

**GLOBALISATION AND SMALL SCALE INDUSTRIES IN INDIA – A
LITERATURE REVIEW**

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Abstract

Worldwide, the micro small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and are helpful in promoting equitable development. In India the Micro, Small and Medium Enterprise (MSME) sectors contribute significantly to manufacturing output, employment and exports of the country. It is estimated that in terms of the value, the sector accounts for about 45 percent of the manufacturing output and 40 percent of the total exports of the country. It is estimated that the sector employs about 69 million persons in over 26 million units throughout the country. There are over 6000 products ranging from traditional to high tech items which are being manufactured by MSMEs in the country. It is well known that MSME sector provides maximum opportunities for both self employment and job outside agriculture sector. With this background, in this paper, an attempt has been made to provide literature review on the impact of globalization on Indian small scale industries.

Key words:

MSME,

SSI Sector,

Globalization,

Liberalization,

Industrial policy.

Introduction

Worldwide, the micro small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and are helpful in promoting equitable development. Small scale industries sector in India has been enjoying strategic importance since independence because of its contribution to employment, production and exports. Development of small scale industries has always received special attention in the five year plans and industrial policies because the increasing number of micro, small and medium enterprises result in decentralized industrial development, better distribution of wealth and investment and entrepreneurial talent. Hence small scale industries in India received both promotion and protection through various incentives related to financial, fiscal and infrastructure along with a heavy industrial base from 1951 to till 1991. However, since 1991, small-scale industries in India faced an intensely competitive environment due to globalization, domestic economic liberalization and dilution of sector specific protective measures. At the same time globalization, domestic economic liberalization have

created immense potential growth benefits for the small scale industries. In order to enable the small scale industries to realise potential benefits of globalisation and liberalisation and also make them as the engine of economic growth in 21st century, the government has initiated several policy measures. For instance, in order to impart more vitality and growth to small scale sector, a separate policy statement is announced for small, tiny and village enterprises on 6th August, 1991 whereas in the past, small scale sector merited only two or three paragraphs in our industrial policy statements. A separate policy statement for small enterprises indicates that the government has recognized importance of this dynamic and vibrant sector in the growth of the country.

This policy statement proposed some path-breaking measures to mitigate the handicaps that were faced up by small enterprises and introduced a large number of innovative promotional measures to uplift the growth of small scale sector.

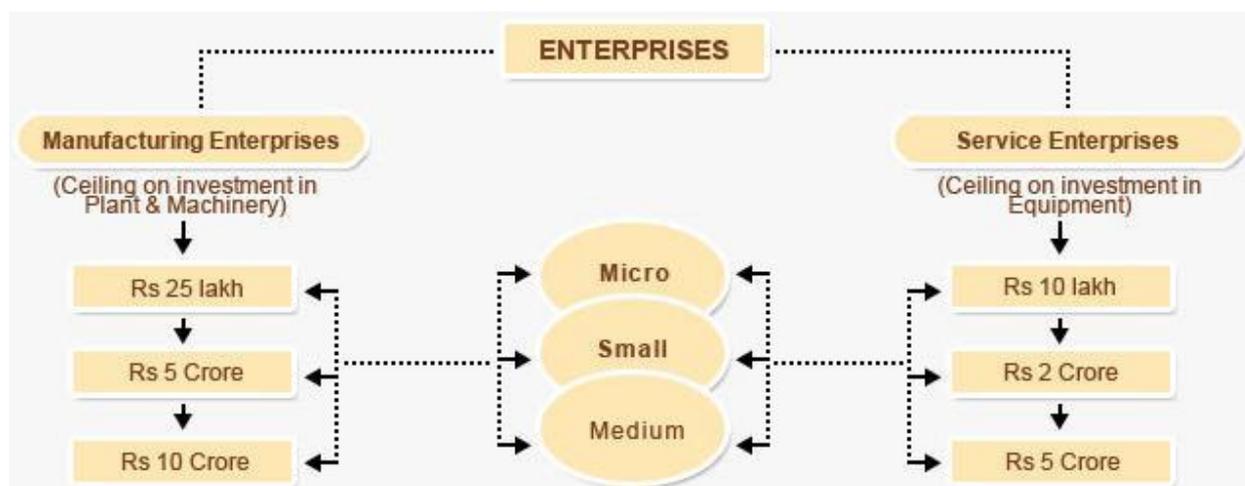
Major features of the Small Scale Industrial policy of 1991 include;

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.
7. Opening of quality counseling and technology information centers.

8. New technology up gradation programmes.

Then, the Ministry of Agro and Rural industries and Ministry of SSI have been merged into a single, Ministry namely, Ministry of Micro, Small and Medium enterprises by the MSMEs Act 2006. According to MSMEs Act 2006 the enterprises are broadly classified in terms of activity such as enterprises engaged in manufacturing, production and enterprises engaged in services. The classification of SSI's is shown in following chart.

Classification of MSME



Source: Micro, Small and Medium Enterprises Development Act, 2006

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Literature Review

Chandraiah&Vani (2013) Kumar&Gugloth (2012) examined the role of small-scale industrial units in economic development of India and the impact of globalization on the performance of MSMEs from 1992-93 to 2010-11 taking the secondary data from the publication of 'Ministry of Micro, Small and Medium Enterprises and Reserve Bank of India. The overall performance and contribution of small scale industries to Indian economy in post- globalization period is described in terms of its absolute growth in number of units, investment, employment, production and exports without comparing the same with the pre-globalisation period. They have compared the number of units. Employment, output and exports of Small scale industries in 2000 with that of 1990s.

In absolute numbers growth in all the variables is significant but when we look at the year on year growth, performance is not at all impressive. Assessing the impact of globalization on SSIs by taking macro level secondary data on the above variables alone may not give the correct picture.

Shastri et.al (2011) probed the implications of globalization and domestic economic liberalization for small-scale industries and analysed its growth performance in terms of number of units, employment, output and exports at the national level. Their study compared Growth of SSIs and employment during pre economic liberalization and post economic liberalization periods. Their study indicated that percentage increase in the number of SSI units during pre liberalization i.e. from 1981-82 to 1990-91 was 2.02 percent which has declined to 1.6 percent in the post liberalization period i.e. from 1991-92 to 2001-02. Similarly, percentage increase in the employment has come down from 1.67 per cent to 1.32 percent during same the two periods. In terms of average annual growth rate for number of units has declined from 6.35 per cent to 5.53 percent and for employment from 5.28 per cent to 3.54 per cent. In general we can either say globalization and

economic liberalization was disadvantageous to small scale industries sector or we can also say that SSIs were not competitive enough to realize the potential benefits of globalization.

Taunk & Kumar (2013) assessed the performance of SSI's in economic development of India and also the challenges and threats faced by SSI sector internationally. They collected macro level secondary data from 1995-1996 to 2009-10 and calculated annual growth rates and compound annual growth rates which are not impressive growth rates. They identified that with the emergence of WTO SSI sector in India became vulnerable to the enforcement of several of its agreements such as removal of quantitative restrictions (QRs), reduction of tariffs on imports, removal/reduction of subsidies to our SSI sector posed several challenges to Indian SSI sector and was unable to access the benefits of global market.

Agarwal & Goel (2014) examined the performance of SSI sector on the basis of different parameters such as number of SSI units, production and employments for the period from 1990-91 to 2007-08. He stated that the number of SSI units increased from 67.87 lakhs units 1990-91 to 132.4 lakh units 2007-08 which shows

more than 100 percent growth. Persons employed in this sector has also been increased from 158.34 lakh persons in 1990-91 to 238.73 lakh persons in 2001-01 to 326.25 lakh persons in 2007-08. It has also been highlighted that production at constant prices has been increased from 78802 crores in 1990-91 to 624582 crores in 2007-08. On the basis of growth in absolute numbers they stated that SSI sector made good progress after globalisation. Studies of Shastri et al (2011), Taunk & Kumar (2013), Sania & Kansal (2006) have shown that globalisation was not favourable to SSI sector in India.

Sania and Kansal (2006) compared the average growth rate of SSIs in pre and post globalised period. According to their study Growth rate of SSIs in pre globalised era was 4.07 which has increased to 9.36 in the post globalised era, growth rate of production in SSIs in pre globalised era was 19.45 which has reduced to 13.57 and the employment growth rate in SSIs has declined from 7.25, to 4.26 in the post globalised era. Hence, SSIs in India are facing great challenges and competition due to globalisation and liberalised policies. Their study suggested that the robust and vibrant SSIs (now MSME) can derive the advantages of the new

opportunities provided by the supporting policies which aim not only to protect but also to promote this segment and employment. rigorous analysis of impact of globalisation on SSI sector is required to arrive at more specific suggestions to frame the policies to safeguard the interests of SSI sector and make them as engine of economic growth of India in the 21st century.

BalaSubrahmanya (2004) examined the implications of global and national policy developments for SSIs and to what extent SSIs can cope up with the competitive environment and what are the future prospects for Indian SSIs in the globalised era. In the study he stated that process of economic reforms which resulted in considerable freedom for enterprises, domestic as well as foreign, diluting the role of public sector units, withdrawing the protection given to SSIs in terms of reservation of products, concessional loans etc. , given to them along with policies related to FDI, tariff and non tariff barriers on exports and imports, quantitative restrictions etc have benefited Multinational Corporations much more than small enterprises and intensified the competition in the national as well as international markets for small firms. His study stated that

the growth of small industry in the transitional period of 1990s has come down in terms of not only units and employment but also output which indicated that increasing competition in the globalization period affected the growth of Indian small industry adversely. Regarding the future prospects of SSIs the study said that infrastructural bottlenecks as well as structural bottlenecks if any should be corrected.

Conclusion

Various studies on the impact of globalization on small scale industries sector have done a comparative analysis between pre globalised and post globalised era. Most of the studies are consistent in their findings that Small scale industries in India are facing great threats and competition due to liberalized policies. Globalization and national policy developments have benefited Multinational Corporations much more than small enterprises. The robust and vibrant small scale industries sector (now MSE) can derive the benefits only if infrastructural bottlenecks as well as structural bottlenecks are corrected.

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