

Trade Trends



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SMEs in China: Lessons from Chinese Entrepreneurs

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Small Scale Enterprises have rendered a major contribution to the economic progress of Asia’s growing economies particularly India and China. As far as India is concerned, the sector’s significant role in ordering the equitable process of economic progress and its contribution to manufacturing sector are well recognised. It has become an important source of employment opportunities as well as a basis of development of small entrepreneurs in the country.

As per the report of the Task Force on MSME, 2010, in India the sectoral contribution to GDP was 8 per cent. The sector has significantly contributed to manufacturing sector as a complementary to it. It accounts for a share of around 45 per cent in output produced by the manufacturing sector and 40 per cent to the export of manufacture output. Such scenario of India’s small scale enterprises is akin to the growing nature of the sector in China witnessed after economic reforms started therein. The sector contributes substantially to China’s GDP and it is considered as a major source of employment for the Chinese.

The success story of small scale enterprises in China reveals that there exist characteristics like, clusterisation of small scale industries and innovative entrepreneurial skills among Chinese people. How did small and medium scale enterprises emerge as an important economic sector in China? Answering the question would require to understand the process of change that took place in the country impacting positively the private entrepreneurship, a driving factor in today’s economic powerhouse. Therefore, lessons may be drawn from the entrepreneurial skills of private players from China which still have state owned large scale industries.

The changing scenario

The Chinese economy after 1912 (the year republic of China established) gradually transformed into a socialist economy with characteristics like spreading state owned enterprises across the country. The socialism in China further strengthened during the regime of Mao Zedong. In China, economic sectors were either nationalised or collectivised. Consequently, the role of private sector was eliminated. In fact, production and distribution process was maintained by the state. Also, the 'Iron Rice Bowl' of lifetime employment, under the *danwei* system (a system in which workers were bound to work for lifetime) had both advantages and disadvantages for the economy as whole. The prominent disadvantage was that it compelled Chinese to become the part of the system which had restrictive policies as a planned economy.

It was Deng's 'Four Modernizations' reform programme across sectors like, Agriculture, Industry, Science and Technology as well as reform for Military in 1978 which puts the milestone to reform Chinese economy. The modernisation was intended to stimulate economic growth in China. The policy actually laid the foundation of the development of private entrepreneurs in the country. It has largely affected the landscape of industrial structure in China. In fact, the reforms gave new dimensions to the process of China's economic growth and development.

Another interesting outcome of the reform was the rapid evolution of township and village enterprises (TVEs) during reform period. These new emerging small enterprises were considered as the outcome of rural unemployment and vanishing of local-level revenues during 1980s. The effectiveness of the policy initiative started showing on the map of economic interactions in China. Gradually, as a result of economic reforms private entrepreneurs took over the new emerging TVEs. It is pertinent that by 1990 TVEs accounted for 20 percent of China's gross output. These TVEs consist of small enterprises having products diversification.

Since, large industries are still being controlled by the state, small enterprises emerging in towns and villages provided space of private players. Resultantly, these TEVs became one of the critical contributors in economic progress of China.

Most importantly, these enterprises were not state-owned but were owned by private players (individually or collectively) under local governments. Thus, due to government policy initiatives, privately owned enterprises have been flourishing and expanding its outreach in global market. The success lies in entrepreneurial skill as well as government assistance to the sector. Pertinently, managers of TVEs have demonstrated many entrepreneurial characteristics. Their increasing role in business led them to choose the product line, find their own funding, labour, raw materials and distribution channels and, decisively, they reacted to fluctuations in prices and costs. It is notable that the entrepreneurs have shown their pursuits of profits as per local and global changing scenario. TVEs are seen as the first phase of the development of modern Chinese entrepreneurship.

After 1987, when the Chinese government facilitated private participation in these sectors, the entrepreneurial skills in small scale enterprises sharpened alongside the entrepreneurs of other economic sectors like services industry. Chinese Small Enterprises in many ways endeavoured to overcome impediments like, environmental barriers related to business, lack of access to adequate funding, power and inadequacy of skilled labour. It cannot be denied that these problems have vanished from China; rather these still exist. These are important areas of concern for the success of small scale

industries. The noteworthy step seen in China was the process of technological penetration into small scale enterprises which provided impetus to the sector reducing impacts of impediments. The diminishing affects of such constraints are evident from the success story of Chinese small and medium scale enterprises (SMSE). In fact, internet usage is still an important part of the entrepreneurial attention to enhance products' outreach in global market.

This is well recognised that China's remarkable economic growth has been achieved through rapid emergence of dynamic private entrepreneurs in both small and large enterprises. In 1978, the first year of reform in China, the state sector accounted for over 90% of the country's GDP; by 2005, this had fallen to less than half. Since the late 1990s, Chinese entrepreneurs have been key driver of growth. They are regarded as the creators of the *de novo* firms that have been forming a dynamic and innovative private sector in China. Moreover, the skilled entrepreneurs of small enterprises were able to developed alternatives for increasing global competitiveness of their products through networking and internationalisation strategies. For instance, an early finding of Industrial census in 1995 suggests that small firms were highest in percentage to adapt new technology whereas larger firms were involved in capacity expansion.

Lessons

Hindrances also exist in India which could be tackled similar to the ways Chinese tackled. Three important lessons amongst others may be drawn from Chinese experience of SMEs sector. Firstly, clusterisations of SMEs greatly enhance the global competitiveness of SMEs. The process generates and spread innovations as well as distributes broad-based benefits. Clusterisation broadly refers to various industrial colonies composed of enterprises in identical and closely connected industries in specific areas. In other words SME clustering, in particular, is the centralization of SMEs in their location, which was an important feature of SME development in China. Such regional agglomerations of SMEs with close business relations and frequent interaction within a locality have multiple advantages like cost effectiveness, capacity building networking which complements other enterprises. This might create regional disparities in India however, the negative impact of clusterisation could easily minimise through usage of information technology with favourable environment for innovation. As discussed earlier, capacity development is an easy process to enhance skill of labourers.

Secondly, entrepreneurs in China encouraged social networking to strengthen their business. Even family networks are closely knit with other entrepreneurs in overseas with firm relations in small businesses to increase its export capability. Networking has various advantages which are reflected in the success of Chinese small scale enterprises at international level. It provides the basis for relational contracting as well as a source of funds and know-how for self-employment. Social networking may also benefit to pursue innovative marketing strategies. Domestic Chinese small entrepreneurs and its network with Chinese overseas entrepreneurs living abroad helped internationalisation of their products. They have also utilised their ethnic and cultural affinity in building such networks. Role of their cultural and ethnic factors are an important step towards successful internationalization their products.

Finally, the entrepreneurs in China actively started reacting to the changing economic scenario not only in the country but also outside. The entrepreneurs have also chosen cooperative modes of operation, with related enterprises or with their agents operating overseas. Such operations help these entrepreneurs to minimise effects of international trade restrictions on exports of products like, fabrics, textiles, leather products etc. Interestingly, many small enterprises, operating with high technology

usage and focussed on internationalisation of their products, have gained relative success. Therefore, Indian entrepreneurs, through various platforms provided by federations of such industries, may use opportunities of branding their products at international summits. Internationalisation of brands at multilateral fora is a marketing strategy which may help in attracting markets at international level.

Links to Alam's articles in previous issues:

http://www.fisme.org.in/newsletters/March15_2012/docs/Carpet_by_Absar_Trade_Trends.pdf