.2.6 Other State Government Schemes:
5.2.3 Significant Nonbank Financial Service Providers in China
5.2.3.1 Trust Companies Extend Trust Loans
5.2.3.2 Enterprises Provide Entrusted Loans
5.2.3.3 Licensed Financial Leasing Companies Offer Leasing Services
5.2.3.4 Credit Guarantee Companies Offer Bank Loan Guarantees
5.2.3.5 Pawnshops Offer Collateral-Based Loans
5.2.3.6 Micro Credit Companies Offer Cash flow-Based Loans

5.3. Facilitating & Limiting Factors for the growth of Chemical, Pharma & Textile SMEs in India

5.3.1 Facilitating & Limiting Factors for the growth of Chemical SMEs in India
5.3.2 Facilitating & Limiting Factors for the growth of Pharma SMEs in India
5.3.3 Facilitating & Limiting Factors for the growth of Textile SMEs in India

5.4 Facilitating & Limiting Factors for the growth of Chemical, Pharma & Textile SMEs in China

5.4.1 Facilitating & Limiting Factors for the growth of Chemical SMEs in China
5.4.2 Facilitating & Limiting Factors for the growth of Pharma SMEs in China
5.4.3 Facilitating & Limiting Factors for the growth of Textile SMEs in China
5.1 Government Policy & Programs in India

5.1.1 Government Policies & Programs for SMEs in India 1948-1991

The study reveals that all the Policy Resolutions from 1948 to 1991, recognition was given to the micro and small enterprises, termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skills. The Micro, Small and Medium Enterprises Development Organisation [earlier known as Small Industries Development Organization (SIDO)] was set up in 1954 as an apex body for sustained and organised growth of micro, small and medium enterprises. Within next two years, the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were also set up. The era provided the supportive measures that were required to nurture MSEs, in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the Priority Sector Lending Programme of commercial banks, excise exemption, reservation under the Government Purchase Programme and 15% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development. MSME - Development Institutes [earlier known as Small Industries Service Institute (SISI)] were set up all over India to train youth in skills/entrepreneurship. Tool Rooms were established with German and Danish assistance for providing technical services essential to MSEs as also for skill-training. At the State level, District Industries Centres were set up all over the country.

The new Policy for Small, Tiny and Village Enterprises of August, 1991 laid the framework for government support in the context of liberalisation, which sought to replace protection with competitiveness to infuse more vitality and growth to MSEs in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing Centres were set up for quality certification and new Tool Rooms as well as Sub-contracting Exchanges were established. The Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernisation Fund were created to accelerate finance and technical services to the sector. A Delayed Payment Act was enacted to facilitate prompt payment
of dues to MSEs and an Industrial Infrastructure Development (IID) scheme was launched to set mini industrial estates for small industries.\textsuperscript{58}

The Ministry of MSME [earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI)] came into being from 1999 to provide focused attention to the development and promotion of the sector. The new Policy Package announced in August, 2000 meant for the persisting problems relating to credit, infrastructure, technology and marketing more effectively. A Credit Linked Capital Subsidy Scheme was launched to encourage technology up-gradation in the MSE sector and a Credit Guarantee Scheme was started to provide collateral-free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was raised to Rs.1 crore ($0.25 million) and a Market Development Assistance Scheme for MSEs was introduced. At the same time, consultations were held with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year. In 2006, the long-awaited enactment for this sector finally became a reality with the passage of the Micro, Small and Medium Enterprises Act. In March, 2007, a third Package for the Promotion of Micro and Small Enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment, wherein to be competitive is the key of success.\textsuperscript{59}

\textbf{5.1.2 Micro, Small and Medium Enterprises Development Act, 2006}

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of “enterprise” which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the

\textsuperscript{58} Ministry of Small Scale Industries Notification vide S.O. 1642(E) dtd.29-09-2006 (online) available from: http://www.dcmsme.gov.in/ssiindia/definition_msme.htm

\textsuperscript{59} Ministry of MSME annual report 2011-2012 p-3
three classes of enterprises; and with a wide range of advisory functions. Establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmes for this purpose, progressive credit policies and practices, preference in Government procurement to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act.

5.1.3 Foreign Direct Investment (FDI) Policy

With the promulgation of the MSMED Act, 2006, the restrictive 24% ceiling prescribed for equity holding by industrial undertakings, whether domestic or foreign, in the MSEs has been done away with and MSEs are defined solely on the basis of investment in plant and machinery (manufacturing enterprises) and equipment (service enterprises). Thus, the present policy on FDI in MSE permit FDI subject only to the sectoral equity caps, entry routes and other relevant sectoral regulations.\textsuperscript{60}

5.1.4 De-reservation

The issue of de-reservation has been a subject of animated debate within government for the last twenty years. The Approach to the Eleventh Five Year Plan notes the adverse implications of reservation of products for exclusive manufacture by the MSEs and recommends the policy of progressive de-reservation. To facilitate further investments for technological up-gradation and higher productivity in the micro and small enterprises, 654 items have been taken off the list of items reserved for exclusive manufacture by the manufacturing micro and small enterprises in the last few years - reducing it to 21 at present. This has helped the sector in enlarging the scale of operations and also paved the way for entry of larger enterprises in the manufacture of these products in keeping with the global standards.\textsuperscript{61}

\textsuperscript{60} Micro, Small and Medium Enterprises in India, An Overview by Development Commissioner, Government of India (accessed on 17.8.2013) (online) available www.dcmsme.gov.in - P7

\textsuperscript{61} Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5,2006 (accessed on 10.1.2012)
5.1.5 Credit/Finance

The Government has initiated several measures to facilitate easy access of funds to MSME sector. One such initiative is priority sector lending. For public and private sector banks, 40 per cent of the Net Bank Credit (NBC) is earmarked for the priority sector. Credit to MSMEs is through the priority sector lending policy of the bank. For the foreign banks, 35 per cent is for priority sector of which 10 per cent is reserved for MSMEs. Any shortfall in lending by foreign banks has to be deposited in Small Enterprise Development Fund (SEDF) setup by SIDBI.

The Government has also announced policy package for stepping up credit to small and medium enterprises with the objective of doubling the credit flow to the sector in the next five years. In recent years, the sector has shown interest in alternative sources of funding such as primary/secondary securities market, venture capital and private equity, external commercial borrowings, factoring services etc. Efforts are being put for Limited Liability Partnership Act to provide thrust to MSMEs in their move towards corporatization.

The Government has introduced a Credit Guarantee Scheme which provides collateral free credit facility by eligible lending institutions to new and existing MSMEs for loans upto100 lakh per borrowing unit.

Performance and Credit Rating Scheme was launched in April 2005 with an objective of improving their performance and access bank credits if the rating is high. Under the scheme, 75 per cent of the fees charged by the rating agencies are reimbursed by the Government to a maximum of n Rs.40,000.

5.1.6 Priority Sector Lending

Credit to the MSEs is part of the Priority Sector Lending Policy of the banks. For the public and private sector banks, 40% of the net bank credit (NBC) is earmarked for the Priority Sector. For the foreign banks, however, 32% of the NBC is earmarked for the Priority Sector, of which 10% is earmarked for the MSE sector. Any shortfall in such
lending by the foreign banks has to be deposited in the Small Enterprise Development Fund (SEDF) to be set up by the Small Industries Development Bank of India (SIDBI).

The SIDBI is the principal financial institution for promotion, financing and development of the MSE sector. Apart from extending financial assistance to the sector, it coordinates the functions of institutions engaged in similar activities. SIDBI's major operations are in the areas of: (i) refinance assistance (ii) direct lending, and (iii) development and support services. Commercial banks are important channels of credit dispensation to the sector and play a pivotal role in financing the working capital requirements, besides providing term loans (in the form of composite loans). At the State level, State Financial Corporation’s (SFCs) and twin-functional State Industrial Development Corporations (SIDCs) are the main sources of long-term finance for the MSE sector.

Recognising the importance of easy and adequate availability of credit in sustainable growth of the MSE sector, the Government has announced a 'Policy Package for Stepping Up Credit to Small and Medium Enterprises (SMEs)', with the objective of doubling the flow of credit to this sector within a period of five years. To ensure better flow of credit to MSEs, the Ministry of MSME is also implementing the following major schemes:

**5.1.7 Credit Guarantee Scheme**

To ensure better flow of credit to micro and small enterprises by minimizing the risk perception of banks/financial institutions in lending without collateral security, the Government launched Credit Guarantee Fund Scheme for Micro and Small Enterprises in August 2000. The scheme covers collateral-free credit facility extended by eligible ending institutions to new and existing micro and small enterprises for loans up to Rs.100 lakh ($250,000) per borrowing unit. The guarantee cover is up to 75 per cent of the credit sanctioned [85% in respect of loans up to Rs.5 lakh ($12,500) and 80% for loans provided to MSEs owned/operated by women and all loans in the North-East Region].

**5.1.8 Performance & Credit Rating Scheme**

The Performance & Credit Rating Scheme for manufacturing MSEs was launched in April, 2005 with the objective of assisting the MSEs in obtaining performance-cum-credit
rating which would help them in improving performance and also accessing bank credit on better terms if the rating is high. Under the scheme (implemented by the National Small Industries Corporation in conjunction with reputed rating agencies), 75% of the fee charged by the rating agency is reimbursed by the Government subject to a maximum of Rs.40,000 ($1,000). Emerging Sources Faced with increased competition on account of globalisation, MSMEs are beginning to move from an obsession with bank credit to a variety of other specialized financial services and options. In recent years, the country has witnessed increased flow of capital in the form of primary/secondary securities market, venture capital and private equity, external commercial borrowings, factoring services, etc. More advanced MSMEs have started realising the importance of these alternative sources of funding to raise resources and the need for adopting better governance norms to take advantage of these funding sources. The enactment of the Limited Liability Partnership Act, 2008 is expected to provide a thrust to the MSMEs in their move towards corporatisation.

5.1.9 Competitive Technology

To facilitate technology up-gradation and quality improvement, several measures have been initiated by the Government of India. The Government has set up ten state of the art Tool Rooms and Training centers. These tool rooms are proficient in mould and die making technology and abreast with latest technology such as CAD/CAM, CNC machining for tooling, Vacuum Heat Treatment, Rapid Prototyping etc. Tool Rooms offer training programs on technical skills required for the manufacturing sector.

The Government has introduced ISO 9000/14001 Certification Fee Reimbursement Scheme and reimburses 75 per cent of the certification fees subject to maximum of Rs. 75,000. To facilitate replacement of old machinery with new ones, Government introduced Credit Linked Capital Subsidy Scheme with state assistance of 15 per cent of the bank credit required to finance the new purchases.

In today's fast paced global business scenario, technology has become more vital than ever before. With a view to foster the growth of MSME sector in the country, Government has set up ten state-of-the-art Tool Rooms and Training Centres. The training programmes are designed with optimum blend of theory and practice giving the trainees exposure on actual
jobs and hands on working experience. The Tool Rooms have also developed special training programmes to meet the requirements at international level, which are attended by participants from all over the globe.

5.1.10 ISO 9000/14001 Certification Fee Reimbursement Scheme

To enhance the competitive strength of the MSEs, the Government introduced a scheme to incentives technological up-gradation, quality improvement and better environment management by the SMEs. The scheme reimburses 75% of the fees, subject to a maximum of Rs.75,000 ($2000), for acquiring Quality Management System (QMS)/ISO 9000 certification and/or Environment Management System (EMS)/ISO 14001 certification by the SMEs.

5.1.11 Micro and Small Enterprises Cluster Development Programme

The Micro and Small Enterprises Cluster Development Programme (MSECDP) is implemented for holistic development of clusters of SMEs. The programme envisages measures for capacity building, skill development, technology up-gradation of the enterprises, improved credit delivery, marketing support, setting up of common facility centres, etc., based on diagnostic studies carried out in consultation with cluster units and their collectives and management of cluster-wide facilities by the cluster collectives.

5.1.12 Credit Linked Capital Subsidy Scheme

The Credit Linked Capital Subsidy Scheme (CLCSS) aims at facilitating technology up-gradation by providing 15% upfront capital subsidy w.e.f. 29th September, 2005 to manufacturing SMEs, on institutional finance up to Rs.1 crore ($0.25 million) availed of by them for induction of well-established and improved technologies in the specified sub-sectors/products approved under the scheme.

5.1.13 National Manufacturing Competitiveness Programme

The National Manufacturing Competitiveness Programme is the nodal programme of the Government of India to develop global competitiveness among Indian MSMEs. Conceptualised by the National Manufacturing Competitiveness Council, the Programme
was initiated in 2007-08. There are ten components under the NMCP targeted at enhancing the entire value chain of the MSME sector.\textsuperscript{62}

5.1.14.1 Building Awareness on Intellectual Property Rights for the Micro, Small & Medium Enterprises (MSMEs): The scheme for “Building Awareness on Intellectual Property Rights (IPR), for the Micro, Small & Medium Enterprises (MSMEs) has been launched to enable Indian MSMEs to attain global leadership position and to empower them in using effectively the tools of Intellectual Property Rights (IPR) of innovative projects.

5.1.14.2 The main features of the scheme are: Awareness/Sensitization Programmes on IPR; (ii) Pilot Studies for Selected Clusters/Groups of Industries; (iii) Interactive seminars/Workshops; (iv) Specialised Training; (v) Assistance for Grant on Patent/GI Registration; (vi) Setting up of IP Facilitation Centre (IPFC); and (vii) Interaction with International Agencies. These initiatives are being developed through Public-Private Partnership (PPP) mode.

5.1.14.3 Scheme for Providing Support for Entrepreneurial and Managerial Development of SMEs through Incubators: The scheme aims at nurturing innovative business ideas (new/indigenous technology, processes, products, procedures, etc.), which could be commercialized in a year. Under the scheme, various institutions like Engineering Colleges, Research Labs etc. will be provided funds upto Rs.6.25 lakh for handholding each new idea/ entrepreneur. The incubator will provide technology guidance, Workshop and Lab support and linkage to other agencies for successful launching of the Business and guide the entrepreneur in establishing the enterprise.

5.1.14.4 Enabling Manufacturing Sector be Competitive through Quality Management Standards (QMS) and Quality Technology Tools (QTT): During the year 2008-09, Government of India launched a scheme, 'Enabling Manufacturing Sector be Competitive through Quality Management Standards (QMS) and Quality

\textsuperscript{62} How Do Economies Define Micro, Small and Medium Enterprises (MSMEs)? By Khrystyna Kushnir 2010 Online available http://www.ifc.org/wps/wcm/connect/624b8f804a17abc5b4ac1fdd29332b51/MSME-CI-Note.pdf?MOD=AJPERES p.34
Technology Tools (QTT)' in order to improve quality and productivity in the MSE sector. The scheme is aimed at improving the quality of the products in the MSE sector and inculcate the Quality consciousness in this sector. The major activities under this scheme are: (i) Introduction of Appropriate Modules for Technical Institutions; (ii) Organising Awareness Campaigns for MSEs; (iii) Organising Competition-Watch (C-Watch); (iv) Implementation of Quality Management Standards and Quality Technology Tools in selected MSEs; (v) Monitoring International Study Missions; and (vi) Impact Studies of the initiatives.

5.1.14.5 Mini Tool Rooms under PPP mode: Under the scheme, 'Mini Tool Rooms under PPP mode', 15 Mini Tool Rooms will be set up during the 11th Plan period. Competitive bidding from entrepreneurs and Associations will be invited to set up Tool Rooms with Government support upto Rs.9 crore. They will be more competitive and user friendly as they will not be bound by the Government procedure and competitiveness will be the only criteria for selection of promoters of these Tool Rooms. The approved Plan expenditure under the Scheme is Rs. 135 crore.

5.1.14.6 Marketing Assistance/support to MSEs (Bar Code): The objective of the 'Marketing Assistance/ Support to MSEs' scheme of NMCP is to popularise the Bar Code registration and motivate the Small and Micro-Manufacturing Enterprises to adopt the Bar Code Certification on large scale and to sell their value added products worldwide and enable higher export price realization. It also helps in domestic marketing (wholesale & retail). 75% of annual fee (recurring) of Bar Code certification for the first three years are reimbursed to Micro & Small Entrepreneurs, under the Scheme.

5.1.14.7 Lean Manufacturing Competitiveness Programme for MSMEs: Under the Lean Manufacturing Programme (LMP), MSMEs will be assisted in reducing their manufacturing costs, through proper personnel management, better space utilization, scientific inventory management, improved process flows, reduced engineering time and so on. LMP also brings improvement in the quality of products and lowers cost which are essential for competing in national and
international markets. The total Government of India contribution is stipulated as Rs. 28.60 crore (approx.) for this scheme. The broad activities planned under the scheme include Total Productive Maintenance (TPM), 5S, Visual Control, Standard Operation Procedures, Just in Time, Kanban System, Cellular Layout, Poka Yoke, TPM, etc. The Scheme has been approved as a pilot project for Lean Techniques interventions in 100 Mini Clusters. (g) Promotion of Information & Communication Tools (ICT) in Indian MSME Sector: The objective of this programme envisages that some of those clusters of SMEs, which have quality production and export potential, shall be identified & encouraged and assisted in adopting ICT applications achieve competitiveness in the national and international markets. The total Government of India contribution is stipulated as Rs. 160 crore (approx.) for this scheme. The broad activities planned under the scheme include, identifying target clusters for ICT intervention, setting up of e-readiness infrastructure, developing web portals for clusters, skill development of MSME staff in ICT applications, preparation of local software solutions for MSMEs to enhance their competitiveness, construction of e-catalogue, e-commerce, etc. and networking MSME cluster portals on the National Level Portals in order to outreach MSMEs into global markets.

5.1.14.8 Design Clinics Scheme for MSMEs: The main objective of the scheme is to bring the MSME sector and design expertise into a common platform and to provide expert advice and solutions on real time design problems, resulting in continuous improvement and value-addition for existing products. It also aims at value-added cost effective solutions. The Government of India contribution is stipulated as Rs.50 crore for this scheme. The broad activities planned under the scheme include creation of Design Clinics Secretariat along with regional centres for intervention on the design needs of the MSME sector.

5.1.14.9 Marketing Assistance and Technology Up-gradation Scheme for MSMEs: The objective of this scheme is to identify and encourage those clusters of MSMEs, which have quality production and export potential and assist them to achieve competitiveness in the national and international markets. The scheme aims at improving the marketing competitiveness of MSME sector by improving their
techniques and technology for promotion of exports. The Government of India contribution is stipulated as Rs.19 crore for this scheme. The broad activities planned under the scheme include technology up-gradation in packaging, development of modern marketing techniques, competition studies, etc.

5.1.14.10 Technology and Quality Up-gradation Support to MSMEs: The objective of the Scheme is to sensitize the manufacturing (MSME) sector in India to upgrade their technologies, usage of energy efficient technologies to reduce emissions of Green House Gases, adoption of other technologies mandated as per the global standards, improve their quality and reduce cost of production, etc., towards becoming globally competitive. The major activities planned under the scheme include Capacity Building of MSMEs Clusters for Energy Efficiency/Clean Development Interventions, Implementation of Energy Efficient Technologies in MSME sector, Setting up of Carbon credit aggregation centres and encouraging MSMEs to acquire product certification licences from National/International bodies.

5.1.14 Skill Development:

The Ministry of Micro, Small & Medium Enterprises promotes the development of micro and small enterprises in the country with the objective of creating self-employment opportunities and upgrading the relevant skills of existing and potential entrepreneurs. The entrepreneurship and skill development scheme is implemented by Office of the DC (MSME) through its network of 58 MSME-DIs and their branches. The programmes are conducted include Entrepreneurship Development, Entrepreneurship and Skill Development, Management Development and Business Skill Development. These programmes are of short duration and the curriculums based on needs of the industry and are customized, if required by the clients. 20% of the targeted training programmes are conducted exclusively for the weaker sections of the society (SC/ST/Women/Physically Handicapped), for which no fee is charged. Besides, a stipend of Rs.500/- p.m. is provided. The office of the DC (MSME) also conducts vocational and educational training through its Regional Testing Centres, Field Testing Stations and autonomous bodies like Tool Rooms and Technology Development Centres (TDCs). This long term, short term, trade/field-specific and industry-specific tailor-made courses also include specialized
programmes for Engineers, Diploma holders so that their absorption by the industry is immediate. A good number of trainees have set up their own enterprises in creating employment opportunities. The Ministry is at present training about 3 lakh persons per annum both for business and technical skill development, which is among the largest programme by any single Ministry in India. The Ministry is also focusing on socially backward groups and on least developed areas under its 'Outreach Programme'.

5.1.15 Marketing and Procurement:

Under Government Stores Purchase Programme, various facilities are provided to enterprises registered with National Small Industries Corporation (NSIC) in order to assist them for marketing their products in competitive environment. These facilities are: (i) issue of Tender Sets free of cost; (ii) exemption from payment of Earnest Money Deposit; (iii) waiver of Security Deposit up to the Monetary Limit for which the unit is registered; and (iv) price preference up to 15% over the quotation of large-scale units. In addition to these facilities/benefits, 358 items have also been reserved for exclusive purchase from the MSE Sector. However, as these guidelines were/are not of a mandatory nature, the same has failed to achieve the desired results. To assist the MSEs in marketing of their products, Section 12 of the new MSMED Act enjoins the formulation of a scheme of preferential procurement of goods/services produced/rendered by MSEs both at the Central and State/UT levels. Once formulated, the procurement scheme may be more effective in providing the much-needed marketing support that MSEs seek so desperately. Each Ministry/Department, CPSU, etc., would have to make specific mention of the compliance of the preference policy in its Annual Report to be tabled in Parliament.\textsuperscript{63}

5.1.16 Export Promotion:

Export promotion from the MSE sector has been accorded a high priority. To help SMEs in exporting their products, the following facilities/incentives are provided:

\textsuperscript{63} Dr. Jatinder S. Bedi, Project Leader, National Council of Applied Economic Research :”Assessing the Prospects for India’s Textile and Clothing Sector” July 2009 (online) available from: <texmin.nic.in/reports/Report_NCAER_CITI_nmcc_20091001.pdf> – PP14
5.1.16.1 Products of MSE exporters are displayed in international exhibitions and the expenditure incurred is reimbursed by the Government;

5.1.16.2 To acquaint MSE exporters with latest packaging standards, techniques, etc., training programme on packaging for exporters are organised in various parts of the country in association with the Indian Institute of Packaging;

5.1.16.3 Under the SME Marketing Development Assistance (MDA) Scheme, assistance is provided to individuals for participation in overseas fairs/ exhibitions, overseas study tours, or tours of individuals as member of a trade delegation going abroad. The Scheme also offers assistance for Sector specific market study by SME Associations/Export Promotion Councils/Federation of Indian Export Organisation; Initiating/contesting anti-dumping cases by MSE Associations; and Reimbursement of 75 per cent of the onetime registration fee and annual fee (recurring for first three years) charged by GSI India (formerly EAN India) for adoption of Bar Coding.64

5.1.17 Infrastructure Development

For setting up of industrial estates and to develop infrastructure facilities like power distribution network, water, telecommunication, drainage and pollution control facilities, roads, banks, raw materials, storage and marketing outlets, common service facilities and technological back up services, etc., for MSMEs, the Integrated Infrastructural Development (IID) Scheme was launched in 1994. The scheme covers rural as well as urban areas with a provision of 50 per cent reservation for rural areas and 50 per cent industrial plots are to be reserved for the micro enterprises. The Scheme also provides for up-gradation/ strengthening of the infrastructural facilities in the existing industrial estates. The estimated cost (excluding cost of land) to set up an IID Centre is Rs.5 crore ($1.25 million). Central Government provides 40 per cent in case of general States and upto 80% for North East Region (including Sikkim), Jammu & Kashmir, Himachal Pradesh and Uttarakhand, as grant and remaining amount could be loan from SIDBI/Banks/Financial Institutions or the State Funds. The IID Scheme has been subsumed under the Micro and Small Enterprise Cluster Development Programme (MSECDP). All the features of the IID Scheme have been retained and will be covered as “New Clusters” under MSECDP.

64 Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5,2006 (accessed on 10.1.2012)
5.1.18 Fiscal Concessions

Under the General Excise Exemption Scheme, full excise exemption up to turnover of $375 thousand per annum is provided to enterprises having annual turnover of up to $1 million. However, the limits of excise exemptions has encouraged tendency among MSEs is to go in for horizontal expansion (i.e., fragmentation) rather than vertical expansion and upward graduation into medium and large enterprises. For incentivising such graduation of small to medium/large enterprises so as to enable them to achieve economies of scale, extension of excise exemptions to the graduating medium enterprises on a tapering scale is under consideration of the Government.

5.1.19 Strengthening of Database

A reliable database is the key input in any policy decision-making process. This is more so for the MSME sector in view of its large size and wide disparity among the enterprises within the sector. The Ministry has so far conducted three Census in the year 1971-72, 1992-93 and 2002-03 for strengthening/updating the database on MSE sector. However, the long gap between the Census has limited the reliability of the MSE database. To strengthen the database for the MSME Sector, statistics and information will now be collected in respect of number of units, employment, rate of growth, share of GDP, value of production, extent of sickness/closure, exports and all other relevant parameters of micro, small and medium enterprises, including khadi and village industry, through annual sample surveys and quinquennial census. The quinquennial census and annual sample surveys of MSMEs also collect data on women-owned and / or managed enterprises.

5.1.20 Outreach Programme

The Ministry of MSME launched a special programme, namely, 'Outreach Programme for Skill Development in Less Developed Areas' in September, 2006. Under this programme, the field offices of the Ministry organizes short-term skill development programmes in the less developed areas. Such short-term courses are tailor-made for these areas so as to enable trainees to get employment or start self-employment ventures. These programmes are of short duration of 1-3 weeks and the activity selected for trainees are relevant to the local requirement. The target group consist wholly or partly of disadvantaged sections.
Further, under the recently announced Promotional Package for MSEs, 20% of Skill Development Programmes have been reserved for weaker sections along with the provision of a stipend of Rs.500 per capita per month exclusively for SCs/STs, women and physically handicapped. In case of the regular EDP/MDP/Skill Development programmes, a nominal fee of Rs.100 is charged. However, there is no fee for SCs/STs, women and physically handicapped candidates. India's pioneering policies for the development of MSEs offers case studies for the developing world. Government has moved away, though not yet fully, from its role of direct interventions to that of a friend and facilitator. There is growing realization that protection in the form of reservation needs to be replaced with easy access to capital, technology and skill development to integrate the MSMEs more firmly with the domestic and global economy.

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.

5.1.21 India’s History and Approach to Competition Law in Pharmaceutical Industries

The Monopolies and Restrictive Trade Practices Act, 1969 (the MRTP Act) was the first legislation with regard to competition law in India. This legislation was primarily designed to meet requirements of the then prevailing economic, social and policy situation. Then came liberalization in 1991, and thus, the MRTP Act was outdated, and required immediate and intensive study, to assess the nature of amendments necessary to address the new situations that were arising, with the entry of foreign entities into the Indian scenario. Mergers, acquisitions, takeovers, and active investments were leading to a situation of necessity to protect domestic industries and markets.
For this purpose, the Government of India constituted a High Level Committee under the chairmanship of SVS Raghavan, with the aim of examining the MRTP Act, and gauging its relevance, and to bring about a new regime, which would be consonant to and able to protect the domestic entities from international competition. It was due to the recommendations of this Committee that the MRTP Act was ultimately phased out, with the introduction of the new Indian Competition Act, 2002. However, it is necessary to note, that even now, certain major provisions of the Competition Act are yet to be notified, and the MRTP Act continues to be in force in those regards, especially since the MRTP Act is to be repealed by the Competition Act, and the MRTP Commission is to be dissolved by a notification of the Central Government, which is yet to come.

5.1.22 The legal system for Pharma Industry in India

For several years post independence, the Indian pharma industry was monopolised by multinational companies. There were few state-owned Indian companies that manufactured bulk drugs with support from WHO that coexisted. In the early 1970s the Indian government abolished the patents for products and made lenient patents for processes, as a measure to encourage growth of the local industry. The patent period was also reduced to 7 years. The government also increased import duties on medicines from abroad and forced multinational companies to reduce their share in Indian companies to 2/5. However, in the 1980s, the growth of the state-run companies declined mainly owing to central and state government related bureaucracy and improper corporate governance. The weakening patent system and inefficient state-run systems gave birth to a range of private sector companies that started manufacturing pharma drugs in large quantities tailored for the Indian market. Over the years, Indian pharma began stealing the limelight when the country sold global products at a fraction of the price. This flexibility in production was possible when the country did not recognise product patents and was able to use substances in pharma manufacture at low non-patent costs, thus mitigating financial risks considerably. India evolved into a global leader in the generics and reverse-engineering market. A classic example is when Cipla, in 2001, offered an AIDS drug that was being sold by a US company at $12,000 to African countries at a price as low as $300! This state often took India to legal disputes with multinational companies. In 1995, when India decided to sign up with the Trade-Related Aspects of Intellectual Property
Rights (TRIPS) agreement, the country was given 10 years to modify its IP system and comply with the global standards. In January 2005, the Indian patent system was regularised and India now recognises product as well as process patents. The patent period has also been enhanced to 20 years. These legal changes in India have now made it considerably difficult for the country to continue manufacturing low-cost generics in the above fashion. Indian companies who wish to copy the original formula will have to pay high licence fees to the owner. However, this encourages multinational companies from across the globe to confidently come to India to work on their research and innovation by collaborating with Indian companies or sourcing support from them. As a consequence of these major changes to India’s drug patent legislation, the country’s pharmaceutical industry is undergoing a process of re-orientation. Its new focus is increasingly on self-developed drugs and contract research and/or production for western drug companies. Indian companies have been rapidly increasing their manufacturing capacities and have made India almost self-sufficient in medical needs. These changes have also brought back several of the multinationals who had left India during the unfriendly patent system. These companies are now looking at India not only for the traditional strengths in contract manufacturing but also as a highly attractive location for R&D, mainly in the conduct of clinical trials and other services.

5.1.23 Patent law changes will lead to innovative drugs

The introduction of pharmaceutical product patents in India is expected to have a significant effect on public health and local pharmaceutical industries. It is in this regard that IPR is seen as the answer to protection of the process of production, and the equivalent, postproduction protection of the markets and the consumers, comes from competition or antitrust law. Since 2005 India’s Pharma sector has no longer been protected by the country’s lax patent legislation. Hence innovation must come before imitation now. Large manufacturers already began to adjust their business models some time ago and put greater emphasis on drugs research. On a long-term horizon, they do not want to limit themselves to the production of low-cost generics. Even though a number of companies are well positioned in the generics market, many of them are seeking to turn into research-based firms. India’s leading pharmaceutical companies are currently spending nearly one-tenth of their revenues on research and development.
### 5.1.24 Development of Bio-Technology

The research and development industry in India is fast developing and made strides in 1990s, thus, the Government of India responded with policy support and frameworks to allow safe, sustainable and secure development.

India recognized importance of biotechnology as a tool to advance growth of agricultural and health sectors as early as in the 1980s, was borne out by India’s Sixth Five Year Plan (1980-85) which was the first policy document to cover biotechnology development, which proposed to strengthen and develop capabilities in areas such as immunology, genetics, communicable diseases, etc.

Special emphasis was placed on developing biotechnology in the Ninth Five Year Plan and accordingly, agricultural and allied biotechnology was given 26% of the total allocation, while medical biotechnology was given 13%. Once that sector stabilized, the focus in the Tenth Five Year Plan shifted to medical biotechnology, as agricultural biotechnology has 27% of total allocation, while medical biotechnology has almost 36%.

This development however, cannot occur in isolation and needs to be protected by measures under competition law, for example, restraining of anti-competitive behaviour, limitation of abuse of monopoly position in the markets and industries, and to promote development, access and consumer/market welfare. These are some of the aspects which need to be examined in the Indian pharmaceutical industry.

### 5.1.25 Indian Regulatory Framework with regard to Drugs

The drug industry in India did not have any price controls till 1962, when the government fearing a price increase, imposed a statutory price control on the prices of drugs and pharmaceutical products under the Defence of India Act, 1915.

### 5.1.26 Intellectual property rights

Confidential information, protected as trade secrets, is also important for many companies, as is the valuable expertise or undisclosed test data relating to new or improved drugs.
Understanding the trademark system is important for companies selling branded products. Industrial designs, plant variety protection and copyright and related rights are generally less relevant to most SMEs in the pharmaceutical sector but this could vary depending on the product line and strategy of each company. A patent is an exclusive right granted by the State for an invention that is new, involves an inventive step (or is non-obvious) and is capable of industrial application (or useful). It provides its owner the exclusive right to prevent others from making, using, offering for sale, selling or importing the patented invention without the owner's permission. A patent is a powerful business tool for companies to gain exclusivity in the market over a new product or process and develop a strong market position and/or earn additional profits through licensing.

5.1.27 Patent Laws in India:

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Patent rights were introduced in India in 1856 and later modified in 1859, along the lines of the English Patent Act of 1852. In 1872, The Patents and Designs Protection Act were introduced and were replaced with the Inventions and Designs Act in 1888. The Indian Patents and Designs Act were passed in 1911 and several amendments were made to this Act between 1911 and 1970. Subsequently, the Patent Act 19705 (“the Patents Act”) was passed, repealing all of the previous legislations. The Patents Act 1970 came into force on April 20th, 1972. India is also a signatory to the Paris Convention for the Protection of Industrial Property 1883 and the Patent Cooperation Treaty 1970.

The 1970 Act’s stated objective was to foster the development of an indigenous Indian pharmaceutical industry and to guarantee that the Indian public had access to low-cost drugs. Patents Act, 1970 had two key features: First, only process patents were allowed for chemical entities, including pharmaceuticals. No pharmaceutical product patents were
admissible. Second, the term of patent protection for the pharmaceutical patents was made shorter than needed to develop and test new drugs.

This allowed Indian companies to reverse engineer or copy foreign patented drugs without paying a licensing fee. This helped the domestic industry to build up considerable competencies and offer a large number of cheaper “copycat” generic versions at lower cost as long as they employed a production process that differed from that used by the patent owner.

The establishment of the World Trade Organization (WTO) has led to a tremendous paradigm shift in the world trade. The agreement on Trade-Related (Aspects of) Intellectual Property Rights (TRIPS) was negotiated during the Uruguay round trade negotiations of the General Agreement on Tariffs and Trade (GATT) and “one of the primary reasons for incorporating intellectual property issues into the GATT framework was the pharmaceutical industry”. India signed the GATT on 15th April 1994, thereby making it mandatory to comply with the requirements of GATT, including the agreement on TRIPS. Being a developing country, India took ten years of time to meet the minimum standards under the TRIPS Agreement.

In order to be TRIPS compliant, India amended the Patents Act 1970 three times in 1999, 2002 and 2004 before the latest amendment in 2005. The 1999 amendments put forth in place a mechanism for accepting product patent applications covering pharmaceuticals from January 1, 1995 (better known as the mail-box provisions) and to provide exclusive marketing rights (EMR) if certain conditions are fulfilled. The 2002 amendments were
aimed at bringing the Patents Act 1970 in conformity with all the relevant provisions included in the TRIPS Agreement, except extending the product patent regime in the field of pharmaceuticals. The 2004 amendment abolished the EMR provisions.

India’s Patents (Amendment) Act, 2005, introduced patent protection for pharmaceutical products, in accordance with the TRIPS, but possible effects on industrial development and public health still remain unclear, since the new regime hurts domestic firms, but promotes development of drugs suited to foreign necessity. Intellectual property rights (IPR) are economically and politically significant, in a variety of ways. Patents, copyrights, trademarks, industrial designs, plant variety rights and geographical indications are frequently dealt with in the course of any discussion on the subject of the pharmaceutical industry, in the course of research and development, or in the course of marketing, business and the economic side of things.

The Patent (Amendment) Act 2005 enacted on 22nd March, 2005, finally implemented the product patent regime in India. The Amendment grants new patent holders a 20-year monopoly starting from the date the patent was filed. Product patent regime encouraged significant numbers of foreign pharmaceutical companies to participate in the Indian market and, in 2005; foreign drug producers filed approximately 8,926 patent applications to cover their patented drugs sold as generics in the Indian market. It also upgraded the Indian Pharma Industry to Global standards.

The new patent regime has opened up new avenues for the Indian Pharmaceutical Industry and also concretized the path to success through, New initiatives and measures for patent protection of existing business, and Promotion of new business avenues including: Contract manufacturing; Contract R&D; and Contract Clinical.

The leading generic firms of the industry have been showing considerable dynamism since 1995. The R&D efforts of the leading generic firms have borne considerable fruits. Liberalization facilitated the ability of Indian firms to exploit this opportunity of marketing generic drugs to the US and other western economies. Indian firms prepared
themselves to take a share of this increasing global market. Market approvals in both the US and the UK, in particular, have increased tremendously in the past few years.65

During the last seventeen years, Indian patent regime has undergone radical change complying with the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement to move hand in hand with the Global patent scenario.

5.1.28 Drugs and Cosmetics Act, 1940

The next important legislation in the Indian perspective is the Drugs and Cosmetics Act, 1940 which governs the import, manufacture, distribution and sale of drugs in India. The Drug Controller General of India, an authority established under the Drugs and Cosmetics Act, oversees the conduct of clinical trials and is responsible for the approval and registration of drugs and issues manufacturing and marketing licenses for the same. The Drug Prices Control Order was passed first in 1970, revised in 1979, 1987 and finally, in 1995. Another instrument is the Indian Pharmaceutical Policy, 2002, which focuses on liberalization by reducing the number of drugs subject to price control, and also inviting further foreign investment.

Government initiatives in the public health sector have recorded some remarkable successes eventually with focus on investments related to better medical infrastructure, rural health facilities etc. 100 per cent FDI is permitted for health and medical services under the automatic route. And the drugs and pharmaceuticals sector has attracted FDI worth US$ 5.0 billion between April 2000 and November 2011. Union Budget 2012-13, as expected, is positive for the pharmaceutical sector.

The government has again increased budgetary allocation for healthcare spending, which would be an overall positive for the sector. Indian pharmaceutical companies have been investing on the R&D front to tap opportunities in the domestic and global markets. To encourage the same, the weighted deduction on R&D expenditure to 200% (in-house research) was extended for a further period of five years. R&D sops would continue to be positive for the sector in total. The lack of patent protection made the Indian market

undesirable to the multinational companies that had dominated the market, and while they streamed out. Indian companies carved a niche in both the Indian and world markets with their expertise in reverse-engineering new processes for manufacturing drugs at low costs. India gained its foothold on the global scene with its innovatively engineered generic drugs and active pharmaceutical ingredients (API), and it is now seeking to become a major player in outsourced clinical research as well as contract manufacturing and research.

In an economy green always symbolises money. Sustainability is a tough anthem to preach and practise. R&D efforts are now being directed towards cost-effectiveness of sustainable solutions. Thereby expecting seamless adoption in the chemical industry. Optimizing use of natural resources, making more efficient use of energy, minimising discharge of effluents, reducing fugitive emission release of volatile organic compounds during storage, handling & use, reducing carbon footprint and minimising outflow of greenhouse gases are key focus areas for sustainable manufacturing.

The profits in all businesses including those in chemical industry are sustainable in the long run only when associated with stakeholder value combined with enterprise value. Unsustainable business practices will ultimately fail. The long term benefits of sustainable solution are being identified and embraced. All our operations are focussed on achieving reduced levels of materials, energy & Water consumption, emissions and pollutants using the state of the art technologies with revamp and retrofit in the existing facilities.

5.2 Government Policy & Programs in China

5.2.1 SME Policies and Programs

The government tasked to oversee SMEs in China consists of four administrative departments: the National Development and Reform Commission, China Coordination Centre for Cooperation of SMEs with Foreign Countries, China Association of SMEs, and local SMEs department in every province. Development policies and plans of governing SMEs were issued in 2003. There are various ways by which government supports SMEs.
The SME promotion law, enacted in January 2003, lays the groundwork for public support for small and medium enterprises. Under this law, the government protects the lawful investments of SMEs and their equity investors alongside their investment earnings.

Government administrative departments protect the legal rights of SMEs, including their rights to fair competition and fair trade. The state also identifies priority sectors for SME development through various means. Second, in 2005, the government issued a document titled “State Council on Encouraging, Supporting and Guiding the Development of Private and Other Non-Public Owned Economies” (containing 36 Articles on Non-Public Owned Economies), which eased up market access conditions for non-public economies, thus according them broader development space. Third, the government published the SME Growth Project in 2006. Its aims were to protect the legal rights of SMEs, including their rights to fair competition and fair trade. The state also identifies priority sectors for SME development through various means. In 2005, the government issued a document titled “State Council on Encouraging, Supporting and Guiding the Development of Private and Other Non-Public Owned Economies” (containing 36 Articles on Non-Public Owned Economies), which eased up market access conditions for non-public economies, thus according them broader development space.66

The government published the SME Growth Project in 2006 with the following aims: to promote the system building of policy and regulation for SMEs; to cultivate the social service system of SME; to facilitate SME structural adjustment; to sustain the SME reforms; to strengthen SME training; to improve innovative ability; to resolve financing difficulties affecting SMEs; to encourage SMEs to expand offshore through the provision of FDI incentives, among others; to improve the overall supervision of SMEs. Also the government adopted a series of promotion regulations and measures in further support of SMEs.67

66 Chinese ministries give SMEs preferential policies in gov't procurement by English.nes.cn dated 2012-01-06 23:49:20 online available http://news.xinhuanet.com/english/china/2012-01/06/c_122548702.htm , p-1
5.2.2 Financing for SME development

The state-allocated budget for SME financing includes an item dedicated to supporting SME development. It also set up an SME development fund to encouraged donations through tax incentives extended to SMEs. The government also required financial institutions to improve the financing environment for SMEs, strengthen their support to SMEs in terms of enhanced credit and direct financing channels. It likewise enjoined various types of venture capital to increase investments in SMEs by giving them tax incentives.68

5.2.2.1 SME financing.

The concerned Government departments actively pursued the establishment of a credit guarantee system for SMEs, and provided tax incentives to encourage the establishment and growth of SMEs. Incentives, including tax reduction and income tax waivers, are given to SMEs that meet the state-stipulated number of jobs that are expected to be generated each year; SMEs operating in economically underdeveloped or impoverished areas, and SMEs which employ a prescribed number of physically challenged people.

5.2.2.2 Market access

Government also assists SMEs to improve their market access by helping them enhance their skills. SMEs are enjoined to conscientiously implement the nation’s industrial policies, industrial planning regulations, specifically those on market access. Such stipulations, among others, allow them to gain access to or avail themselves of vital services, such as those involving monopoly industries, public utilities and infrastructures, social undertakings, Financial Services, and National Defence Science and Technology Industries, which are now open to these enterprises, provided they secure prior government approval.

Existing regulations, rules and policy stipulations that tend to restrict market access for non-public economic sectors are currently under review by the applicable departments and

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68 Chinese ministries give SMEs preferential policies in gov't procurement by English.nes.cn dated 2012-01-06 23:49:20 online available http://news.xinhuanet.com/english/china/2012-01/06/c_122548702.htm , p-1
local governments for possible revisions. Market competition mechanisms will also be introduced in the electric power sector, telecommunications, railway, civil aviation, petroleum and other industries and fields. At present, government procurement system tends to favour products and services generated by SMEs.

Government encourages SMEs to expand their markets by enforcing financial policies that allow, among others, imports and exports credit, export credit insurance, etc. It enjoys qualified SMEs to invest in foreign markets.\(^69\)

5.2.2.3 Networking with other enterprises

Government encourages qualified enterprises to expand their network. It also promotes specialization and coordination among SMEs so they can pursue collective development of materials supply, production, sale, and technological innovations in a bid toward market expansion. The state also promotes merger and acquisition activities among SMEs, alongside reorganization and optimized resource utilization. Provision of government subsidy or loan facility is intended to support and encourage SME technological innovations with large enterprises.\(^70\)

5.2.2.4 Efficient SME supervision

Given the production and management characteristics of SME, the state is also working toward better management system. There are also efforts toward standardized charges collected by public organizations and institutions so as not to unduly burden SMEs.

5.2.2.5 Improved social services for SMEs

Government is vigorously developing various types of social intermediary service organizations, intensifying policy support for needed automatic funding of specific undertakings, supporting the conduct of trainings among enterprise personnel, strengthening services for science and technological innovations, supporting enterprises in

\(^{69}\) Source: SME promotion law of China, 2003 (accessed on 11.3.2013)

\(^{70}\) Lei Ye, David Tweed, Paul Toulson et al, Challenges and obstacles faced by small and medium sized businesses (SMEs) in China
opening up domestic and foreign markets, and actively pushing for the creation of a credit system for enterprises.\textsuperscript{71}

\subsection*{5.2.2.6 Other State Government Schemes:}

In 2004, Many State Government of People Republic of China undertakings introduced various schemes for the growth of SMEs like:- Provision of innovation funds for technology-based SMEs, Administrative management of development of private and other non-public owned economies, Financing of technology-based SMEs, Regulation of entry of non-public investments into cultural industry, Entry of non-public investment into railway construction was published recently, Guiding opinion of development and reformation of commercial SME.\textsuperscript{72}

\section*{5.2.3 Nonbank Financial Service Providers in China}

\subsection*{5.2.3.1 Trust Companies Extend Trust Loans}

As they are not authorized to absorb deposits, the loans are mainly financed through various financial products, such as wealth management products, issued to enterprises and individuals. Banks and trust companies act as intermediaries only to earn fees, and usually do not undertake risks should borrowers default.

\subsection*{5.2.3.2 Enterprises Provide Entrusted Loans}

Enterprises that wish to lend significant sums to other enterprises are prohibited from doing so directly; however, they can provide Entrusted Loans with banks or other financial institutions as intermediaries. In the same vein as trust loans, banks and other financial institutions play only an intermediary role to earn fees, and it is very rare to assume default risks.

5.2.3.3 Licensed Financial Leasing Companies Offer Leasing Services

These are regulated by CBRC and PBC because they can engage in some kind of banking business, such as financing from the interbank market. Many are subsidiaries of banks. Non-licensed financial leasing companies are mainly regulated by the Ministry of Commerce, and they usually conduct traditional leasing business.73

5.2.3.4 Credit Guarantee Companies Offer Bank Loan Guarantees

Since 1992 the government has permitted the establishment of credit guarantee companies. Licensed credit guarantee companies provide guarantees for bank loans, and their credit volume represents bank lending that would not have taken place without their involvement. So-called noncredit guarantee companies are illegal. An unknown proportion of credit and noncredit guarantee companies have been illegally involved in direct lending and taking deposits from the public.

5.2.3.5 Pawnshops Offer Collateral-Based Loans

Pawnshops were abolished in 1949 but reappeared in the 1980s. After a review in the 1990s, they are now regulated and supervised by the Ministry of Commerce. While not intended for enterprise loans, in a situation of tight bank credit, they have become an important source of short-term business lending, taking real estate and vehicles as collateral. Some have also illegally started taking deposits.74

5.2.3.6 Micro Credit Companies Offer Cash flow-Based Loans

In 2005 PBC designed and pilot-tested the Micro Credit Company (MCC)—a new type of small, rural focused, and privately funded, credit-only—intended to offer nonbank credit providers a vehicle for legalizing their businesses. In 2006 it issued guidelines for investors to create Micro Credit Companies. The 2008 guidelines for Micro Credit Companies issued by CBRC in conjunction with PBC marked their official acceptance as

non-deposit-taking companies. Micro Credit Companies were to be supervised by the provinces’ financial offices. While Micro Credit Company lending is technically legal, regulatory support has not been unambiguous. CBRC is concerned about Micro Credit Companies illegally taking deposits.

5.3 Facilitating & Limiting Factors for the growth of Chemical, Pharma & Textile SMEs in India

5 3.1 Facilitating & Limiting Factors for the growth of Chemical SMEs in India

The major challenges faced by Chemical Industries in India are quest for feedstock and knowledge management. Traditionally naphtha-based crackers have been providing feedstock to the industry. Today, they are being replaced by new gas-based crackers. India and China will pose a stiff competition to the Middle East due to the vibrant exports and large unexplored reserves of oil and gas. Indian government is acting as a facilitator by setting up LNG terminals and acquiring equity interests in overseas proven oil reserves. This will fuel rapid growth in chemical industry. The government is also engaged in the formulation of a National Policy on Pharmaceuticals and mega-industrial chemical estates.

5 3.2 Facilitating & Limiting Factors for the growth of Pharma SMEs in India

India's traditional lucrative export markets are becoming a little less secure, for a number of reasons. Generic prices have not been rising in the U.S. Also; new competitive threats have arrived, such as authorized generics produced by major drug producers, new mid-sized players, Chinese and Eastern Europe manufacturers, and fully integrated generics firms, which are less reliant on Indian “back-end” businesses. India's new patents regime is already producing changes in terms of greater commitment to discovery research within the industry, although a major shift for Indian firms away from reverse engineering will not be seen for three to four years. Rising levels of respondents and incomes, plus the arrival of new products, will continue to grow the domestic market.

5 3.3 Facilitating & Limiting Factors for the growth of Textile SMEs in India

The recent global slowdown has however impacted the prospects of this sector. price of the cloth was fixed by the Government below the cost of production. Similarly under the
yarn distribution scheme of 1972, the Government made it obligatory on all mills to supply 50 per cent of the production of yarn to the decentralised sector at reduced rates. The high import duty on imported cotton, upward revision of the price of the indigenous cotton and heavy excise duty on cotton cloths are other detrimental factors. Another problem of the mill sector is related to the production of controlled cloths wherein mills are incurring huge loss. The cotton textile industry of the country is thus facing both short-term and long-term problems. Short term problem like problems of high prices, shortage of raw materials, liquidity problems due to poor sales and accumulation of huge stocks due to poor demand in the market. The long term problems of the industry include the slow pace of modernisation, outdated technology resulting into low productivity, high cost of production, low profitability and increasing sickness of mills. Initially, US & Europe textile business moved to China, India, Bangladesh, Pakistan, Sri Lanka & other Asian Countries, so much so that Bangladesh even overtook India in terms of exports due to the special status. The focus further moved to African countries and now Burma is becoming a hot spot for textile processing, as textile business is not so sustainable in many of these countries. There are no more advantages of cheap labour and other resources, like power & water, which are almost becoming on par with US & Europe. The strict regulations on pollution norms, child labour, etc are now observed in many countries, including India as major challenges.

5.4 Facilitating & Limiting Factors for the growth of Chemical, Pharma & Textile SMEs in China

5.4.1 Facilitating & Limiting Factors for the growth of Chemical SMEs in China

Strengthening environmentally sound management of chemicals, The Chinese government has been very active in promoting legislation on the environmental management of chemicals and strictly implementing the environmental management registration of new chemical substances and imported and exported toxic chemicals. China has revised a series of administrative regulations, e.g. “the Measures on Environmental Management of New Chemical Substances”, and “the Catalog of Toxic Chemicals Strictly Restricted from Import and Export”, strengthened environmentally sound management of
chemicals, and conducted a survey of pollution sources with a focus on persistent organic pollutants and mercury.75

Number of changes and challenges that are reshaping the global chemical industry, opening the door for China to become an industry leader. To speed up their own development, Chinese chemical companies can leverage the best practices of Western companies—adopting some, and adapting others to their local needs. This is particularly important today, as the Chinese industry seeks to meet market demands for new chemicals while, at the same time, managing cost pressures from soaring wages and commodity price inflation. Opportunities abound, and Chinese companies are well positioned to capture them by accelerating their development cycle and preparing for tougher competition with Western players.

In spite of the foregoing efforts of the state, there are still some constraints in the government service system, which affect the SME operations. In recent years, some positive steps have been taken to improve the delivery of government services to SMEs. Admittedly, however, businesses do not just expect support and advice from the government. The former also want the latter to complement the private sector by filling gaps in supply and addressing market failures. For instance, problems of duplication and inconsistency in the quality and sources of services remain. Access to public funds is also difficult in terms of time and cost. At present, government services include advice, grants, skills and training and specific support for manufacturers, such as the manufacturing advisory service. By providing these services, government hopes to make the target enterprises more competitive.76

Businesses also report difficulty in accessing public funds, both in terms of time and cost. While there are signs of improvement in some services, there are still government agencies whose approach to business is poor. Much more work is required for government services to be become efficient and accessible to all enterprises considered coherent, accessible and of a high quality.

75 China Banking Regulatory Commission (CBRC) (2006), Strengthening Regulations, Improving City Commercial Bank’s Reform and Development
Business sector feedback on government services for SMEs is by and large poor. For instance, where state services in the areas of preferential policy, finance guarantee service, tax burden alleviation, market condition management, and public service are concerned, nearly all Respondents to the survey (on which the data presented were based) said they were “too general” and that there were still many obstacles and constraints to the SMEs’ pursuit of their business goals. One common cause of complaints is the lack of assistance catering to their different needs, these shows that government should provide small and medium enterprises with services that suited to SMEs needs.

Notwithstanding the foregoing efforts of the state, there are still some constraints in the government service system, which affect the SME operations. In recent years, some positive steps have been taken to improve the delivery of government services to SMEs. Admittedly, however, businesses do not just expect support and advice from the government. The former also want the latter to complement the private sector by filling gaps in supply and addressing market failures. For instance, problems of duplication and inconsistency in the quality and sources of services remain. Access to public funds is also difficult in terms of time and cost. At present, government services include advice, grants, skills and training and specific support for manufacturers, such as the manufacturing advisory service. By providing these services, government hopes to make the target enterprises more competitive.

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. Field surveys were undertaken in the Guanlin cable cluster, Shengze textile cluster and Hengshan sewing machine cluster. In these clusters, cooperation among SMEs for procurement and marketing is found common. Division of labour among SMEs is also observed in these clusters.

Develop market (both supply and demand) for business development services; improve the legal environment of business development services, with the focus on the management of service quality. Encourage associations to have business development services; implement actively SME support programs; participate in the policy making process of SME support
policies and support programs in order to strengthen the supporting role of these associations and to make them really become the legal representative for SMEs’ interests; Improve the effectiveness in coordinating SME development support activities, enhance the role played by the SME Promotion Council; enhancing capacity at the local level in the management, promotion and development of SMEs.77

China’s chemical industry is heading towards a new level of maturity by pursuing self-sufficiency and sustainability. The ‘12th Five-Year Petroleum and Chemical Industry Development Guide’, released by the China Petroleum and Chemical Industry Association in 2012, requires Chinese enterprises to choose a new path of industrialisation, create ‘national champions’ and work towards sustainability.

Five year plans continue to play a crucial role in China, serving as ‘business plans’ for the government and industry to follow. As such, the 12th Five-Year Plan (2011-2015) remains a sound point of reference for predicting future trends in the chemical industry. Policy-makers have demarcated seven strategic emerging industries, four of which are related to the chemical sector. The emphasis on new energy, new materials, new energy automotive and energy-saving has triggered what amounts to a race among Chinese chemical companies to power ahead in the higher grade chemical segments and evolve aggressive acquisition strategies towards this end.78 Earlier, medium-to-large Chinese companies were mostly engaged in the bulk chemicals side of the business, while a relatively small number of foreign multinational corporations dominated the niche market in specialty and high-end chemical segments.

Since chemical manufacturers have high fixed costs and produce commoditised products, it was difficult for them to differentiate and expand their portfolios. As a result, each player developed dominance over their respective segments and the markets of local and global corporations seldom overlapped. All this is now changing. Chinese companies are relentlessly expanding their product portfolios and seeking new world markets, a startling development that may change the global chemical landscape forever.

78 Fu Zhuo.China’s SMEs financial management model [D].Xiamen University, 2001
Most significantly, the 12th Five-Year Plan seeks to create ‘national champions’ to increase China’s self-sufficiency in chemicals and establish an environment that promotes sustainability. In other words, domestic manufacturing companies are being encouraged to enhance their value chains and compete internationally.

For chemicals, the starting point for self-sufficiency is the growth of segments like specialty and fine chemicals. There are several sectors in which China is a net importer and has set a goal of 80 percent self-sufficiency by 2015. In new chemical materials, the goal is to increase self-sufficiency from 56 percent in 2009 to 76 percent by 2015. The fine chemical segment is also undergoing structural adjustment and product innovation — the value of China’s fine chemical production is expected to reach RMB 1.6 trillion by 2015, more than double the amount in 2008.\(^79\)

Although China is the biggest producer of chemicals, it still suffers from a deficit between total chemical demand and its supply. As of now, demand for chemicals used in plastics far outpaces local capacity and this deficit is expected to remain until 2020, which is a cause of considerable concern for the government.

Domestic chemical companies are now expected to rise to the challenge by adapting to a new round of upgrades and reforms. They are expected to be world class enterprises and to employ a variety of strategies to gain greater access to Western technology and processes. With this target in mind, SOEs, as well as private companies, are enhancing their product portfolios, seeking breakthroughs by means of innovation, and working on proactive strategies in order to pursue business opportunities wherever they become available.

Another vital component of the 12th Five-Year Plan is the government’s determination to balance the geographic spread of its industries and shift economic activity to the inland areas of central and western China. The petrochemical and chemical industries have played an important role in changing this balance.

While the industrial East still remains the nerve centre of activity, growth in the central and western regions has accelerated greatly. The Inner Mongolia Autonomous Region now has 12 major petrochemical and chemical enterprises, while Xinjiang Uygur Autonomous Region and Ningxia Hui Autonomous Region have built seven and four major chemical bases, respectively, over the last 10 years. Interestingly, enterprises operating in western regions such as Qinghai and Xinjiang have enjoyed the highest profit margins in the industry in the last few years.

5.4.2 Facilitating & Limiting Factors for the growth of Pharma SMEs in China

Competition and rivalry among foreign firms and Chinese companies is going to be strongly affected by the changing landscape in proprietary technology. At the moment, foreigners hold the monopoly in many proprietary technologies.

Due to the rapid development of the Chinese pharmaceutical market, both local and multinational pharmaceutical enterprises have made efforts to expand their presence in the market, which has lead to increasingly fierce competition. Pharmaceuticals (pharmaceutical companies) in China are facing challenges are – (a) Diversified procurement models in different regions magnify the complexities of sales and market access, (b) Increased challenges to growth: Steep competition and higher regulations on drug manufacturing and management make it more difficult to increase market share. (c) Downward pressure on pricing: Pressures on retail pricing and reforms to procurement processes will result in margin erosion (d) Development of new markets: The healthcare reform will lead to new opportunities in rural markets, including growth in TCM opportunities.

5.4.3 Facilitating & Limiting Factors for the growth of Textile SMEs in China

In global economy the key point in keeping the national competitiveness is to hold the leading position of the Global Value Chain (GVC). The core links of Global Apparel Commodity Chain (GACC) are occupied by several large magnet retailer chains, brand tycoon and MNEs which holding the core industrial technology. So on the global scale

even if all trade barriers would be moved in the long run, the enterprises from developing countries are not able to enter the global market without casting the great effort in improving its position within the GVC. The leading enterprises are controlling the enterprises within the GACC by use of their capabilities in making R&D, designing, branding and market accessing. On the contrary, the enterprises which have been controlled by them are normally within the stream of high competing and low value adding process. So upgrading the positions of the enterprises and the industrial clusters in GVC should be raised to one of the most important issues. Optimising the conditions of the textile clusters. Since globalisation, small-medium-enterprises (SMEs) are difficult to achieve advantages in global competition, so that it becomes increasingly important for the SMEs to build partnership in regional scale. The practice experience of China has demonstrated industrial clustering is a feasible strategy. Previously, it has been mentioned that there are still many existing disadvantages of the Chinese textile industrial clusters. In addition, the challenges they face are aggravating since globalisation. So optimising the conditions of the current clusters should be raised to another important issue. Strengthening the innovation capabilities and establishing innovation system. China’s traditional industrial clusters are generally constructed by SMEs, which are heavily lacking of the innovation ability and the establishment of innovation system. The core technology lacking is the main reason for many developing countries that can only gain the least profits. Due to a period of time that China has heavily importing but superficially assimilating the foreign technology, which has resulted in technology importing are becoming a continuous process and ultimately China are increasingly dependent on foreign technology with index that shows of over 50%, however, all developed countries are less than 30%, and the U.S and Japan are now two least foreign technology dependent countries with the rate of less than 5%. If China is not going to pay increasing attention to the situation above, the Chinese division of labour in the GVC will be lock-in to the low technology involvement and the low value adding processes in a long term perspective. So, obviously, to strengthen the national innovation capabilities both in the national and in the regional level are significantly important, but, to start with, it has to be implementing in the firm level.81

The prominent problems and risks facing the operation of textile industry mainly lie in three aspects. First, the export pressure is yet to be eased fully. Although in the first two months of Q1, the industry welcomed the notable rally in exports, the growth was mainly related to non-demand factors such as low base numbers last year and massive pre-festival deliveries. On the other hand, the data concerning international macro economy and overseas market consumption have been read no significant recoveries, meaning that China’s textile industry doesn’t possess the external conditions for persistently high growth of exports. Second, the cotton issue is still highlighted. As the oversupply situation in the international cotton market remains in place, international cotton prices lack the momentum to bounce back, while domestic cotton prices in China continue to stay at high levels supported by the state purchase and reserve for cotton, which leads to a price gap of approximate 4,500 yuan/ton. Coupled with the influence from high ex-warehouse prices, long period for stock removal and instable quality of reserved cotton, cotton textile enterprises are still struggling with heavy development pressure. Third, the survival of vast micro- and small-sized enterprises still needs attention. According to a survey, currently micro- and small-sized textile enterprises are faced with obvious difficulty in development, with the rate of operation and worker return much lower than that of large-sized ones. As a result, it is a key task for textile industry to ensure the stable business of micro- and small-sized enterprises in the process of structural adjustment and transformation, in order to avoid the massive bankruptcy and the possible influence on social stability.