

Developing Competitive Advantage through SMEs to face the WTO Regime

—SUNIL BHARGAVA

Gandhiji once said, the poor of the world cannot be helped by mass production, it can be achieved only through production by the masses. If large number of producers were to exist for wider markets, the entities that produce should necessarily be small. The focus of this paper is on some of the policy issues involved in making the Small Scale Industries (SSI) sector in India more competitive in the changing global environment. The main questions discussed are: How are Small and Medium Enterprises (SMEs) in developed and developing countries defined? What is the current global scenario? What are the possible policies for SMEs in our country to enable them to meet the WTO regime. An outline of the future outlook for small-scale industries in India was also given in the context of WTO stipulations and the need for a new approach for the development of the small scale sector.

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What must Indian SMEs do to survive and grow in this fiercely competitive global environment? ... Many of the implications remain to be understood. But one thing is clear - nothing is as before. The world has become an increasingly interwoven place. According to Francis Fukuyama - one of the greatest sociologists of our times - never before in human history so many nations moved towards market economy and liberal democracy. There is a growing recognition worldwide that SMEs have an important role to play in the present context given their inherent strengths and India can develop a noteworthy competitive advantage through these SMEs to face the WTO regime for her economic development. The future of SMEs is therefore of major policy concern given their strategic importance in any discussion of reshaping the industrial sector. SMEs are diverse, multi-sectoral entities that have trade issues both unique to themselves and cutting across multiple sectors.

STRENGTH OF SMEs – AN INDIAN PERSPECTIVE

In India, the SME is generally referred as “small scale unit” (including the tiny sector) defined by the criterion of scale of capital investment viz., the investment limit for small scale unit is set at Rs.30 million, of which, the investment limit for the tiny sector is Rs.2.5 million. From the perspective of Indian economy, following are the strengths of these SMEs.

- Ancillary growth support for large enterprises.
- Economic imbalances
- Employment generation potential
- Entrepreneurial Skills

- Greater Resource use efficiency
- Handicrafts and cultural products protection
- Import substitutions
- Inter sectoral linkages
- Locational Flexibilities
- Raising export potential
- Regional and backward area development
- Risk absorption
- Skill and precision orientation
- Technological innovations

STATE OF INDIAN SME SECTOR

Policy Framework

The promotion of the small-scale sector in India has been an important thrust of industrial policy since independence though the focus of concern changed with the priorities of each five year plan. The Industries Development and Regulation Act of 1951 provided the basic framework for the post-independence industrialization strategy. Due to the protective

"Small scale enterprises will continue to need exceptional support in terms of financial resources, technological development and infrastructure." - The Expert Committee on Small Enterprises (Abid Hussain Committee Report, 1997; 21)

policies of the Government of India, the SSI sector has grown to a stage of substantial presence in the economy and even when there was deceleration in the large industry, the small industry is reported to have registered a comparatively higher growth.

During the last forty years, macro economic policies targeted for the SSI sector have aimed at fostering its growth through positive policy interventions in the areas of finance, technology, infrastructure and extension services, among several other requirements of the sector.

Economic Profile and Performance of SME's

The SSI sector is non-homogenous in structure and includes diverse types of production units ranging from traditional crafts to high-tech industries. The

Relative Share of SME's in India's Major Exportables

- Ready-made garments, (42.6 per cent)
- Basic chemicals, pharmaceutical & Cosmetics, (11 per cent)
- Processed foods, (12.4 per cent)
- Engineering goods, (8.6 per cent)
- Finished leather (8.2 per cent) and
- Rayon Synthetic products (4.1 per cent)

total number of SSI working units in the country is estimated to be around 3.12million (1998-99). In terms of ownership, the vast majority of SSI units are proprietary concerns (80.5%) with only 16.8% functioning as partnerships and private limited companies. The potential of SSIs to generate employment has remained the strongest argument in their favour.

The sector now employs 17 million persons (5.5 per cent of the total work force of the country) {Indian Labour Year Book, 1997, Government of India} and is the second largest employer of India's workforce after agriculture. The role of SSIs in the economy can be seen from the fact that it now accounts for 95% of all industrial units in the country and 40% of total output. About 7,500 products are manufactured in the small-scale sector.

It is important to recognize that India's SME's play a crucial socio-economic role by their contribution towards GDP, agro-industries, manufacturing and services, exports and import-substituting products. Table 1 provides a glimpse of their performance over the period 1991-99, when there has been a sustained increase in the no. of units, output, employment and exports of India's SME's. The value of production of SME's in 1998-99 amounted to Rs. 52,75,150 million. The SME's provide employment and livelihood to a large section of population not only through their production but also through their backward and forward linkages. They also demonstrate the entrepreneurial spirit pervading small and tiny enterprises.

Table 1. Overview of Performance of India's SME's

Year	No. of Units (in million)	Output (at current price, Rs.)	Employment (nos. in million)	Exports (at Current prices, Rs. million)
1998-99*	3.80	52,75,150	17.158	494,810
1997-98	3.01	46,51,710	16.720	444,370
1996-97	2.86	46,51,710	16.000	392,490
1995-96	2.72	35,62,130	15.261	364,700
1994-95	2.57	29,39,900	14.656	290,680
1993-94	2.38	24,16,480	13,938	253,070
1992-93	2.25	20,93,000	13.406	177,850
1991-92	2.08	17,86,900	12.980	138,830

Note: *Stands for provisional data

Source: Economic Survey, 1999-2000, Government of India, New Delhi.

On an average, around 10 per cent of total production of India's SME's get directly exported and such share varies across product groups. For e.g. SME's in gems and jewelry sector have a higher relative share of direct exports as compared to those in steel casting. India's SME's are involved in export activities both directly and through production of intermediates, processed and semi-processed goods.

IMPACT OF GLOBALISATION ON INDIAN SMEs

In order to appreciate the dynamics of today's trading environment, at least in the context of SMEs, we need to understand what is globalization? The World Trade Organization (WTO), which was formally established on January 1, 1995, represents the most powerful of the multilateral institutions that are responsible for the global economic management. The WTO is involved in rule making in areas that go beyond the narrowly conceived confines of international trade. Globalisation, if analysed in a different context, is the extraordinary explosion of both technology and information, finance, trade in goods and services in ways that have considerably reduced the twin concepts of time and space. It refers to global economic integration of many formerly national economies into one global economy, mainly by free trade and free capital mobility propelled by Information and communication tech-

nology. A snap shot on the WTO has been given in *Annexure A* to this article.

Paul Streen points out two important faces of globalization:

- Growing legal and institutional framework within which the regimes of contemporary international trade, finance and investment are being conducted. The emergence of World Trade Organization is the one of the most important example of this kind of trend.
- Another form of globalization is emergence of powerful communities and groups around issues, which are essentially global-environmental issues, women's and anti-nuclear movements, human rights struggles and the like.

How does the system affect SMEs?

The four most important exogenous forces that work on the enterprise are:

- Regulations
- Macroeconomics
- Consumer preferences
- Technology

Globalization affects all the four forces in varying degrees, which influences the World Trading Environment, which in turn have had great impact on the enterprise. A checklist containing the details of impact of WTO on SMEs has been given as *Annexure B* to this article. A detailed account of the influence of the WTO Environment on SMEs has been given in *Annexure C* to this article.

ISSUES RELATING TO SMEs VIZ-A-VIZ GLOBALISATION

CONCEPTUAL ISSUES

Definition

In the Indian context, we have not so far defined medium enterprises clearly. What is neither small nor large is being loosely defined as medium. Further, enterprise encompasses businesses, services and industries. In the broadband of 'small', the discussion extends to medium as well. Another possible connotation for the SMEs is the small manufacturing enter-

prises.

Small and medium enterprises, both in size and shape, are not uniform across the globe. According to a World Bank study, there are said to be more than 60 definitions of small and medium industries used in 75 countries surveyed (Kim Seung Jin and Suh Jang-Won, 1992; 9). Definitions of SME by countries and scholars vary, using different measures or attributes of smallness. Some rely on number of employees: most classify industries with less than 5 workers as household, less than 50 as small, and 51-100 as medium. Some use another factor of production, capital...or type of technology (craftsmanship or modern methods)...or source of power. The most commonly used definitions relate to either size of employment and/or quantum of capital investment /fixed assets.

Staley and Morse used a five-type classification to identify small enterprises, which includes: subsistence manufacturers, artisans working at home, artisans with workshops, and industrial home-workers paid wages, or paid by piece (putting-out system). **UNIDO categorizes manufacturers into: modern (largest enterprises, modern technology, mainly urban); modernizing (mainly small-medium, intermediate technology, mainly urban but also rural); and non-modern (small firms and artisan workshops, traditional and upgraded technology, mainly rural but also urban).** Thus UNIDO's definition uses size, technology and location, while Staley and Morse consider where work is done, how workers are paid and whether they are artisans or industrial labour (Namet Ilahi: 1999). Even in India, the policy makers provided for a similar distinction when they separated out the Khadi, village and cottage industries, tiny industries, and artisans with a view to providing special dispensation.

Whether it is U.S., or China, Germany, U.K. or Japan, South Korea or Malaysia, Taiwan or Turkey - all have a deliberate policy for helping the small firms both through protective legislation and fiscal concessions. They have taken care to continue this even in the WTO by providing for "amber" and "green" subsidies. The former are actionable subsidies, which are permissible "if they do not hurt the interests of other members." The non-actionable or "green" subsidies are granted on the basis of objective criteria that are "economic in nature and horizontal in application and do not favour certain enterprises over others, are not specific. "Subsidies given by governments to SMEs iden-

tified on the basis of their size or number of employees would be non-actionable. Therefore, we need today not merely small families but also small firms - large in numbers - spread all over the country.

However, this philosophy of 'smallness' has one disadvantage. The individualism, the privacy - rather, the attitude of non-sharing - act as antidotes for their growth. The second, and the most important, the access to resources is either denied or kept at a reasonable distance. The third, the economic philosophy of the nation should get embedded in a deliberate policy towards their promotion. Once this policy is clear, then a law to preserve and promote the smallness makes a lot of sense and quickly we should strive towards it.

OTHER ISSUES UNIQUE TO SMEs FROM THE VIEW POINT OF MULTILATERALISM

Trade reforms in SMEs could be classified in following five areas:

- Access to Markets;
- Access to Technology;
- Access to Finance;
- Access to Skills; and
- Recognition and authorization of SME participation in new rounds

Through a collaborative consultation process within WTO member countries, SMEs can develop a comprehensive agenda for the WTO Round. Some issues that appear ripe for "resolution" are:

- Streamlining unique SME dispute settlement procedures;
- The labour reforms and employment generation did not form part of the agenda in the forum
- Reforming the documentation and filing procedures for patent and trademark protection;
- Opening public procurement to SMEs by structuring major tenders with some smaller components and tailoring award criteria to recognize SME participation;
- Enhancing transparency in international tax, finance, and trade rules;
- Exploring means to internationalize the recognition of technical certification of professionals;
- Provision for special and differential treatment for SMEs on the lines of developing and least devel-

oped nations. (Special and Differential Treatment) in trade in goods and services;

Mr. Mike Moore, Director-General of the WTO once observed: "I believe that small and medium enterprises are key to the success of any economy. I also believe that it is essential to ensure that they have the requisite access to markets, technology, infrastructure and services, as well as to government, in order to prosper."

- Exclusion of the SME products from the operation of certain restrictive trade protection rules i.e., Anti dumping, Anti subsidy, Safeguards, etc. with necessary conditions;
- Global definition of SME units with clear preference to the human skill oriented units;
- Effective anti trust or Competition Policy framework
- Provide preference for official banking facilities for setting up SME projects.

Cross Sector Issues

The wide dimension of SME operations in multiple sectors makes it vital that SMEs be permitted to have an input to those sector-related issues that will be

negotiated in the new WTO Round. SMEs provided invaluable help in some regional negotiations, one being the Electronic Commerce efforts under the Free Trade Area for the Americas (FTAA). In that process, they actively participated in the joint public-private sector working group on Electronic Commerce with findings and recommendations to:

- Encourage SMEs to use the Internet as a market-opening tool;
- Increase the ability of SMEs to use electronic commerce; and
- Increase the participation of SMEs in international trade.

SMEs would no doubt provide a similar level of constructive insight to the country. Papers being presented to the WTO as well as the follow-on negotiations covering trade facilitation, electronic commerce, and market access. The changes in policies that the functioning of the WTO would necessitate in India would affect the small and medium enterprises (SMEs) to a considerable extent. These enterprises would have to face competition from the foreign companies in the domestic market, which would be the highest challenge. At the same time, the SMEs in India would have to look for the spaces that are available in the emerging policy regime to build competition strengths. A brief note on key WTO Agreements relevant to Indian SMEs has been given in **Annexure D** to this article.

Vulnerability and Forces Influencing SMEs

Vulnerability of SME's	Forces Influencing SME's Performance
<ul style="list-style-type: none"> ✍ Low capital base ✍ Difficulties in accessing technology ✍ Credit constraints ✍ Low access to business services ✍ Constraint of quality of human Resources ✍ Low awareness ✍ Low lobbying capacity 	<ul style="list-style-type: none"> ✍ Advancement in generic technology of Computers and telecommunications ✍ Rise in electronic commerce ✍ Globalisation and liberalisation policies including unilateral liberalisation ✍ Multilateral trading rules under agreements of World Trading Organization (WTO) ✍ Bilateral/regional agreements ✍ Mergers and acquisitions ✍ Labour and environmental standards' lobbies ✍ Liberalisation of services/infrastructure ✍ Sourcing out of activities to outside firms ✍ Growth in world demand for a variety of services

ACHIEVING GLOBAL COMPETITIVENESS FOR INDIAN SMEs - ISSUES FOR DEBATE WITH REGARD TO THE POST-WTO SCENARIO

The implementation of the WTO Agreements which will come into full force after 2004 has raised several controversies as the increased pace of global economic integration through cross-border commodity trade will call for the reframing of domestic economic policies in response to international pressures.

- a) The inequities of the trading arrangements that are likely to emerge, which led to the setting up of the WTO. Globalisation is opening up countries but is also marginalising those who cannot survive within the new competitive framework. The pragmatic counter-arguments to this view are that the WTO offers both challenges and opportunities for developing countries to expand trade, access advanced production and communication technologies, participate in the knowledge-based revolution currently underway, and generally restructure their economies towards promoting economic development with a better quality of life for more people.
- b) The survival of the small scale sector which is seen as threatened by the changing economic environment. There is growing concern that unrestricted imports and the removal of QRs will lead to a situation where small industries will be unable to withstand international competition.
- c) The role of the State in the economy and policy interventions in support of SSIs. In the present policy climate, the State's role is ideally seen to be minimal, to correct market-distortions rather than to actively intervene in the economy. This policy shift has led to a call for reducing subsidies and withdrawing all forms of protection to SSI units whether in the form of product reservation, fiscal concessions or other measures.
- d) There is a need for framing policies aimed at promoting the development of SSIs in the changing economic environment and to enable SMEs to reposition themselves for the economic challenges ahead.
- e) Usually seen as competitors, large and small industries can complement each other to mutual benefit, if institutional arrangements are put in place. In a number of sectors, e.g., automobile,

electronic, leather, manufacture of bicycles, toys, etc., there is a demonstrated evidence of mutual cooperation between the large and the small. There are a number of ways: franchising, co-branding, ancillarization, manufacture of intermediary goods, technology sharing and up-gradation etc. There is a need to provide an institutional umbrella for such processes to flourish.

ENHANCING GLOBAL COMPETITIVENESS OF SSIs

Enhancing global competitiveness of SSIs holds the key to their future development so that they can positively contribute for the economic development of our country. Following are some of the **policy initiatives and implementation required** on a time bound manner in this regard:

- a) **Effective policy interventions** at the present time need to begin with the generalized problems facing the industry as a whole: finance, technology and marketing.
- b) **Marketing strategies**, which include pricing policies, branding, and the maintenance of international quality standards for products will be crucial in the new economic environment.
- c) There is also a need for **policies to be designed to deal with sub-sector-specific problems within the SSI sector**. This would constitute a more effective targeted, industry-wise segmented approach, which would be tailored for each sub-sector's requirements. This requires identifying industries exposed to different degrees of risk from international competition based on their competitiveness.
- d) The future outlook will also provide an impetus to **women entrepreneurial activity and the development of entrepreneurial centres targeted specifically for women**.
- e) **Information technology** has given birth to a host of new enterprises in the small industry sector initially. The Competition Policy of the country and the IT policy would also require to be absorbed in the emerging small industry policy and the law that supports it.
- f) It is necessary to look at all **institutional support** from the point of view of the objectives in their respective statutes and see whether we can restructure/re-engineer them to meet the future goals of this sector. In the context of the present

economic changes, the small industries sector should be looked at as a vibrant sector capable of catalyzing industrial growth.

Need for Focus

- Legitimate protection in domestic policy
- Priority of National objective - need to strengthen the SMEs
- Level Planning
 - Time for adjustment
 - Co-existence and linkage with large
 - Pace for adjustment
 - Safeguard against unfair trade and investment composition
 - WTO rules compatibles with S&D measures of special dispensations

ENABLING SMEs FOR THE ECONOMIC DEVELOPMENT OF INDIA UNDER WTO REGIME – SOME MEASURES

Use of quantitative restrictions (QRs)

Under WTO rules use of QR's are discouraged unless as a safeguard measure. Under WTO, QR's can be used as a safeguard measure by developing countries for emergency purposes if they can justify that they are using it to prevent serious injury to their domestic

industries. While targeting injurious imports, use of QR's for emergency purposes may not reduce imports below the average level of last three years unless there is clear justification for a different level of imports to prevent or remedy serious injury. Quota rights can also be allocated if the Committee on Safeguards of WTO accepts that imports from certain Members have increased disproportionately and the measures imposed are equitable to all suppliers of the products.

Raising Tariffs

On tariffs there are two basic rules under GATT. First is that tariffs need to be non-discriminatory as between countries with the exception of MFN rules with countries as members of regional trade agreements and also the need for having tariff preferences for developing countries. Second is that WTO members are encouraged to bind tariffs of products by which a member undertakes a commitment of not imposing tariffs on a product higher than the bound tariff rate. Such tariff bindings not only restricts the possibility of raising tariffs but also gives an indication on "market access" conditions of the country concerned. Tariff bindings are seen as negotiating tools and much of the tariff bindings of developing countries are at ceiling rates. Tariff bindings at ceiling rates have more degrees of freedom than that at applied rate since setting the right bindings for tariffs is a process of trial and error. Applied rates can be changed within the bound rates. The SME's product/product groups can be prioritised based on their performance and capability and a range of tariffs can be applied for those SME's products which are most affected.

Possible Measures and Waivers under WTO

Temporary Measures

- ✎ Renegotiating tariffs
- ✎ Taking anti-dumping measures
- ✎ Imposing countervailing duties
- ✎ Imposing balance of payments restrictions
- ✎ Protecting infant industries
- ✎ Undertaking emergency measures
- ✎ Applying general waivers

Permanent Waivers

- ✎ Measures to safeguard public health, national security etc.

Possible incentives to SMEs that are WTO compatible.

- ✎ provision of subsidies for R & D costs
- ✎ guarantee of loans when extended by the Credit Guarantee Association
- ✎ provision of venture capital funds
- ✎ tax reductions for capital investment
- ✎ credits for machinery leasing
- ✎ loans at low interest rate
- ✎ loans for modernization of equipment,
- ✎ tax breaks for "SME investment angle"
- ✎ tax breaks for SME's to carry forward losses

“Injury Test”

The ‘injury test’ to be determined under GATT articles XIX and VI are both complicated and not that easy to establish, though markets of individual enterprises can be easily wiped out by ‘dumped’ imports and firms can get busted, the options for offsetting injury are not available at the firm level. Technically speaking, for determination of ‘injury’ cases, one or two small enterprises are not of much consequence unless their market share is considerable. Only those firms, whose collective output constitutes a major share of total domestic production of such goods concerned, can initiate some action. The need is to address problems as a majority group rather than as a minority group or as an individual firm. Such majority group also needs to focus on products produced by them. A critical mass of producers are required for making a case for ‘injury’ afflicted to a domestic industry through imports.

CONCLUSION

To conclude, globalization has thrown many challenges to SMEs. One of the greatest conceptual challenges is that on one hand, the individual SMEs would be fiercely competing with each other within the nation and beyond, at the same time they would be forced to collaborate and work together than ever before to safeguard their own mutual interests to survive. The relevance of associations and consortiums, Brand creative consistent market presence with quality and competitiveness technological relevance would increase considerably their survival and growth prospects. Those who would realize their importance would have greater chance to succeed and survive. For only those who take initiative early enough, are able to achieve consistently and attain global competitiveness and success. Our country needs such initiatives to be a global economic power.

Annexure A

The World Trade Organisation (WTO) – A snap shot.

WHAT IS WTO?

An Organisation formed on 1.1.1995 now of 145 Member nations which is the culmination of GATT Negotiations which is Rule based

PREAMBLE: THE MARRAKESH AGREEMENT

“...raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services...”

“...there is need for positive efforts designed to ensure that developing countries and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development.”

CORE PRINCIPLES

- MFN Rules
- National Treatment
- Binding Commitments on Tariffs
- Removal of Quantitative Restrictions and Non-Trade Barriers
- Transparency
- Market Access

BASIC PRINCIPLES

- Non discrimination between countries: the MFN treatment
- Freer trade: gradually through negotiations
- Predictability: through bindings
- Promoting competition

WTO

WHAT THE WTO DOES NOT REQUIRE, APPARENTLY	<ul style="list-style-type: none">● Does not prevent member states from establishing their own trade and non-trade policy objectives.● Does not require them to eliminate all barriers to import of goods and services.● Does not direct national administrative and procedural system.● Does not require member states to have a uniform set of trade regulations.
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IMPLICATIONS OF WTO	<ul style="list-style-type: none">● Every Economic activity will be influenced by agreements emanating from Geneva.● Market access will improve with lowering of tariffs and dismantling of other import restrictions● Lower tariffs will mean higher access to domestic markets for foreign companies.● Set of rules that would ensure non-discrimination in trade in goods and services alike.
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MARKET ACCESS	<ul style="list-style-type: none">● Tariffs only regime● Non tariff border measures replaced by tariffs● Tariffs to be reduced by 36% over six years by developed countries and 24% over ten years by developing countries
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DOMESTIC SUPPORT	<ul style="list-style-type: none">● 20% reduction in AMS for developed countries over 6 years● 13% for developing countries over 10 years
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EXPORT SUBSIDIES	<ul style="list-style-type: none">● Reduction of 36% below 1986-90 base period level over six years - for developed countries● For developing countries - 24% reduction over ten years
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Annexure B

IMPACT OF WTO ON INDIAN SMEs

General

- Removal of all QRs by April 2002 except 59 items where QRs are maintained under Article XX and XXI of GATT (protection of human, arrival or plant life, health, public morals, security reasons etc.):
- All product categories will be hit but food and food products, textile and consumer goods expected to be hit most.
- Though average tariff in developed world is 3.8 %, but they have tariff peaks with frequency for goods of interest to them.
- Textile, clothing, leather goods, marine products, processed foodstuffs, agricultural products still have high tariffs and no promise for reduction seems to be offered.
- Tariff escalation for these products.
- India has its tariff lines bound
 - 67 % of all tariff lines
 - 100 % agricultural
 - 62 % industrial
 - 40% on finished goods, 25% on intermediate goods.

- Effective tariff rates now have come down closure to 30%.
- Under Information Technology agreement (ITA) 0% tariff on 217 Information Technology Products by 2003.

As Producers

- ∨ With import liberalisation measures and tariffication of QR's, SME's will face greater competition from imports.
- ∨ They will also face cuts in conventional subsidies, which are not WTO compatible.
- ∨ Threat of dumping and counteracting low priced imports especially from China will be a real challenge in the future.
- ∨ Knowledge gap of SME's will increase with the digital divide and rapid changes in technology.
- ∨ Quality/standard gap will also be an issue for SME's given many unstandardised and heterogenous products that they produce.
- ∨ Technology gap/faster technological obsolescence will be another issue that SME's are already facing. This implies keeping up with technological change and acquiring technology and 'know-how' at additional overhead costs and also incurring costs in running and maintaining it.
- ∨ Loss of protected environment will be a reality and coping mechanisms will have to be devised so as to avoid 'going bust'.

As Exporters

- SME's in exporting activities need to adapt to technical standards and SPS measures as applicable. Adapting standards will imply additional costs, rise in operational expenditure (e.g. better sanitation standard,- treatment of product/process). Export risk will increase for SME's especially in those products from regions subject to higher standards of SPS measures.
- The SME's are expected to incur High cost as a result of TRIPS Agreement due to royalty payments related to copyrights and related rights, trademarks, industrial designs, patents, layout designs of integrated circuits etc.
- For SME's, many subsidies such as export promotion credit guarantee scheme, duty drawback scheme are being disputed under WTO rules and hence, the future of such subsidies are becoming uncertain.

Annexure C

Influence of WTO Environment on SMEs: At a glance

Sl.	Business function	Trading Environment influenced by
1.	Business idea	- Agreements on Trade Related Aspects of Intellectual Property Rights (TRIPS) under WTO covers Patents, Trade Marks, Copyrights, Industrial Designs, Geographical indications etc.
2.	Access to funds	- General Agreement on Trade in Services (GATS) - Degree of openness of Financial sector in the country* - TRIMS
3.	Access to Technology	- TRIPS - Degree of openness of trade regime* - Credibility of legal and regulatory frameworks*

4.	Access to competitively priced raw materials	<ul style="list-style-type: none"> - Degree of openness of trade regime* - Presence of Regulations that discourage collusive and monopolistic behaviour of large producers (Competition Policy or Anti-Trust Laws)*
5.	Infrastructure (Power, Rail, Road and Ports)	<ul style="list-style-type: none"> - Macroeconomic stability and prudential budgeting* - Level of private participation in infrastructure* - Credibility of legal and regulatory frameworks* - General Agreement on Trade in Services (GATS) - Plurilateral Agreement on Govt. Procurement*
6.	Taxation	<ul style="list-style-type: none"> - Absence or presence of VAT* - Macroeconomic management of economy* - Tax Avoidance of Agreements with member countries - Presence of regulatory body on money laundering
7.	Access to markets / Level of competition	<ul style="list-style-type: none"> - Multilateral Agreements like: GATT, GATS and TRIPS - Regional Trade Agreements - Protective Trade Laws of Anti-dumping, Anti-subsidy, Safeguards, origin rules, etc. - Regional Agreements (SAPTA) - Bilateral Agreements (like with EU, USA, Bangladesh, Sri Lanka, Nepal, Mauritius etc.) - Competition Policy or Anti-Trust Laws* - Public Procurement Systems* - Degree of openness of trade regime*
8.	Degree of Quality/ Innovations	<ul style="list-style-type: none"> - TRIPS - Degree of openness of trade regime* - Consumer redressal & legal framework* - Competition Policy or Anti-Trust Laws*
9.	Competitiveness	<ul style="list-style-type: none"> - Degree of openness of trade regime* - Credit line availability - Marketing informations - Competition Policy or Anti-Trust Laws* - Quality of Infrastructure including power, rail, roads, communication, - Information Technology - Banking* - Competitive Financial sector* - Legal and regulatory frameworks*
10.	Ability to exploit growth opportunities	<ul style="list-style-type: none"> - Insolvency and Bankruptcy laws* - Legal framework* - Attitude of society towards failure* - Entry and Exit Policies - Access to technology at competitive prices - Access and funds at international competitive costs - Smooth labour reforms - Access to market - the option for growth in exports - Peak tariff removals by developed world - Special and differential treatment regime for SMEs

* Areas where Indian system needs improvement to create enabling environment for growth of economy in general and for SMEs in particular.

Key Agreements Relevant to Indian SMEs

Agreement on Anti-Dumping: One of the instruments that the SMEs have to use the provision of anti-dumping. Obtaining remedies under the anti-dumping provisions are, however, not very easy. This is because a detailed investigation on a complaint of dumping has to be gone through before the remedies can be provided, which clearly shows that the enterprises have to be well armed with all the necessary information in order to be successful.

Anti-subsidy Agreement: The use of subsidies is generally discouraged by the WTO. There is, however, one form of subsidy whose use has not been put under many restrictions. Subsidies can be granted for R&D projects in which government support can be 75 per cent of the total project cost. This, in other words, implies that government support for technology upgradation can be availed to a considerable extent allowing subsidies to be granted for activities that promote efficiency in the market. The other form of subsidies not countervailable are infrastructure development, backward area development etc. which could also be effectively used, if compatible.

The Agreement on Trade Related Investment Measures: TRIMs does not allow use of policies aimed at increasing the local content in enterprises. These policies are considered as being affecting the investment decisions, besides affecting the normal flow of trade. By the same argument, policies that seek to balance foreign exchange transactions of enterprises through the imposition of export obligations are considered to be TRIMs inconsistent. The local content regulations had led to the development of a vast range of ancillary units. These units had provided critical linkages in the economy whose utility cannot be underestimated. It is these sectors that face uncertainties in the emerging policy regime in the country.

The Agreement on Sanitary and Phytosanitary Measures: (SPS) seeks to formalise multilaterally accepted standards for animal and plant health. The direct implication of imposing such standards would be felt by the domestic firms engaged in the production of marine products and other agro- processing sector. This sector has been seen as one, which has enormous export potential. Imposition of stringent standards by the WTO could appear an impediment as Indian industry seeks new markets, particularly in the developed world.

Agreement on Trade Related Aspects of Intellectual Property Rights: (TRIPs) sets high standards of protection of intellectual property rights. In the area of patents, the strong system of patents would threaten the existence of large number of SMEs who have been producing drugs and product involving skill and precision that are under patent in other countries, taking advantage of the weak patent law in India. ■

CLARIFICATION ON APPLICABILITY OF AS 11 TO FORWARD EXCHANGE CONTRACTS

The Institute of Chartered Accountants of India (ICAI) recently issued an Announcement on Applicability of Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates, in respect of exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction.

Some persons have expressed a view that the Announcement amounts to withdrawal of AS 11 with regard to forward exchange contracts. It is hereby clarified that AS 11 continues to be applicable to exchange differences in respect of all forward exchange contracts other than those entered into, to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction.