

HOW SME's CAN INFLUENCE IN BILATERAL ECONOMIC AND COMMERCIAL RELATION OF IRAN AND CHINA

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ABSTRACT

Small and medium-sized enterprises (SME's) play an important role in terms of employment and are considered a major pillar of our economy. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. This research has firstly analyzed recent 8 years of the export and import trade between two countries, and indicated that even petroleum and gas trade seems to be remaining as number one in the rank of commodity category, while other business on non-oil exchanges, mainly did by SMEs reaches up to 40% of total trade business between two sides. Considering china is the first trade partner of Iran with more than 40 billion dollar transaction per year then role SMEs will be important in this hence. How to maintain this healthy development trend and how to help government policy makers to understand the opinions from the owners and managers of SMEs who have deeply involved in the real business between Iran and China, so that to make favorable means to promote this important relations, with the help of Iran and China Chamber of Commerce, this research has conducted a questionnaire survey to more than 100 respondents both in Iran and in China, The descriptive-inferential methods were used for data analysis, so that descriptive statistics method was used to classify, purify, and interpret statistical data while inferential method was used for test of hypothesis. Use statistics to reveal the normal business people's understanding of Quality, Cost and Operation Flexibility which have the inference on two countries' economic cooperation between Iran and China. We think that these root information could be regarded as valuable originally opinions that could be listened not only for policy makers or chamber of commerce but also for real business peoples in Iran and China.

Keywords: SMEs, Iran and China, Economic Cooperation, Chamber of Commerce

INTRODUCTION

Referring to an intergovernmental trade and security organization during a meeting of the Shanghai Cooperation Organization (2009), in which China was a member and Iran an observer state, Chinese President Hu Jintao reaffirmed his country's commitment to working with Iran, stating "We are quite confident that friendly and profound economic relations between the two countries should continue forever".¹ As both countries have benefited from the relationship, Iran and China have strengthened their relationship over the last two decades. In spite of UN Security Council sanctions, China and Iran enjoyed an extensive economic relationship, where on the countries see each other as complementary. These two countries worked in various different sectors including energy and construction. Among more than 100 Chinese state companies operating in Iran, Beijing seeks to increase

its presence in the Iranian market. China has emerged as a top economic partner for the Islamic Republic which it worked on investing heavily in the energy sector and filling the gaps left by Western firms showing as international sanctions. The figures show that Iran-China trade value was \$3.5 billion, ten years ago which it has currently reached to \$30 billion in 2010, but, Iran and China have drawn plans to increase the value of bilateral trade exchanges. Iran's ambassador to China, Mehdi Safari, reiterated \$50 billion goal in June 2010 while speaking at Iran's National Pavilion at the 2010 World Expo in Shanghaiⁱⁱ.

Small and medium-sized enterprises (SME's) play an important role in terms of employment and are considered a major pillar of our economy. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. The SME'S sector in the developed industrial economies rather than the multinationals is the largest employer of workersⁱⁱⁱ.

The role of SME's highlighted whenever the strategy of products-oriented period has been replaced by emerging customer-oriented products period. This shift has led the world industry to restructuring and we can see the expansion role of SME's in global economy.

Normally people are easily to think about the Petroleum and gas trade between Iran and China is main part of relations of two countries, and SME's roles for the economic development to both sides are neglected very often. Trade statistics between two countries indicated that even petroleum and gas trade seems to be remaining as number one in the rank of commodity category, while other business main did by SMEs reaches up to 40% of total trade business between two sides

In this article, we have tried to identify how Iranian SME's has influenced and impact on commercial and economic corporation of Iran and China. Regional cooperation for sustainable development among countries with mutual interests is one of important fields to form emerging and effective institutes at global level.

2. LITERATURE REVIEW

For big companies, the SMEs represent the world from which they came and wherefrom their future competition will come. For individuals, SMEs often represent the first job, the first step in the career. They are also a first step to the world of entrepreneurs. For the economy in whole, the SMEs are launchers of new ideas and assemblage of new processes accelerating the increase based on a more effective use of resources (Zaman, Vilceanu 1999).

An important involvement of the external impact of small and medium enterprises is the fact that their contribution in the development is not limited to the sector of SME's of the economy, but more than that, it is extended as impact on the enterprises not in this sector, with significant influences. Based on the study of vast literature, the report of the Observer "Small and Medium Enterprises in Europe 2003" (2003) claims that small and medium enterprises serve as engine of the economic growth. The statistics in almost all the countries show that the SMEs are absolutely predominant in the economy, representing more than 99% of all the companies, having substantial influence on obtaining the gross domestic product and the supply of jobs.^{iv}

Recent advances in technology and changes in government policy make it easier for small firms to internationalize. The telecommunication revolution of the past twenty years has improved the access of small firms to their customers, suppliers and overseas distribution channels. Widespread government assistance programs offer counseling for small firms wishing to export by providing advice on foreign trade laws, international finance, and by helping firms to identify potential customers (Moini, 1998; Nation's Business, 1998). It was estimated that more than 30% of all US exporters are small firms, (Nation's Business, 1998), and that more than 96% of a small firms potential customers are located outside the United States (Nation's Business, 1998). A U.S. General Accounting Office report states the number of exporting small to medium-sized firms doubled over the past 5 years, and estimated that firms with less than 500 employees comprised 97% of total exporters in

1997, contributing more than one third of the total dollar value of VS exports (<http://www.soho.org/Advocacy>). Hence, policy-makers are advocate to succeed in a global world, small firms should go global. But, even with the increased opportunities and encouragement to pursue a policy of globalization, internationalization is difficult. For example, it is still hard for small firms to form partnerships or alliances, and resource scarcity remains a problem (Karagozoglu&Lindell, 1998). Other data from a recent Dun and Bradstreet survey indicated that only six percent of the nation's small firms export, suggesting that even with appealing market opportunities and greater governmental assistance, selling abroad can be time consuming, intimidating and even risky for small firms. Therefore, the major challenge facing small business owners are not to determine if there are international market opportunities, but deciding whether to pursue them.^v

Given that small and medium enterprises (SME's) are responsible for significant levels of employment, innovation and productivity, it is important that policy makers and advisers are well informed about the determinants of SME's growth and, in particular, the various supply- and demand-side issues surrounding the provision of growth funding for this sector (Becchetti and Trovato, 2002). Winborg and Landstrom (2001) argue that financial problems (lack of funds) constrain the development and growth of SME's because many SME's are unable to access the same kinds of growth funding often available to large businesses. For example, Carpenter and Petersen (2002) examined more than 1,600 US small manufacturing firms and found that the growth of these firms appeared to be constrained by a lack of (internal) finance. Similarly, Bruno and Tyebjee (1985) found that ventures that had received external capital achieved statistically significantly higher sales and employment growth (compared to ventures without external capital). With respect to women-owned businesses, Carter and Allen (1997) noted that the availability of financial resources was the major influence on their growth.^{vi}

Position and role of Taiwanese SMEs in development economic process and increase of export is one of the samples for success of SMEs in developing countries^{vii}

Most of Iranian industrial unites are among the SME's, in which 99.4% of Iranian SME's has 1-49 employees and their contribution in total economy is 34%.^{viii}

On the other hand, the number of SME's in China has been reported equal to 43 million enterprises where this number composes approximately 99.6% of the entire Chinese enterprises^{ix}.

2.2 SME's FEATURE

By an investigation done by Shamsuddin ahmed1 and Zahari taha2^x, they have categorized the advantageous and disadvantageous of SME's as following table (table 5-2), on the other hand I have prepared the Barriers ranked by SME's using the top ten ranking method (table 5-4) which explain the common barriers and challenges that SME's faces and we can also point it out among Iranian entrepreneurs .But I want to use these tables as a common explanation of SME's features and extend it to Iranian SME's features by utilizing my first hand data which i have gathered by myself within last 15 years professional career and business activities as case studies. It's clear that features of Iranian SME's has influenced from social life, religious attitudes, environmental factors and economic and political issues.

Table 2-1 some of the major advantages disadvantageous of SME's

Advantage	disadvantageous
Generally dominated by the entrepreneur (owner-manager)	Scarce resources and manpower
Able to respond quickly to customer requests and market changes, Customers focused	Limited degree of information technology (IT) implementation
Flexible and fast-response to change, easily adaptive to new market	Weak at converting research and development into effective

conditions , dynamic in behavior, developing customized solutions for partners and customers	innovation
Concentrated production and sales in their home country	Lacking some of the essential resources for innovation (poor innovative capabilities) Severe resource limitations in R&D
Driven by client demands Quick decision making process (decisions are made by an individual or a small number of people, or a single individual)	Strategy is based on low price, high quality offerings, rather than new product innovations
Strongly correlated and inter-related with respect to Innovation and entrepreneurship High innovatory potential	Not having formal R&D activities
More extensive use of external linkages for Innovate.	Strategy formulation on the basis of what available, lack a long run perspective
Un bureaucratic processes, flat and flexible structures	Reliance on small number of customers, and operating in limited markets. Reactive and firefighting mentality.
Strong inter and intra-firm relationships , managing a great amount of information	Rely on outdated technology, labor intensive and traditional management practices
Good at multi-tasking	Lagging in the export, lack the resources necessary to enter foreign markets
Focused on gaining instant gratification with technology solutions.	Lack of formal competitor analysis, data collection during NPD processes.
Informal and dynamic strategies	Absolute size , fewer technological assets
Capable of going international early and rapidly	
Possessing tight control over production processes due to close management involvement	
Productive	
Knowledge creating	
Capable of fast learning and adapting routines and strategy Great potential to adapt new production methods	
Creating astute alliances, networking	

According to table 2-1 , its mentioned that main features of SME's is their easiness for decision making, respond to client demand and changing market test quickly , moving fast to new position and situation and sensitive to the quality issue due to access to limited numbers of client, good in multi-tasking and responsible against customer ,manage a big no of information ,self-motivated and goal oriented organization, flexible structure and easy going administrative ,Inter related to with respect to innovation ,mostly working in local markets compare to outside but Capable of going international early and rapidly.

There are some common barriers and challenges for SME's are which these barriers are grouped into the following five categories:

- Market barriers, referring to market restrictions such as contracts, price controls, etc;

- Financial barriers, related to various financial obstacles faced by SME's such as a lack of appropriate banking services;
- Barriers resulting from inappropriate government interventions;
- Barriers arising from a lack of information needed by SME'S managers;
- Legal barriers for SME's development^{xi}

Due to these challenges and barriers which explain generally in table 2-1 and nature of SME's, they also have some disadvantageous as limited resource and human capital, less knowledge of IT and low use of such knowledge applicably also due to lack of fund and knowledge they are not able to convert research and R&D to real and practical and workable innovation .they mostly working on low price strategy to keep his market share which mostly lead to fail in business. Lack of long life prospective will limit their strategic views, less access to new technology and market data will make them weak in competition and easy entering to new market both inside and out of country. These disadvantageous also can consider as common features of SME's as well.

Table 2-2 Barriers ranked by SME's using the top ten ranking method^{xii}

Rank – Weighted facto	Description of barrier
1	Shortage of working capital to finance exports
2	Identifying foreign business opportunities
3	Limited information to locate/analyses markets
4	Inability to contact potential overseas customers
5	Obtaining reliable foreign representation
6	Lack of managerial time to deal with internationalization
7	Inadequate quantity of and/or untrained personnel for internationalization
8	Difficulty in matching competitors' prices
9	Lack of home government assistance/incentives
10	Excessive transportation costs

Study on SME's behavior and function in Iran from a business point of view will help us to have better understanding of its feature and characteristics.

2.3 Iran-china trade relation

The figures shows that Iran-China trade value was \$3.5 billion more than 13 years ago and has currently reached \$50 billion in 2014 and \$ 35 billion dollar in 2015^{xiii} , but Iran and China has drawn plans to increase the value of bilateral trade exchanges to higher figure. In an interview with ISNA, Majid raze Hariri, vice president of ICCCI said lower prices of oil, natural gas condensates, gas, iron ore, and other minerals are among the main reasons in the decline of economic exchanges between the two countries in last two years but considered plummeting oil prices to be the most effective^{xiv}.

Table2-3 total trade statistics between Iran and china
Unit: in million dollars

Year	2007	2008	2009	2010	2011	2012	2013	2014
Export	13307	195871	13230	18250	30333	24918	25600	27500
Import	7284	8046	7918	11098	14762	11606	9684	24340
Total trade	20591	27663	21148	29348	45095	36524	35284	51840
Trade balance	6023	11541	5312	7152	15571	13312	15916	3160

Table 2-4 trade statistics between Iran and china (non-oil trade)
Unit: in million dollars

Year	2007	2008	2009	2010	2011	2012	2013	2014
Export	1103	1886	2711	4445	5295	5464	6777	9176
Import	3855	5120	4277	5685	6992	8144	8585	12557
Total non-oil trade	4958	6006	6988	10130	12287	13608	15362	21733
Trade balance	1969	3234	1566	1240	1697	2680	1808	3381

Table 2-5 comparative trade statistics between Iran and china
Unit: in million dollars

Year	2007	2008	2009	2010	2011	2012	2013	2014
Total trade	20591	27663	21148	29348	45095	36524	35284	51840
Total non-oil trade	4958	6006	6988	10130	12287	13608	15362	21733
Non-oil trade	24%	22%	33%	35%	27%	37%	43%	42%
Oil and gas	76%	78%	67%	65%	73%	63%	57%	58%

Normally people are easily to think about the Petroleum and gas trade between Iran and China is main part of relations of two countries, and SME's roles for the economic development to both sides are neglected very often. But as we could find out from the tables 1, 2, 3 that even petroleum and gas trade seems to be remaining as number one in the rank of commodity category, while other business mainly did by SMEs reaches up to 40% of total trade business between two sides

3 PROBLEM STATEMENTS AND MOTIVATION

3.1 problem statement

We are looking to answer this question how SME's can influence on commercial and economic corporation between Iran and China?

Industries could be divided to different types due to number of employees. Very small, small, medium, and large are considered as most famous division to analyze industries based on size; while these sizes are defined differently in several countries due to economic and industrial condition. Development of small and medium industries is economic development code of the next decade. Studies showed that small and medium enterprises are influential on global economy through 4 channels of entrepreneurship, innovation and change of technology, industry dynamics, and creating job opportunities and increasing income. Further, severity of global competition, increase of uncertainty and increasing demand for various products caused more interest toward these industries. Though large industries are still attractive for economic policy makers due to benefits caused by effects of large scale, production range, the experience and work of the organization, but benefits of small and medium industries had converted them to first choice for most of products due to effects of transportation, market size, regulation, choice effectiveness, and control so that 70% of total worldwide production is performed at small and medium enterprises. Also one of the important conditions for sustainable success in modern economy is development of these industries. Eternal position of small and medium enterprises in process of economic development and increase of export is an interesting example of these industries among developing countries.

One of the reasons for strategists of export development being interested in establishment and development of small and medium enterprises is their deniable role in competitiveness increase; this is confirmed by theoretical and practical evidence both. Today, subject of

increase in productivity is the most important factor to increase competitive benefit, and export-oriented countries are seeking to gain more share of global market. When industrial cluster matures, then production scale increases and each business becomes a small unit of large production network. This is a suitable idea to increase competitive power of small and medium enterprises. Textile and clothing industries of china are good examples of combination of businesses in small and medium scale achieving high share of added value and global trade due to increase of productivity and price reduction. It is notable that small and medium industries passed their maturity to enter growth level, so now they are capable of distributing their products to global markets with high competitiveness.

Therefore, establishment and support of small and medium enterprises is one of the main priorities in programs of commercial and economic corporation development in most developed and still developing countries. Small and medium industries have an important role in employment and providing proper infrastructure for innovation and increase of export. These industries enjoy more flexibility to be more creative. Small and medium businesses can adopt themselves easier with rapid environmental changes and react quicker to political and economic factors; they also are recruitment and employment factor for a great population of countries and training of skilled labor. In the recent decades, rapid and complex changes and also process of globalization caused different societies to prepare themselves for acceptance of global changes. What was considered as an economic advantage till last decades included establishment and activation of large industries and it was argued that the larger industries are, the more dynamic and powerful economy is; though this thinking thrived through several decades leading to emergence of huge industries, but recent changes and in particular push of population, momentary innovations, and more complex decision making and managerial processes clarify the need to immediate and necessary decisions and also experiences obtained by small and medium industries.

Therefore, most countries and regional states are changing speedily regarding competitiveness in global markets. most of these regions were previously manufacturing centers failed to continue their activities, and now are reshaping business toward manufacturing products with more added value and knowledge-oriented activities. Currently, development and evolution of small and medium enterprises (SME's), policies of science and technology, and also industrial policies focus on how SME's can influence on economic and Commercial Corporation. So this question arises that what how SME's can influence on commercial and economic corporation between Iran and China?

3.2 research motivation

Globalization through recent decades had increased commercial and economic corporation among countries significantly; simultaneously it provides many opportunities for small and medium enterprises. In this regard, government policies at macro level were organized to improve tolls and mechanisms for development of small and medium entities. Importance of development in developing countries forced many countries to consider small and medium enterprises as a regional development strategy through formation and strengthening of industrial zones. These industries are considered as a proper pattern for industrial development through division of specialized work, corporation between industries, interactive learning and other affairs necessary for industries becoming more competitive.

Most of people suppose that the Petroleum trade between Iran and China is main part of commercial relations of two countries, and importance of SME's in strengthening of business relation between two sides always neglected. With analyzing recent 8 years of the export and import trade statistics between two countries, it has indicated that even petroleum trade seems to be remaining as number one in the rank of commodity category, while other business mainly did by SME's reaches up to 40% of total trade business between two sides.

For understanding on How to maintain this healthy development trend and how to help government policy makers to understand the opinions of SME's who have deeply involved in the real business between Iran and China, so that to make favorable means to promote this

important relations, this research, with the help of Iran and China Chamber of Commerce, has conducted a questionnaire survey to more than 100 respondents both in Iran and in China, use statistics to reveal the normal business people’s understanding of Quality, Cost and Operation Flexibility which have the inference on two countries’ economic cooperation. We think that these root information could be regarded as valuable originally opinions that could be listened not only for policy makers or chamber of commerce but also for real business peoples in Iran and China.

4. RESEARCH METHODOLOGY

This is an applied research and of type descriptive-correlation; the obtained results are used in decision makings, policies, and also planning. Tools of data gathering include questionnaire, library method, taking notes from books, articles, thesis, evidence and documents available at universities. Thus, first hypotheses were formed; then, they were analyzed using SPSS software. The population of this research includes 100 managers of small and medium enterprises and also members of Iran-china chamber of commerce selected by targeted sampling. The validity and content of questionnaire was confirmed by experts, consultants, and university teachers; also its reliability was calculated with Cronbach alpha method (> 0.7).

4.1 Research hypotheses

- It seems that reduction in costs of SME’s production cost is influential on commercial and economic corporation of Iran and china.
- It seems that increase in quality of SME’s products is influential on commercial and economic corporation of Iran and china.
- It seems that increase in flexibility of SME’s is influential on commercial and economic corporation of Iran and china.

4.2 Research findings

4.2.1. Demographic features

Before data analysis, demographic information is mentioned in the table below:

Table 4-1 demographic features of sample group

	Levels	Frequency (%)
Gender	Male	90
	Female	10
Marital status	Single	14
	Married	86

4.2.2 Data analysis

4.2.1. Normality test

Kolmogorov- Smirnov test is used to investigate normality of distribution of main variables. At single sample mood, this test compares observed cumulative distribution function with expected cumulative distribution function for one variable of interval measurement.

If value of observed error is more than 0.05, then observed distribution and theoretical distribution are equal without any difference, i.e. the obtained distribution is normal; but if meaningfulness is lower than 0.05, then observed distribution would be different from expected one.

Table4-2 results of normality test

Variable	Reduction of costs	Increase in quality products	Increase of flexibility	Economic-commercial corporation
Z	1.040	0.435	0.652	0.842
Meaningful level	0.311	0.253	0.229	0.305

In the table above, meaningful level is more than 0.05 showing normal distribution of variables.

4.2.2. Test of hypotheses

Hypothesis 1: it seems that reduction in SME's production cost is influential on commercial and economic corporation of Iran and china.

H0: there is no relation between reduction of production costs and commercial-economic corporation in SME's.

H1: there is a relation between reduction of production costs and commercial-economic corporation in SME's.

Table-6 correlation test between reduction of costs and commercial-economic corporation in SME's

Variables	Independent	Reduction of costs of SMEs
	Dependent	Economic- commercial corporation
Test		Pierson
Rate		0.36%
Meaningful level		0.000
Quantity		50

Results of the test showed that there is a meaningful relation between above variables (meaningful level lower than 0.05). Therefore, H0 is rejected and hypothesis of researcher is accepted. Also severity of relation is equal to 0.36.

Hypothesis 2: it seems that increase in quality of SME's products is influential on commercial and economic corporation of Iran and china.

H0: there is no relation between increase in quality of SME's products and economic-commercial Corporation of Iran and china.

H1: there is a relation between increase in quality of SME's products and economic-commercial Corporation of Iran and china.

Table4-3 correlation test between increase in quality of SME's products and commercial-economic corporation of Iran and china

Variables	Independent	Increase in quality of products
	Dependent	Economic- commercial corporation
Test		Pierson
Rate		0.39%
Meaningful level		0.000
Quantity		50

Results of the test showed that there is a meaningful relation between above variables (meaningful level lower than 0.05). Therefore, H0 is rejected and hypothesis of researcher is accepted. Also severity of relation is equal to 0.39.

Hypothesis 3: it seems that increase in flexibility of SME's products is influential on commercial and economic corporation of Iran and china.

H0: there is no relation between increase in flexibility of SME's and economic-commercial Corporation of Iran and china.

H1: there is a relation between increase in flexibility of SME's and economic-commercial Corporation of Iran and china.

Table4-4 correlation test between increase in flexibility of SME's products and commercial-economic corporation

Variables	Independent	Increase in flexibility
	Dependent	Economic- commercial corporation
Test		Pierson
Rate		0.31%
Meaningful level		0.000
Quantity		50

Results of the test showed that there is a meaningful relation between above variables (meaningful level lower than 0.05). Therefore, H0 is rejected and hypothesis of researcher is accepted. Also severity of relation is equal to 0.31.

4.2.3. Regression analysis

Now a question arises that to what extent sum of our independent variables can explain variance of dependent variable, i.e. economic and Commercial Corporation? To do this we use regression method. Table (9) shows that variables could totally explain 0.40% of dependent variable's overall variance.

Table4-5 R² of variables

Regression	Correlation	Definition coefficient	Net definition coefficient
Enter	0.34	0.40	0.40

Table4-6 ANOVA table

Age	Sum of squares	Degree of freedom	Mean of squares	F	Sig
Regression	42.525	1	14.175	2.965	0.000
Remainder	219.895	48	4.780	-	-
Total	262.420	49	-	-	-

Table4-7 regression impact factors

Variables	B	SD	Beta	t	Sig
(fixed)	11.768	2.348		5.020	0.000
decrease in costs of SME's	0.139	0.112	0.175	1.245	0.000
Increase in quality of SME's products	0.220	0.106	0.289	2.072	0.000
Increase in flexibility of SME's	0.120	0.125	0.130	0.957	0.000

To determine multivariate impact of independent variables on economic-commercial Corporation, we used simple linear regression analysis. Results showed that independent variables totally explain 0.40% of variance for economic and Commercial Corporation of Iran and china. Results also showed that increase in quality of products of SME's has the most influence on economic and commercial corporation with Beta coefficient 0.289; next, decrease in production costs and increase in flexibility of SME's are influential with Beta coefficients 0.272 and 0.130, respectively.

5. DISCUSSION

5-1 Chinese Sme's Features

If we consider the ratio of function/price for any products and services which produce and supplied by SME's and increment of this ratio will be lead to increment of economic and commercial cooperation between two sides, then we will explain how this ration works in china which led to more economic and commercial ties with other nations specially with Iran.

Function affected by environmental factors in production and in china and for price, Over the past 10 years, many Chinese factories and industries have widely reduced their prices. The Chinese use the strategy of Price war to reduce the marginal costs and avoid from increase of costs. Price War is provided against the increasing trend of marginal cost in exporting goods into foreign countries. Today, in China, this strategy as an applied strategy has been drawn into attention where on this strategy has been institutionalized

totally in this country, so that if Chinese enterprises know their sales objectives and ensuring their interests in beginning or continuing the Prices War, so they would consider it in all their projects. In China, the early prices war and decrease of marginal cost start from the domestic markets, where they develop as the marketing strategy through the SME's in international level. Generally, the number of SME's in China has been reported equal to 43 million enterprises where this number composes approximately 99.6% of the entire Chinese enterprises^[xvi].

Price war strategy is one of the main strategies that applied by China to enable its SME's to enter to the market of other countries. Chinese SME's applied price war strategy in order to reduce final price and avoid its enhancement and enabling to enter the other market.

According to study of Pitter Navarra about China's price economy, 8 main factors can lead to reduction of final price of Chinese products and their competitiveness in global market. The factors include low payments of workforce (39%); foreign direct investment as a catalyst (3.09%); exportable subsidies, which would be paid mainly in form of production subsidies (16.71%); cluster production of industrial network (16%); low value of national currency (11.44%); industrial espionage (9%); safety and health of staff (2.44%); and regulations for neglecting natural environment (2.25%).^[xvii]

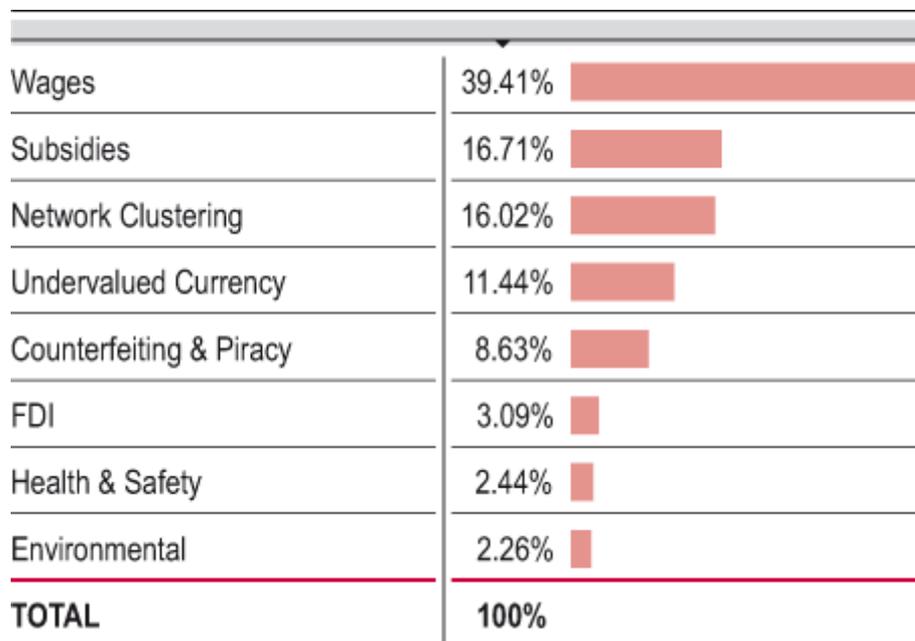


Figure 5-1 relative contributions of eight China price drives

Now a day it seems that China is not in the same position as before that its enterprises could apply price war strategy to open new markets for themselves. If we see the 8 element of China price drivers we can recognized that Finished cost is high compare to last year's .exportable subsidies that we call them tax refund has decreased to lower rate and even for some exportable items that make less value added or applying low technology has been omitted. Wage and salary has increase a lot and every employee is in the support of social insurance which make salary high. Safety is the main concern in factories and it imposes a big cost to business owner which will influence the finished cost. National currency has evaluated and export is more expensive than before. Environment protection is a big issue and everybody show obey the related rules and regulations and pay a big cost which makes expensive production cost.

It means that Chinese SME's has a big challenges with cost issues and for expansion of their relations with other parties in Iran should do their best to reduced their finished cost by reasonable way without affecting the quality and reputation of Chinese products in Iran market.

5-2 Iranian SMEs Features

According to my own experiences and involvement with SME's issues both in Iran and China side , in last 15 years job career , I have provide the list of some of my business cases in different field that I had involved directly and indirectly in table 2-3.

As you may see there was different subject such as sourcing, tourism cooperation, business negotiation and consulting, assisting for preparation and executing of contract, Inspection Services, settlement of disputes, investment as arbitrator or mediator, Holding Business event such as exhibition and seminars and matchmaking.

My understanding of Iranian SME's features is coming as following point:

- 1- They are more optimistic to the foreign business partners and mostly are easy going.
- 2- They are looking for reliable partners through investigation by themselves and doesn't much rely to the third party report and analyses.
- 3- Lack of finance and lack of accessibility to banks and easy money has pushed them to expand their investment less and keep their current situation well.
- 4- Most of old business owner generation Due to religious and cultural attitudes and traditional education, are more responsible to their wording and commitments.
- 5- Lack of enthusiasm of firms to develop their initial relationship with overseas companies in order to go a step over direct or indirect export.
- 6- Because of political risks (sanctions against Iran and its affect even after removing), banking and finance support of government, fluctuation of exchange rate, lack of government intensity and time spending with government bureaucracy ,long term planning is so difficult and the entrepreneurs mostly doing their business in short and medium term programming.
- 7- Lack of access to market analysis and new business opportunities.
- 8- They are quick decision makers and respond fast to client's requirement limited to their capacities.
- 9- Trust is a basic fundament for establishing business with partner and if it is affected in any reason the business will be affected too.

Table 5-1 Break down of case studies by industry

subjects	No. of cases	cases	
		Import from China	Import from Iran
Sourcing	<60	Mercury, normal hexane, tractor and combine, iPhone, catalyst for chemical plant, photo frame machinery, refractory bricks, Phallic Acid ,Hexane 1,Normal Hexane 95 %, King flex rubber foam insulation sheet, door lock ,Drawer lock, door handles, Iso phallic Acid, paper A4,douplex board, easy open end, solar plant 1MV, wire steel rope and chain, CRA pipe for POGC, seamless tube,.....	Iron ore, chrome ore ,petrochemical product, decorative stones and marble, carpet ,pistachio, saffron, handicraft ,iron and steel ingot ,etc.
Tourism cooperation	<20	Providing the tourism package ,hosting the business and tourism delegations,	
business negotiation and	<15	For procurement of some items , production plants or getting agency from other parties	

consulting		
assisting for preparation and executing of contract	<8	Both sides know each other's but need some expert and professional to arrange the contract and execute and supervise them.
Inspection	<5	Surveillance of cargo ,pre shipment inspection ,inspection of production line, sampling ,etc.
Services	<15	Money transfer and exchange ,company registration, legalization of documents, rent of office and residence , logistics and transportation
settlement of disputes, investment	<40	Cheating case, arbitration and mediation ,
Holding Business event	<10	Organizing seminars and symposiums, business promotion activities ,promotion of trade exhibitions ,etc.

On the other hand, according to my interview with some authorities of Iran and china chamber of commerce and some experts in this field, quality of supplied products from both side was very important factors in strengthening cooperation between Iran and china. Brand management was sometimes neglected item for maintaining and long lasting relations between two sides and whenever this subject which granted the continues supply of quality products come to stage , it has been lead to increase rapidly the cooperation between SME's and consequently lead to increase of economic and commercial relation between two nations. Even most of the time there are a lot of arguments and criticize on quality issue for exchanged items between two countries.

SME's encountering properly with the difficulties and obstacles' raised from western countries and American and UN economy sanctions within last decade clearly showed and emphasized that whenever SME's was flexible and recognized and identified the problems especially in banking restrictions, shipping, documentation and international business formalities and operation and find out proper solutions by understanding each other sides and even creative thinking and applying new business models and innovative ways and systems was very effective and influential in extending and increasing business and economical relation between two nation.

Iranian SME's are relatively unprepared to compete in the global market. This relative underdevelopment can be described to a wide range of macro- and micro-economic and socio cultural conditions. Among these, two sets of interrelated factors are particularly important. The first is the traditional priority given to large-scale projects and enterprises, and the resulting neglect of SME's. The second is the academic community's disinterest in SME'S-specific issues. These two factors are in fact interrelated, since most SME'S studies in other countries are encouraged and financed by government, and in turn government policies toward SME's are informed by these studies. This policy and research interdependence makes a learning loop from which a logically incremental approach to SME'S policy evaluation and improvement will emerge. This learning loop has been absent In Iran in the past, or at least has not been functioning very well^{xvii}.

6. CONCLUSIONS

During two last decades, there are many studies conducted about role of small and medium industries to improve competitiveness of countries and their economic growth, and also to enhance development methods of this field. According to results of the current research, it can be said that SME's increase high competitiveness in economic and commercial corporations due to decrease in production costs, and increase of production quality and enterprise flexibility. It has also such a meaning that role of SME's in economical and cooperation between Iran and china was expanding the relation through decreasing the cost

of economic cooperation, increment of quality of products and flexibility of enterprises to encounter properly with any challenges.

Within last few years which Iran has faced with a comprehensive economic sanction imposed by some western countries and USA, SME's could played significant role in maintaining the economic and commercial cooperation between Iran and china by decreasing the trade cost, increasing the products quality and flexibility for encountering properly with any political and economic challenges.

We can also pointed out that policy makers both in government and private sectors and commercial organization and trade departments in both countries should consider these three aspects of SME's features which could lead to increase of bilateral relation of two nations. For example more attention in quality control through standard organizations and inspection companies especially in the customs, supporting the enterprises by different incentives such as tax holidays, paying direct or indirect subsidies, assistant in international marketing and easiness of labor law which keep the finish cost low, also by equipping the SME's through training and feeding the high quality labor force enable them to be more creative innovative and flexible to be knowledgeable and knowledge base entities.

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