



## Globalization will kill small scale industries in India

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### ABSTRACT

Small-scale industries occupy a place of strategic importance in Indian economy in view of its considerable contribution to employment, production and exports. However, since 1991, small-scale industries in India find themselves in an intensely competitive environment due to globalization, domestic economic liberalization and dilution of sector specific protective measures. Therefore, the present study analyzes the impact of globalization on Indian Small Scale Industries. The main theme of the paper is to evaluate the performance in terms of units, employment, output and exports of SSI, before and after liberalization and to know the impact of Globalization on the performance of SSI. The period of the study is 1973-2010 and based on secondary information.

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### Introduction

Globalization is the metamorphosis of the individual nations into an integrated entity by means of their interconnection on an economic, social and cultural level, fuelled by easy transport and communication among them. It is the modern renaissance that makes ideas, goods, services, trade, technology and culture permeate into the entire geography of the world thus turning it into a global village. While globalization is a large scale phenomenon, small scale enterprises are a local phenomenon but having effects of dimensions as large as it's global 'friend and foe'. Friend- because both globalization and small scale industries are the two wheels of the vehicle of economic growth and prosperity; foe- because some argue that given the developing nation that India is, Small Scale Industries(SSIs) can suffer and strangle to death by the fierce competition put up by globalization.

In order to impart more vitality and growth to small scale sector, a separate policy statement has been announced for small, tiny and village enterprises on 6<sup>th</sup> August, 1991. This policy statement was a leap-forward because it was the first time that Government had issued a separate policy statement for the small and decentralized sector. This policy statement proposed some path- breaking measures to mitigate the handicaps that were faced up by small enterprises in respect. Government of India introduced a large number of innovative promotional measures to uplift the growth of small scale sector.

#### Major features of the Small Industrial policy of 1991:

- Emphasis to shift from cheap credit to adequate credit.
- Equity participation by other undertakings (both domestic and foreign) up to 24 percent.
- Introducing of factoring services by banks.
- Marketing of mass consumption goods under common brand name.

- Setting up of sub- contracting exchanges.
- Establishment of technology development cell.
- Opening of quality counseling and technology information centers.
- New technology up gradation.

#### Globalization:

For the purpose of the argument in this paper, as well as understanding some of the responses to globalization, it is important to define what is mean by globalization. Globalization is the process of integrating various economies of the world without creating any hindrances in the free flow of goods and services, technology, capital and even labour or human capital. The term globalization has, therefore, four parameters:

- i.Reduction of trade barriers to permit free flow of goods and services among nation-states;
- ii.Creation of environment in which free flow of capital can take place among nation-stated;
- iii.Creation of environment, permitting free flow of technology; and
- iv.Foundation of environment in which free movement of labour can take place in different countries of the world.

#### Small scale industries in India:

With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small-scale industries and medium scale industries in the Indian economy. Due protection was accorded to both sectors, and particularly for small scale industries from 1951 to 1991, till the nation adopted a policy of liberalization and globalization.

SMEs always represented the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for import of capital goods and input

labour intensive mode of production; employment generation; non concentration of diffusion of economic power in the hands of few (as in the case of big houses); discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations. SMEs developed in a manner, which made it possible for them to achieve the following objectives:

- ❖ High contribution to domestic production
- ❖ Significant export earnings
- ❖ Low investment requirements
- ❖ Operational flexibility
- ❖ Location wise mobility
- ❖ Low intensive imports
- ❖ Capacities to develop appropriate indigenous technology
- ❖ Import substitution
- ❖ Contribution towards defense production
- ❖ Technology – oriented industries

**SMEs have been established in almost All-major sectors in the Indian industry such as:**

- ❖ Food Processing
- ❖ Agricultural Inputs
- ❖ Chemicals & Pharmaceuticals
- ❖ Engineering; Electricals; Electronics
- ❖ Electro-medical equipment
- ❖ Textiles and Garments
- ❖ Leather and leather goods
- ❖ Meat products
- ❖ Bio-engineering
- ❖ Sports goods
- ❖ Plastics products
- ❖ Computer Software, etc.

#### **ROLE OF SMALL SCALE INDUSTRIES**

- ❖ Employment Generation
- ❖ Mobilization of resources and entrepreneurial skill
- ❖ Equitable distribution of income
- ❖ Regional dispersal of industries
- ❖ Provides opportunities for development of technology
- ❖ Indigenization

#### **Objectives of the study:**

- ❖ To find out SSIs contribution to the economy in India.
- ❖ To find out the strengths, weaknesses, threats and opportunities of Indian Small Scale Industries.
- ❖ To know the impact of globalization after liberalization of small scale industries in India.

#### **Review Of Literature**

Various studies have been conducted from time to time in different states of India on different aspects of small-scale industries. A review of imported studies which related to small scale industries and globalization are presented below:

i) Mali (1998) in his study has observed that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development,

technological up gradation. Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighboring countries.

ii) Agarwal (1999) mentioned that the entrepreneurs of small scale industries are generally lacking in knowledge of various aspects as how to set up an industry. Owing to the predominance of agricultural background of the region, the infrastructure for industrial development has not developed properly.

iii) Sudan, F. K. (2005) described the challenges in Micro and Small Scale Enterprises Development and policy issues by arising different questions related to Micro and Small Enterprises. The study explained the meaning, advantages, problems and policy options of MSE sector. The study concluded that all the policies which were opted by GOI were the efforts to form a dynamic MSE sector and a diversified economy providing expanded employment opportunities to absorb all new labour force and offer exciting career opportunities.

iv) Rathod, C. B. (2007) The study analyzed that SSI sector in India has been exhibiting a striking export performance; export had grown up to double digit from the last ten years. The study concluded that both opportunities and challenges were raised as the impact of globalization on Indian Industry as a whole and the small scale sector in particular.

#### **Flow of credit to msme sector:**

The Government of India have been extending liberal financial support to MSMEs through banks and financial institutions. The credit flow to MSMEs is regularly monitored by State Level Bankers' Committee (SLBC) Meeting at the State level. At the District level the same is monitored by the District Level Bankers' Committee Meeting with District Collector as its Chairman. The flow of credit for the MSMEs during the XI Plan period is given below:-

#### **Institutional Support For Small Scale Industries**

- ❖ Small Industries Development Organization (SIDO)
- ❖ National Small Industries Corporation (NSIC)
- ❖ National Institute of Small Industry Extension Training (NISJET)
- ❖ National Institute for Entrepreneurship & Small Business Development (NIESBUD)
- ❖ National Research Development Corporation (NRDC)
- ❖ Small Industrial Bank of India (SIDBI)

#### **Conclusion:**

In this study, an attempt has been made to analyze the impact of globalization on the growth of small scale industries. The comparative analysis of growth pattern of key parameters between Pre- and Post - Globalization periods reveals that the "globalization" had a negative impact on the growth of small scale sector measured in terms of number of units, production, employment and exports. A fall in the rate of growth of number of units and employment generation in post liberalization period is a matter of serious concern for the policy- makers and planners. The result showed that globalization is almost a complete failure on growth front. To conclude, we can say that the recent trend of growth of SSI sector showed the trust of Indian economy on globalization and liberalization, which has failed to render a positive impact on the growth of Indian Small Scale Sector.

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Table No -1

(Units = Million Nos.)

PRE- GLOBALIZATION			POST- GLOBALIZATION		
Year	Units	% Increased to Previous year	Year	Units	% Increased to Previous Year
1973-74	0.42	-	1991-92	7.06	3.98
1974-75	0.50	19.05	1992-93	7.35	4.11
1975-76	0.55	10.00	1993-94	7.65	4.08
1976-77	0.59	7.27	1994-95	7.96	4.05
1977-78	0.67	13.56	1995-96	8.28	4.02
1978-79	0.73	8.96	1996-97	8.62	4.11
1979-80	0.81	10.96	1997-98	8.97	4.06
1980-81	0.87	7.41	1998-99	9.34	4.12
1981-82	0.96	10.34	1999-00	9.72	4.07
1982-83	1.06	10.42	2000-01	10.11	4.01
1983-84	1.16	9.43	2001-02	10.52	4.06
1984-85	1.24	6.90	2002-03	10.95	4.09
1985-86	1.35	8.87	2003-04	11.40	4.11
1986-87	1.46	8.15	2004-05	11.86	4.04
1987-88	1.58	8.22	2005-06	12.34	4.05
1988-89	1.71	8.23	2006-07	12.84	4.05
1989-90	1.82	6.43	2007-08	27.27	12.3
1990-91	6.79	23.08	2008-09	28.15	3.22
Source: Ministry of Micro, Small and Medium Enterprises			2009-10	30.25	7.46

**New norms for defining small scale sector:**

Nature of Units	Investment in plant and machinery / Equipment (Excluding land and Building)	
	Manufacturing Enterprises	Services Enterprises
Micro	Up to Rs. 25 lakh	Up to Rs. 10 lakh
Small	More than Rs. 25 lakh and up to Rs. 5 crore	More than Rs. 10 lakh and up to Rs. 2 crore
Medium	More than Rs 5 Crores & upto Rs.10 Crores.	More than Rs. 2 crore and up to Rs. 5 crore

**Production:****Table No-2****(Production= Crores)**

PRE- GLOBALIZATION			POST- GLOBALIZATION		
Year	Production (current Prices)	% Increased to previous year	Year	Production (Current Prices)	% Increased to Previous year
1973-74	7200	-	1991-92	80615	2.30
1974-75	9200	27.78	1992-93	84413	4.71
1975-76	11000	19.57	1993-94	98796	17.04
1976-77	12400	12.73	1994-95	122154	23.64
1977-78	14300	15.32	1995-96	147712	20.92
1978-79	15800	10.49	1996-97	167805	13.60
1979-80	21600	36.71	1997-98	187217	11.57
1980-81	28100	30.09	1998-99	210454	12.41
1981-82	32600	16.01	1999-00	233760	11.07
1982-83	35000	7.36	2000-01	261297	11.78
1983-84	41600	18.86	2001-02	282270	8.03
1984-85	50500	21.39	2002-03	314850	11.54
1985-86	61200	21.19	2003-04	364547	15.78
1986-87	72300	18.14	2004-05	429796	17.90
1987-88	87300	20.75	2005-06	497842	15.83
1988-89	106400	21.88	2006-07	585112	17.53
1989-90	132300	24.34	2007-08	790759	35.14
1990-91	78802	-40.44	2008-09	880805	11.38
<b>Source: Ministry of Micro, Small and Medium Enterprises,</b>			2009-10	904637	2.70

**Employment:****Table No-3****(Employment= Million Nos.)**

PRE- GLOBALIZATION			POST- GLOBALIZATION		
Year	Employment Opportunities	% Increased to Previous year	Year	Employment opportunities	% Increased to previous Year
1973-74	<b>3.97</b>	-	1991-92	16.60	<b>4.86</b>
1974-75	4.04	1.76	1992-93	17.48	5.30
1975-76	4.59	13.61	1993-94	18.26	4.46
1976-77	4.98	8.50	1994-95	19.14	4.82
1977-78	5.40	8.43	1995-96	19.79	3.40
1978-79	6.38	18.15	1996-97	20.59	4.04
1979-80	6.70	5.02	1997-98	21.32	3.55
1980-81	7.10	5.97	1998-99	22.06	3.47
1981-82	7.50	5.63	1999-00	22.91	3.85
1982-83	7.90	5.33	2000-01	<b>24.09</b>	<b>5.15</b>
1983-84	<b>8.42</b>	<b>6.58</b>	2001-02	25.23	<b>4.73</b>
1984-85	9.00	6.89	2002-03	26.37	4.52
1985-86	9.60	6.67	2003-04	27.53	4.40
1986-87	10.14	5.63	2004-05	28.76	4.47
1987-88	10.70	5.52	2005-06	29.99	4.28
1988-89	11.30	5.61	2006-07	31.25	4.20
1989-90	11.96	5.61	2007-08	47.34	5.12
1990-91	<b>15.83</b>	<b>32.36</b>	2008-09	49.35	<b>4.24</b>
<b>Source: Ministry of Micro, Small and Medium Enterprises,</b>			2009-10	50.25	<b>1.82</b>

**EXPORTS:****Table NO-4**

(Exports= Million Nos.)

PRE- GLOBALIZATION			POST- GLOBALIZATION		
Year	Exports	% increased to Previous year	Year	Exports	% Increased to Previous year
1973-74	400	-	1991-92	13883	43.66
1974-75	500	25.00	1992-93	17784	28.10
1975-76	500	0	1993-94	25307	42.30
1976-77	800	60.00	1994-95	29068	14.86
1977-78	800	0	1995-96	36470	25.46
1978-79	1100	37.50	1996-97	39248	7.62
1979-80	1200	9.09	1997-98	44442	13.23
1980-81	1600	33.33	1998-99	48979	10.21
1981-82	2100	31.25	1999-00	54200	10.66
1982-83	2000	-4.76	2000-01	69797	28.78
1983-84	2200	10.00	2001-02	71244	2.07
1984-85	2500	13.64	2002-03	86013	20.73
1985-86	2800	12.00	2003-04	97644	13.52
1986-87	3600	28.57	2004-05	124417	27.42
1987-88	4400	22.22	2005-06	150242	20.76
1988-89	5500	25.00	2006-07	182538	21.49
1989-90	7600	38.18	2007-08	202017	10.6
1990-91	9664	27.16	2008-09	213040	5.45
Source: Ministry of Micro, Small and Medium Enterprises			2009-10	224332	5.30

Year	Credit to MSMEs (Rs. In crores)	Total Credit to priority sector (Rs. in Crores)	Percentage Credit Flow to MSMEs
2007-08	7617.16	33282.89	22.89%
2008-09	8260.98	37859.32	21.82%
2009-10	9303.25	44709.83	20.81%
2010-11	10374.78	52224.00	19.86%