



## INDIAN SMALL SCALE INDUSTRIES: AN ANALYSIS IN PRE AND POST GLOBALISED PERIOD

### ABSTRACT

*Globalisation refers to the gradual integration of economies through free movement of goods, services and capital. It is a process of growing economic interdependence among different countries of the world. Thus, in the globalised era, the whole world is changing into a global village in the sense that economic activities in one part of the globe are affecting significantly the rest of the world. In India, the New Economic Policy of 1991, aimed at making Indian economy competitive and much better integrated with the rest of the world. The dynamics of change will bring about inflow of technology, resources and capital that are scarce or costly to be procured locally in the developing economies like India. Therefore, globalisation can bring enormous opportunities for economic growth, as well as some important challenges which may be viewed as problems from the perspective of developing countries like India. The small scale sector is a vital ingredient of overall industrial sector of the country. With the launching of the process of liberalisation, the Indian small scale industrial sector will have to upgrade its technology, adopt modern marketing and management practices to become more competitive and resource efficient. On the other side, the Indian Small Scale Industries has been suffering and choke to death by fierce competition put up by globalisation. Globalization has led to an Unequal Competition- a competition between giant MNCs and dwarf Indian enterprises. This paper aims to examine the impact of globalisation on small scale industrial sector in India before and after liberalization. The paper also highlights the opportunities and challenges confronting the Indian small scale industrial sector in the era of globalisation.*



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### INTRODUCTION

Globalization signifies a process of internationalization plus liberalization, in which the world has become a small village due to the concept of globalization. The competition has become intense in every field. Nations fight with game plan to sustain their economy, by introducing new policies and announcing incentives to support mainly their economic- indicators. After the world economy was

open to attack, the Indian economy has initiate to concentrate on the development of small scale industrial base, which had contribute positively to the India's GDP; India's GDP growth is better than other developing countries with the developed small industrial sector. 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 6th August, 1991. In the past, small scale sector merited only two or three paragraphs in the more general industrial policy statements. 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.

The development of small scale industrial sector has been one of the major planks of India's economic development strategy since independence. India accorded high priority to this sector from the very beginning and pursued support policies to make these enterprises viable and vibrant. Despite numerous protection and policy measures for the past so many years Indian small scale units have remained mostly small, technologically backward and uncompetitive. The opening of the Indian economy in 1991 added to the problems of this sector and at present, the small scale industrial sector in India is at cross roads and intense debate is centred on questions like what would be the future of this sector? How can these enterprises survive in the international trade arena? What role can the government play in making this sector more competitive? In this context, it is important to re-examine the opportunities and challenges confronting this sector in the globalised regime.

### **OBJECTIVE OF THE STUDY**

Small Scale Industry in India has been confronted with an increasingly competitive environment due to liberalisation of the investment regime in the 1990s. The cumulative impact of all developments is a remarkable transformation of the economic environment in which small industry operates, implying that the sector has no option but to compete. The main objective of the present study is to analyze the impact of globalization on the Indian small scale industries. The impact of Industrial liberalisation on the growth of small Scale industries have been captured by computing and comparing the growth rates between pre and post globalization period. In this paper, the overall performance of SSI sector has been examined on the basis of the different parameters such as number of units, production and employment through the tables.

### **REVIEW OF LITERATURE**

Various studies have been conducted from time to time in different states of India on different aspects of small-scale industries. The most of the studies are related to financial aspect, growth of small scale industries, entrepreneurship in SSIs, WTO regime and small scale industries and also related to small industry and globalization. A review of imported studies is presented below:

**Mathew, M.C. (2004)** observed in his study that the vibrancy and dynamical of the sector anticipated under an era of deregulation and de-reservation remaining largely unrealized. The study stated that the country needs a strong small and medium enterprises policy, which was closely linked to its international commitments. The study suggested that at the strategy level, there were need to be mechanism by which the demography of small and medium enterprises sector itself becomes a matter of public security.

**Rathod, C.B. (2007)** described the importance of small scale industrial sector and also the contribution of Indian small scale entrepreneurs in world economy. The main objective of the Study was to study the growth and pattern of the SSI sector and identify the reasons for success/ failures, to evaluate the impact of globalization on SSIs and export opportunity, to identify the barriers and constraints that SSIs were facing to cope with globalization. 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. The study has suggested that there was need for simplified legal and regulatory framework, good governance, sufficient and accessible finance, suitable infrastructure and competitive environment.

**Subrahmanyabala, M.H. (2004)** highlighted the impact of globalization and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output and exports. Researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. The author suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

**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.

## PERFORMANCE OF SSIs IN PRE AND POST GLOBALISED PERIOD IN INDIA

The impact of Industrial liberalisation and deregulatory policies on the growth of small Scale industries have been captured by computing and subsequently comparing the growth rates between pre and post globalization period. In this paper, the overall performance of SSI sector has been examined on the basis of the different parameters such as number of units, production and employment through the tables. The table highlights the performance of small scale industries in term of units, production and employment in pre and post globalised period.

**Table-1 Performance of Indian SSI in Pre and Post Globalised Period**

Sr. no	Year	SSI units(in lakhs)	Production (crores)	Employment (in lakhs)	Year	SSI units(in lakhs)	Production (crores)	Employment (in lakhs)
1	1975-76	5.5	11000	45.9	1990-91	67.87	78802	158.34
2	1976-77	5.9	12400	49.8	1991-92	70.63	80615	165.19
3	1977-78	6.7	14300	54.0	1992-93	73.51	84413	174.84
4	1978-79	7.3	15800	63.8	1993-94	76.49	98796	182.64
5	1979-80	8.1	21600	67.0	1994-95	79.6	122154	191.4
6	1980-81	8.7	28100	71.0	1995-96	82.84	147712	197.93
7	1981-82	9.6	32600	75.0	1996-97	86.21	167805	205.86
8	1982-83	10.6	35000	79.0	1997-98	89.71	187217	213.16
9	1983-84	11.6	41600	84.2	1998-99	93.36	210454	220.55
10	1984-85	12.4	50500	90.0	1999-2000	97.15	233760	229.1
11	1985-86	13.5	61200	96.0	2000-01	101.1	282270	238.83
12	1986-87	14.6	72300	101.4	2001-02	105.2	314850	249.33
13	1987-88	15.8	87300	107.0	2002-03	109.49	364547	260.21
14	1988-89	17.1	106400	113.0	2003-04	113.95	429796	271.42
15	1989-90	1.82	132300	119.6	2004-05	118.59	429796	2.82.57

Source: Annual Reports of MSME (2011-12), GOI.

**Table-2 Average Growth Rate of SSI in Pre and Post Globalised Period**

SSI Element	Pre globalised era	Post globalised era
<b>Growth rate</b>	9.36	4.07
<b>Production</b>	19.45	13.57
<b>Employment</b>	7.25	4.26

It is cleared from the table 3 that the Annual Average Growth Rate of number of units in the pre-liberalisation period, from 1975-76 to 1989-90 was 9.36 percent and in post- liberalisation it was 4.07 percent.

### ANALYSIS OF GROWTH RATE OF NO.OF UNITS

In pre- liberalised period, the yearly growth rate was higher than average growth rate in the initial years and from 1984-85 to 1989-90; the yearly growth rate was less than average growth rate. In 1989-90, the yearly growth rate was least in the pre- liberalisation period. In the post- liberalisation period, in 1990-91 it was very high and after that it was fluctuate between

3.98 percent and 4.12 percent. Most of the time, the yearly growth rate was less than average growth rate. In 1999-00 the yearly growth rate and average growth rate was same. The numbers of units were increasing in the study period but the average and yearly growth rate was higher in pre- liberalised period than post liberalised period.

### ANALYSIS OF GROWTH RATE OF PRODUCTION

It is cleared from the above table that the Annual Average Growth Rate of production in the pre-liberalisation period, from 1975-76 to 1989-90 was 19.45 percent and in post- liberalisation it was 13.57

percent. In pre-liberalised period, the yearly growth rate was decreasing in the initial years from 1975-76 to 1978-79; the yearly growth rate was fluctuating from 1980-81 to 1983-84, after that it was shown increasing trend except in 1986-87. In the post-liberalisation period, in 1990-91 the yearly growth rate was very low, it was negative and after that it was showed increasing trend from 1991-92 to 1994-95. The yearly growth rate was showing decreasing trend from 1995-96 to 2001-02 except in 1998-99. Most of the time, the yearly growth rate was less than average growth rate. The production was increasing in the study period but the average and yearly growth rate was higher in pre-liberalised period than post liberalised period.

### **ANALYSIS OF GROWTH RATE OF EMPLOYMENT**

It is cleared from the above table that the Annual Average Growth Rate of employment in the pre-liberalisation period, from 1975-76 to 1989-90 was 7.25 percent and in post-liberalisation it was 4.26 percent. In pre-liberalised period, the yearly growth rate was more than average growth rate in the initial years from 1975-76 to 1978-79; after that the yearly growth rate was too much decreased from 1978-79 to 1989-90, it was fluctuate between 5.02 percent and 6.89 percent. In the post-liberalisation period, in 1990-91 the yearly growth rate was very high than average growth rate. After that the yearly growth rate was fluctuated from 1991-92 to 2003-04. Most of the time, the yearly growth rate was less than average growth rate. In the last seven years, the annual growth rate was decreasing. The employment was increasing during the study period but the average and yearly growth rate was higher in pre-liberalised period than post liberalised period.

### **RESULTS**

The main findings of the study are:

- [1] Globalisation has given benefits to the small scale industry since 1991 in value term. While a comparative analysis between pre globalised and post globalised era revealed the effect on production and employment which is showing a declining trend in post globalised era. Small scale industries in India are facing great threats and competition due to liberalized policies.
- [2] In 1990-91, the growth of number of units is too much increased. It is increase from 6.43 to 273.08 percent. The units are increased from 1.82 million to 6.79 millions in numbers.

- [3] The growth rate of production is decreased at a high rate in 1990-91; it showed the negative trend of growth and reached at -40.44 percent growth rate of production. Because of open market outer country sold their product easily in our country at fewer prices which reduce the demand of country products and so that production had also affected.
- [4] In the very first year of globalization the growth rate of employment has been increased which showed that after globalization employment opportunities were increased due to open market and liberalisation of establishing units in India by the outsiders which generate employment for our country.
- [5] Overall, the impact of globalization on the growth of small scale sector is negative which a serious matter is for planners.

### **CHALLENGES AND OPPORTUNITIES**

Since liberalisation and globalisation process is exposing small enterprises to market competition to a greater extent, therefore it is imperative to examine and understand the opportunities and challenges, confronting this sector in the changing economic scenario. The challenges are in the form of increased competition arising out of reduced protection due to removal of restrictions on imports and lowering of tariffs, Inadequate capital for investment, Expensive bank loan, Technologically weak due to inadequate capital, Weak bargaining power, Lack of development policy framework, Product reservation Policy, Low recognition and appreciation of this sector in view of its contribution to industry output and exports, Lack of infrastructure facilities, Lack of well-developed information system. Opportunities have come in the form of access to better technology, availability of a variety of raw materials and components, growing service sector, Untapped exports potential in computer software, leather products, light engineering products, hand tools, garments including hosiery, impetus to quality, efficiency and opportunity to restructure and to diversify.

### **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 and employment. A fall in the rate of growth of number of units and employment generation in post liberalisation 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 liberalisation, which has failed to render a positive impact on the growth of Indian Small Scale Sector. No indicator shows the positive impact, in each case the average growth rate is less in post- globalization period than pre- globalization period.

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