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## Globalization is boom for small scale industries in India

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### Abstract

Globalization refers to the process of integration of the world into one huge market. It provides several things to several people with removal of all trade barriers among countries. Globalization happens through three channels: trade in goods & services, movement of capital and flow of finance. Globalization in India is generally taken to mean 'integrating' the economy of the country with the world economy. The real thrust to the globalization process was provided by the new economic policy introduced by the Government of India in July 1991 at the behest of the IMF and the World Bank. Globalization has led to an 'Unequal Competition' - a competition between 'giant MNC's and dwarf Indian enterprises'. The small scale sector is a vital constituent of overall industrial sector of the country. The small scale sector forms a dominant part of Indian industry and contributing to a significant proportion of production, exports and employment. 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 of SSI, before and after liberalization and compare them with average annual growth rates, to know the impact of Globalization on the performance of SSI. The period of the study is 1973-2007 and based on secondary information.

**Keywords:** Globalization, Small Scale Industries, Exponential Growth, Production, No. of Units, Export and Employment.

### 1. Introduction

Globalization signifies a process of internationalization plus liberalization, in which the world as 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 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. 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. In the past, small scale sector merited only two or three paragraphs in the more general industrial policy statements. The fact that Government considered it necessary to make a separate policy statement for small enterprises was a welcome recognition to the dynamic and vibrant nature of the 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:

1. Emphasis to shift from cheap credit to adequate credit.
2. Equity participation by other undertakings (both domestic and foreign) upto 24 percent.
3. Introducing of factoring services by banks.
4. Marketing of mass consumption goods under common brand name.
5. Setting up of sub-contracting exchanges.
6. Establishment of technology development cell.

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### Need and Objectives of the Study

Small Scale Industry in India has been confronted with an increasingly competitive environment due to: (i) liberalization of the investment regime in the 1990s, favoring foreign direct investment at the international level, particularly in socialistic and developing countries; (ii) the formation of the World Trade Organizations (WTO) in 1995, forcing its member- countries (including India) to drastically scale down quantitative and non quantitative restrictions on imports, and (iii) domestic economic reforms. The cumulative impact of all these developments is a remarkable transformation of the economic environment in which small industry operates, implying that the sector has no option but to 'compete'. To compete in the international market, the Indian Government Announced a separate Industrial Policy for Small, Tiny and Village Industries on 6th August, 1991 and started some development programmes for the development of Small scale Sector. The main objective of the present study is to analyze the impact of globalization on the growth of small scale industries.

### Database and Methodology

In the present study an attempt has been made to analyze the impact of globalization on the growth of small scale industries. For this, the growth pattern and some aspects of productivity in SSI sector in India have been calculated. The study has been conducted with reference to the data related to Performance of Small Scale Industries in India. The SSI sector has been studied with the belief that they hold the largest share of Industrial Sector in India. The reference period for the analysis of the data has been taken from 1973-74 to 2006-07. The study period has been divided into two parts: pre liberalization (1973-74 to 1989-90) and post liberalization (1990-91 to 2006-07) to know the impact of globalization after liberalization. For this, a comparative analysis of Average Annual Growth Rates for pre and post globalization periods has been carried out for key growth and performance parameters like number of units, production, employment and exports. The study has been based on secondary information. The data for the study purpose has been taken mainly from 'Ministry of Micro, Small and Medium Enterprises, Government of India' published by Reserve Bank of India in Handbook of Statistics on Indian Economy.

### Limitation of the Study

All the indicators related to the growth of small scale industries has been computed from 1973 to 2007, in this 1973- 74 to 1989-90 (17 years) are taken under pre-globalization period and 1990-91 to 2006-07 (17 years) are comes under post- globalization period. Means 17 – 17 years of performance of pre and post globalization has been compared. In this study there is only one limitation that in the case of exports we are able to compare 17- 16 years of pre and post respectively. Exports in 2006-07 are not available.

### 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) <sup>[6]</sup> highlighted the reason for panic in all India census report on small scale industries. The study observed 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.

Rajyalakshmi, N. (2004) <sup>[9]</sup> reviewed the productivity awareness among SSI units in Visakhapatnam district of Andhra Pradesh at micro level and explored small- scale entrepreneurs, how they measured productivity in their units. The study based on primary data collected by using structured schedule through personal interviews. A sample of 200 SSI units has been selected for the study. The study found that Chemical units were more capital intensive and it was low in food and agro units. Productivity awareness was not noticed in the SSI units. The study concluded that Success in small industry will be best achieved if the productivity culture will be clearly understood by all the employees.

Subrahmanyabala, M.H. (2004) <sup>[11]</sup> 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) <sup>[12]</sup> 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.

Rathod, C. B. (2007) <sup>[10]</sup> 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 analysed 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. The study found that a major portion of our exports would have to gear up to the new era of boundary less economy. 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.

### Growth of Small Scale Industries in India: Pre and Post Globalization

The small scale industries play a significant role in boosting the overall economic growth of an economy. The small scale industries set-up by the entrepreneurs in different states and Union Territories of India have contributed to the increased shares in overall production, fixed investment, exports, Employment and capacity Utilization of SSI Units, etc. The importance of SSI sector in providing large scale employment is of paramount importance. The policy framework right from the first plan has highlighted the need for the development of SSI sector keeping in view its strategic importance in the overall economic development of

India. The impact of Industrial liberalization and deregulatory policies on the growth of small scale industries has been captured by computing and subsequently comparing the growth rates between pre and post globalization period. In this section, the overall performance of SSI sector has been examined in depth on the basis of the different parameters such as number of Units, production, employment and exports.

#### Number of SSI Units

The working number of units in small scale sector in Pre and Post Globalization Period in India is show in the following table:

**Table 1**

(Units in million Nos.)

Year	Units	%Increase to pre. year	Year	Units	%Increase to pre. year
1973-74	0.42	-	1990-91	6.79	273.08
1974-75	0.50	19.05	1991-92	7.06	3.98
1975-76	0.55	10.00	1992-93	7.35	4.11
1976-77	0.59	7.27	1993-94	7.65	4.08
1977-78	0.67	13.56	1994-95	7.96	4.05
1978-79	0.73	8.96	1995-96	8.28	4.02
1979-80	0.81	10.96	1996-97	8.62	4.11
1980-81	0.87	7.41	1997-98	8.97	4.06
1981-82	0.96	10.34	1998-99	9.34	4.12
1982-83	1.06	10.42	1999-00	9.72	4.07
1983-84	1.16	9.43	2000-01	10.11	4.01
1984-85	1.24	6.90	2001-02	10.52	4.06
1985-86	1.35	8.87	2002-03	10.95	4.09
1986-87	1.46	8.15	2003-04	11.40	4.11
1987-88	1.58	8.22	2004-05	11.86	4.04
1988-89	1.71	8.23	2005-06	12.34	4.05
1989-90	1.82	6.43	2006-07	12.84	4.05
AAGR	9.36		AAGR	4.07	

Source: Ministry of Micro, Small and Medium Enterprises, GOI.  
AAGR= Annual Average Growth Rate or Exponential Growth Rate.

**Analysis:** It is cleared from the above table that the Annual Average Growth Rate of number of units in the pre-liberalization period, from 1973-74 to 1989-90 was 9.36 percent and in post-liberalization it was 4.07 percent. In pre-liberalized 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-liberalization period. In the post-liberalization 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-liberalized period than post liberalized period.

#### Production

Table no. 2 provides the information about the growth of Small Scale Sector on production front during the period of 1973-74 to 2006-07.

**Table 2**

(Production= Crores)

Year	Production (Current prices)	%Increase to pre. year	Year	Production (Current prices)	%Increase to pre. year
1973-74	7200	-	1990-91	78802	-40.44
1974-75	9200	27.78	1991-92	80615	2.30
1975-76	11000	19.57	1992-93	84413	4.71
1976-77	12400	12.73	1993-94	98796	17.04
1977-78	14300	15.32	1994-95	122154	23.64
1978-79	15800	10.49	1995-96	147712	20.92
1979-80	21600	36.71	1996-97	167805	13.60
1980-81	28100	30.09	1997-98	187217	11.57
1981-82	32600	16.01	1998-99	210454	12.41
1982-83	35000	7.36	1999-00	233760	11.07
1983-84	41600	18.86	2000-01	261297	11.78
1984-85	50500	21.39	2001-02	282270	8.03
1985-86	61200	21.19	2002-03	314850	11.54

1986-87	72300	18.14	2003-04	364547	15.78
1987-88	87300	20.75	2004-05	429796	17.90
1988-89	106400	21.88	2005-06	497842	15.83
1989-90	132300	24.34	2006-07	585112	17.53
AAGR	19.45		AAGR	13.57	

**Source:** Ministry of Micro, Small and Medium Enterprises, GOI.  
AAGR= Annual Average Growth Rate or Exponential Growth Rate.  
Since 2001-02, Production figures are at 2001-02 prices.

**Analysis:** It is cleared from the above table that the Annual Average Growth Rate of production in the pre- liberalization period, from 1973-74 to 1989-90 was 19.45 percent and in post- liberalization it was 13.57 percent. In pre- liberalized period, the yearly growth rate was decreasing in the initial years and from 1973-74 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-liberalization 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 2002-03 except in 1998-99 and 2001-02. 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- liberalized period than post liberalized period.

### Employment

In India, the major argument for promoting small scale sector is that the small enterprises Provide avenues for gainful employment. The performance of small scale sector in creating Employment opportunities is really a matter of great interest. The following table provides the Information of small scale sector on the growth of employment:

**Table 3**

(Employment= Million Nos.)					
Year	Employment	%Increase to prev. year	Year	Employment	%Increase to prev. year
1973-74	3.97	-	1990-91	15.83	32.36
1974-75	4.04	1.76	1991-92	16.60	4.86
1975-76	4.59	13.61	1992-93	17.48	5.30
1976-77	4.98	8.50	1993-94	18.26	4.46
1977-78	5.40	8.43	1994-95	19.14	4.82
1978-79	6.38	18.15	1995-96	19.79	3.40
1979-80	6.70	5.02	1996-97	20.59	4.04
1980-81	7.10	5.97	1997-98	21.32	3.55
1981-82	7.50	5.63	1998-99	22.06	3.47
1983-84	7.90	5.33	1999-00	224.09	3.85
1984-85	8.42	6.58	2000-01	25.23	5.15
1985-86	9.00	6.89	2001-02	26.37	4.73
1986-87	9.60	6.67	2002-03	27.53	4.52
1987-88	10.14	5.63	2003-04	28.76	4.40
1988-89	10.70	5.52	2004-05	29.99	4.47
1989-90	11.30	5.61	2005-06	31.252.91	4.28
	11.96	5.84	2006-07		4.20
AAGR	7.25		AAGR	4.26	

**Source:** Ministry of Micro, Small and Medium Enterprises, GOI.  
AAGR= Annual Average Growth Rate or Exponential Growth Rate.

**Analysis:** It is cleared from the above table that the Annual Average Growth Rate of employment in the pre-liberalization period, from 1973-74 to 1989-90 was 7.25 percent and in post- liberalization it was 4.26 percent. In pre-liberalized period, the yearly growth rate was more than average growth rate in the initial years and from 1973-74 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- liberalization 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- liberalized period than post liberalized period.

### Exports

In the context of liberalization and globalization of Indian economy, the performance of small Scale sector in the field of exports needs a closer look. The exports from small scale sector Found to be higher from the total export. The exports of small scale sector are:

Table 4

(Exports= Million Nos)

Year	Exports	%Increase to prev. year	Year	Exports	%Increase to prev. year
1973-74	400	-	1990-91	---	27.16
1974-75	500	25.00	1991-92	9664	43.66
1976-77	800	0	1992-93	13883	28.10
1977-78	800	60.00	1993-94	25307	42.30
1978-79	1100	0	1994-95	29068	14.86
1979-80	1200	37.50	1995-96	36470	25.46
1980-81	1600	9.09	1996-97	39248	7.62
1981-82	2100	33.33	1997-98	44442	13.23
1982-83	2000	31.25	1998-99	48979	10.21
1983-84	2200	-4.76	1999-00	54200	10.66
1984-85	2500	10.00	2000-01	69797	28.78
1985-86	2800	13.64	2001-02	71244	2.07
1986-87	3600	12.00	2002-03	86013	20.73
1987-88	4400	28.57	2003-04	97644	13.52
1988-89	5500	22.22	2004-05	124417	27.42
1989-90	7600	25.00	2005-06	150242	20.76
			2006-07	----	
AAGR	18.66		AAGR	17.56	

Source: Ministry of Micro, Small and Medium Enterprises, GOI.

AAGR= Annual Average Growth Rate or Exponential Growth Rate.

Note: Exports information of 2006-07 is not available.

**Analysis:** It is cleared from the above table that the Annual Average Growth Rate of exports in the pre- liberalization period, from 1973-74 to 1989-90 was 18.66 percent and in post liberalization it was 17.56 percent. In pre- liberalization period, the yearly growth rate was too much fluctuating; it was sometimes very high than average growth rate. In 1976-77, the yearly growth rate was 60 percent. It was highest during the pre- liberalization. 1978-79 to 1984-85 the AAGR was yearly increasing or decreasing, in 1982-83 it was on the lowest peak and showed negative trend. After this from 1985-86 to 1989-90, the yearly growth rate was increasing and reached at 38.18 percent. In the post- liberalization period, from 1990-91 the yearly growth rate was changed its trend yearly, in one year its trend was increasing and then next subsequent year the trend was decreasing. It was least in 2001-02 and highest in 1991- 92. The exports were increasing during the study period but the average and yearly growth rate was higher in pre- liberalized period than post liberalized period.

### Conclusion and Findings

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” ha 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. No indicator shows the positive impact, in each case the average growth rate is less in post- globalization period than pre- globalization period. The main findings of the study are:

1. 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 million in numbers.
2. 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.
3. 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 liberalization of establishing units in India by the outsiders which generate employment for our country.
4. The value of exports has increased after the globalization means Indian SSI sector more concentrate on sell their products in out of country to earn more and more income.
5. In 2005-06, the value of exports is too much increased and the growth rate of exports is highest in 199-92 due to subsequent change in Indian economy.
6. Overall, the impact of globalization on the growth of small scale sector is negative which a serious matter is for planners.

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