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**GLOBALIZATION AND SMALL-SCALE INDUSTRIES: THE INDIAN PERSPECTIVE**

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**ABSTRACT**

*Ever since India opened its economy in early nineties, there has been significant growth in trade and industry in the country. Particularly by the turn of the century the economy has grown by leaps and bounds. This paper discusses the impact of globalization on growth of small scale industry by comparing the rate of growth of different parameters in pre globalization and post globalization periods. The findings are not encouraging but the trends show that the sector on the whole is in the process of organizing itself and despite of sturdy competition from its national and international contenders have sustained its growth. Thus although globalization has deterred the intensity of growth in small scale industrial sector, but has not debilitated it's perspectives of growth. Indian small scale industrial sector has been able to make its mark in era of globalization too.*

**KEYWORDS**

Globalization, Growth, India, SSI, Trade Liberalization.

**INTRODUCTION**

 Originally trade was free but was logically bounded by territorial restrictions that were imposed by limitations of communications and commutation. Eventually free trade system that prevailed during the 19<sup>th</sup> century began to curtail sharply at the beginning of 20<sup>th</sup> century, due to revival of mercantilist's philosophy of national self sufficiency as opposed to interdependence and a free flow of trade. The major conservatism in the economy was predominantly visualized in the post –second world war period, when many less developed countries followed the path of import substituting industrialization, guided either by the Prebisch-Singer –Myrdal (PSM) thesis of autarkic development or by economic nationalism independent of PSM thesis {Prebisch (1950,1959,1964); Singer (1950); Myrdal 1956; Sarkar 2001}. Among these countries most countries were predominantly agricultural and exporters of primary products. Perhaps! Due to severe deficits in balance of payment, these countries become dependent on rich industrially developed countries and international institutions such as IMF and World Bank dominated by the rich countries. These economies were always under stress. From time to time they were advised to open up their economy not only to tide over their crises but also to experience a higher rate of growth. Due to their internal socio-economic conditions they took some time to open up. Consequently many economies of the world including Korea, Taiwan, Singapore, Malaysia and even China to some extent opened up their economies in 80's.

India in particular has undergone a tremendous change in political, social and economic spheres. Its economic regime has experienced two drastic transformations. With the establishment of the Planning Commission in March 1950, India launched upon a unique experiment in state-led 'growth with social justice' within the constitutional framework of parliamentary democracy. However, this policy came under significant pressure in the 1980s. Unprecedented balance of payments crisis in 1990–91 dragged the economy close to defaulting on loans. The response was a slew of domestic and external sector policy measures partly prompted by the immediate needs and partly by the demand of the multilateral organizations. The Indian government responded to this crisis with an equally forthright policy regime grounded in a reform trinity popularly referred to as 'Liberalization, Privatizations, and Globalization' (LPG).

After opening the economy to external sector (1991 onwards), large scale Indian sector started growing. Multinational Companies (MNC) entered Indian market with a bang, which made survival and performance of small scale industrial sector questionable, as on one hand their market share was outraged by mushrooming entrance of MNCs and on the other hand Indian small scale industrial sector also got global opportunities, which could lead to substantial increase exports and making them more vibrant and flourishing. Further, WTO directive has forced the Indian government to attach increasing focus on the elimination of import barriers from several key sectors. In the context of globalization, several macroeconomic measures were further undertaken during 2004-05. The aims of these measures were to boost industrial productivity, to raise foreign direct investment (FDI), promote exports/ Special Economic Zones (SEZ) and gear up to operating in a post-WTO environment specifically preparing the economy for the commitments that may emerge from the Doha Round of the World Trade Organization (WTO).

This paper carefully scrutinize the overall impact of globalization on growth of small scale industrial sector with respect to certain parameters such as growth of number of Small Scale Units in country, growth of employment in Small scale industrial sector in country, growth of output of small scale industrial sector in country, and growth of exports and per employee productivity of small scale industrial sector in country.

**SMALL SCALE INDUSTRIAL SECTOR FROM INDIAN PERSPECTIVE: A REVIEW**

Popular for its art and crafts small scale industrial sector is an integral part of Indian economy since medieval times. Indian handicrafts, textile and spices have been successfully attracting trade towards the country since the times of Mercantilists. Today also small scale enterprises hold a vital position in Indian economic scenario contributing around 39 percent of the country's manufacturing output and 34 per cent of its exports in 2004-05. It provides employment to around 29.5 million people in the rural and urban areas of the country. (Indian Economic Survey 2005-06). Although the process of economic globalization, liberalization and market reforms, exposes the Indian Small scale industrial sector to increasing levels of domestic and global competition affecting its growth performance, but this process has also opened attractive possibilities of access to larger markets and develop stronger and deeper linkages with larger enterprises. It ensures improvements in small scale manufacturing techniques, which makes them more competitive as well as innovative. Small scale industrial sector in India is growing and has become more competitive, but close observation of pre and post globalization period reveals that the growth trends of this sector are not as encouraging as they were before India opened up its economy. With economic globalization Indian economy on the whole has visualized alarming growth but the picture is not same for the small scale industrial sector of the country. Evaluation of the impact of globalization has become an important subject of study from Indian perspective, especially its impact on small scale industrial sector, as it was often a matter of concern that whether small will withstand and sustain its growth competing with its global as well bigger national contenders.

Nabiar, R. G, B.L. Mungekar and G.A. Tadas (1999) in their article "Is import liberalization hurting domestic industry and employment?" have analyzed the impact of liberalization on the parameters of industry and employment and revealed that trade has over the years shrunk India's manufacturing base, both in terms of value addition and employment. This conclusion was further supported by Bhavani T.A, (2001) in his paper "Small scale Units in the Era of Globalization", where he discussed that liberalization is exposing these units increasingly to market competition on one hand and on the other hand it is

intensifying the market competition. The existing policies on small scale units created preserve incentives to remain small and operate in isolated manner it is high time that policy measures to be revamped so as to encourage the growth of small units through collective efforts.

The above was further strengthened by Subrhamanian Mott Bala (2004), where he studied the impact of globalization on the domestic small industry, and showed that Small industry has suffered in terms of growth of units, employment aspects and exports. This clearly indicates the fear of deterring growth in Indian small scale industrial sector among the researches. This analysis will exclusively focus on growth trends of various parameters of small scale industrial sector (Number of units, production, employment, exports, per employee production output) for both pre and post globalization era of Indian economy.

**METHODOLOGY**

In order to clearly distinguish between pre and post globalization growth trends of Indian small scale industrial sector for the analysis period from 1974-1990 is taken as pre globalization period, and as policy of Liberalization, Privatization and Globalization (LPG) was initiated in Indian economy from 1991 onwards period from 1991 to 2006 is considered as post globalization era. (Year 1990-91 is excluded from the analysis because of macroeconomic disturbances and no exclusive data is available for SSI after 2006, as it has been merged with Ministry of Micro, Small and Medium Enterprises.). Entire analysis focuses on growth rates of different parameters such as number of units installed, employment, production and exports. In order to facilitate comparison between two periods average growth rates over the stipulated period are considered. In order to visualize growth trends between the considered years line graph is used for the parameters undertaken for study.

**ANALYSIS**

**GROWTH RATE OF NUMBER OF UNITS IN SMALL SCALE INDUSTRIAL SECTOR**

As small scale industrial sector demands less capital, facilitates easy establishment and enjoys many leverages from government and many of its institutional support. Every year prominent increase in small scale units is observed. This sector has observed rapid and impressive growth rate during the various plan period. The number of small-scale units has increased from an estimated 4.2 lakh units in the year 1973-74 to over 8.7 lakh in the year 1981 which further rose to 18.2 lakh units in 1990 and 101.1 lakh unit in 2001 and for the year 2006 there were 123.4 lakh units in Small scale industrial sector. Although constant growth has been observed in number of units in small scale industrial sector but growth trends of number of units have varied substantially when compared with pre and post globalization period. The graphs below closely reveal these growth trends for both the periods.

**FIGURE 1: GROWTH TREND (NUMBER OF SMALL SCALE UNITS) BEFORE INDIA OPENED UP ITS ECONOMY**



Figure 1 Indicates Growth trends of Number of units in Small scale industrial sector before India opened up its economy to Global Market. It can be observed because of less competition both internal and external and special government support many new firms entered small sector of the Indian economy. Thus growth rate of Number of units during the period from 1974 to 1989 remained between 6% and 19.04%. Average Growth Rate of units in small scale industrial sector for the given period was 9.64% with variance of 8.91. The growth trend (Figure 1) clearly indicates that growth trends were comparatively high in 70's compared to 80's and slowdown in growth towards the end of 80's is observed.

**FIGURE 2: GROWTH TREND (NUMBER OF SMALL SCALE UNITS) AFTER INDIA OPENED UP ITS ECONOMY**

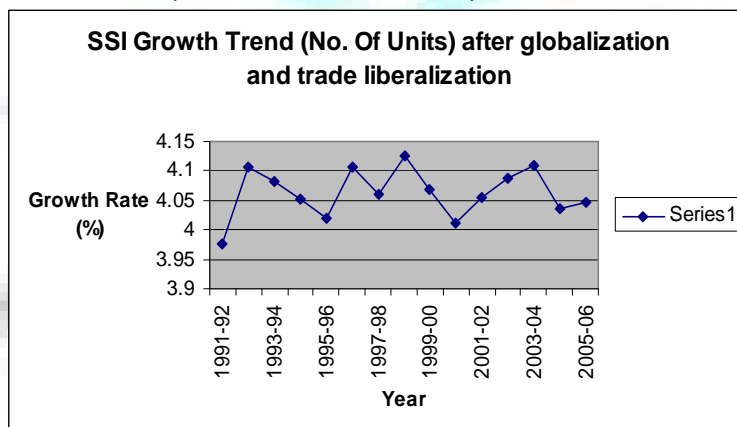


Figure 2 depicts growth rates of number of units in Small scale industrial sector after India opened up its economy to global world. The impact of high global competition and internal as well as external liberalization can be visualized hereby. As from the period 1991 to 2006 the growth rates of number of units in small scale industrial sector was in-between 3.9% to 4.13%. That is below 6% that was lowest recorded growth rate in number of units in this sector pre-globalization .During this period (1991-2006) average growth rate was 4.063 and variance was 0.00049969. The above trend analysis reveals that although growth rates of number of units are low in post liberalization and globalization period but these are much more consistent than that of pre liberalization and globalization period.



**GROWTH TRENDS OF PRODUCTION OF SMALL SCALE INDUSTRIAL SECTOR**

The small-scale industries plays important role in the success story of the economy. In India SSI alone add 40% to the gross industrial value. It has been estimated that 4.62 million worth of goods or services are produced with a million Rupees of investment in fixed assets in the small scale industries. As far as productivity of the sector is concerned it often improves with time. In order to evaluate performance of Small Scale Industry per year growth rate of production is considered for both pre and post globalization period.

**FIGURE 3: GROWTH TREND OF PRODUCTION OF SSI SECTOR BEFORE INDIA OPENED UP ITS ECONOMY**

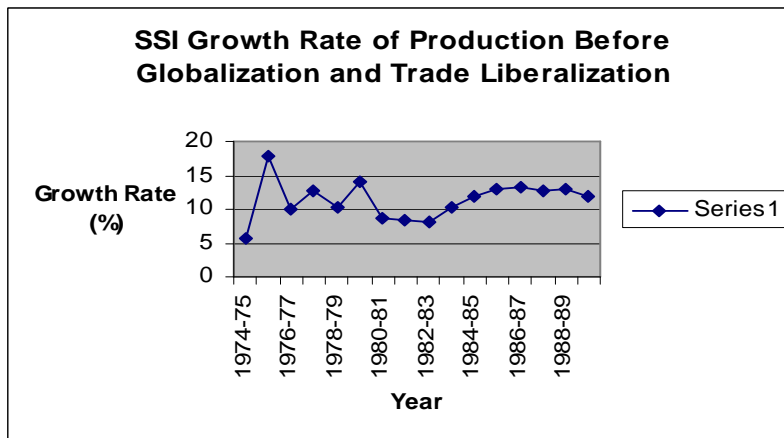


Figure 3 represents growth rates of production in small scale industrial sector in pre globalization and liberalization period from 1974 to 1989. The growth rate of production for the given period varied between 5.5% to 17.8% with the average growth rate at 11.34% and variance as 2.09. The above graph clearly indicates that growth trend varied highly from 1974 to 1981, but it shows a consistent increase from 1981 onwards. (In order to determine real growth trends Production recorded at constant prices is considered that is at 1993-94 Prices)

**FIGURE 4: GROWTH TREND OF PRODUCTION OF SSI SECTOR AFTER INDIA OPENED UP ITS ECONOMY**



Figure 4 depicts growth rates of production of Small Scale Industrial Sector after India opened up its economy. The growth rates of production during this period varied between 3.1% and 11.4%, with the average growth rate of production as 8.256 and small scale industrial sector production growth variance as 1.77. This figure reveals that immediately after liberalization and globalization production growth rate of small scale industrial sector had a robust growth till year 1997-98 but from 1998 to 2002 slackness in production growth rate is observed in Small Scale industrial Sector in India, However after 2002 Indian Economy is visualizing continuous growth trends in production of its Small Scale Industrial Sector. This ensures that innovativeness and flexibility backed up with exploration of new global opportunities had persuaded growth of overall production of small scale industrial sector currently. (In order to determine real growth trends Production recorded at constant prices is considered that is at 1993-94 Prices)

**GROWTH TREND OF EMPLOYMENT IN SMALL SCALE INDUSTRIAL SECTOR: AFTER AGRICULTURE**

Small Scale Industrial Sector in India creates large employment opportunities for the Indian populace as it is also labor intensive industry. According to estimates, we can create employment opportunity for 4 persons by investing around 1,00,000 rupees in fixed assets.

**FIGURE 5: GROWTH TREND OF EMPLOYMENT IN SSI SECTOR BEFORE INDIA OPENED UP ITS ECONOMY**

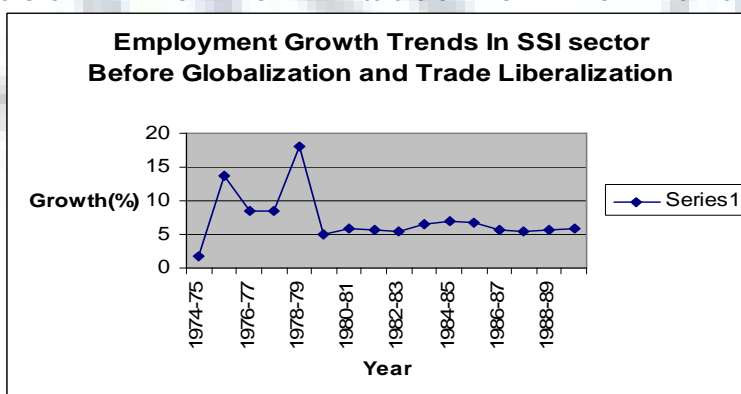


Figure 5 represents employment growth trends in Small scale industrial sector before Globalization and Liberalization. The growth rate of employment varied between 1.7% and 18.5% from the period 1974 to 1990. Highest rate is observed in year 1978-79. The average growth rate of employment in this sector for

the given period stood at 7.196% and variance as 13.53. Figure 5 clearly states that growth trends of employment during the stated period greatly varied from 1974 to 1980, however some consistency is observed after 1980s.

FIGURE 6: GROWTH TREND OF EMPLOYMENT IN SSI SECTOR AFTER INDIA OPENED UP ITS ECONOMY

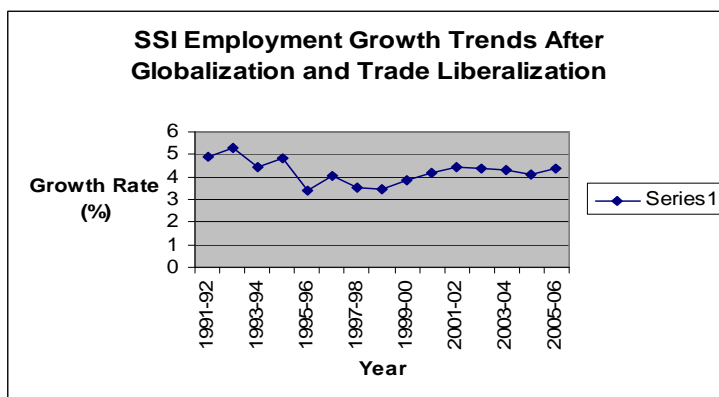


Figure 6 depicts employment growth trends in Small scale industrial sector after India opened up its economy to the global world. It can be clearly observed that from 1991 to 2006 growth rates of employment in small scale industrial sector is reasonably consistent ranging from 3.3% to 4.9%; this is slightly lower than accounted in last decade of the pre liberalization period considered above. The average rate of growth in small scale industrial sector during this period was 4.236% and variance as 0.2644. Thus slight impact of globalization is observed in this criterion of Indian small scale industrial sector too.

**GROWTH TRENDS OF EXPORTS IN SMALL SCALE INDUSTRIAL SECTOR**

Small Scale Industrial Sector plays a prominent role in India's present export performance. SSI sector contribute 45%-50% to the Indian Exports. 35% of the export is done directly by the SSI whereas 15% is done indirectly.

FIGURE 7: GROWTH TREND OF EXPORTS OF SSI SECTOR BEFORE INDIA OPENED UP ITS ECONOMY



Figure 7 Represents Growth Trends of exports of Small scale industrial sector In pre Liberalization period from 1974 to 1990. Export growth rates from this sector was extremely variable during this period they ranged from -4.76% to 38.182%, However after 1982 the trend of exports growth rates illustrates an continues increase from this sector.. The average growth rate of this sector during this period was 21.314 with variance as 273.663.

FIGURE 8: GROWTH TREND OF EXPORTS OF SMALL SCALE INDUSTRIAL SECTOR AFTER INDIA OPENED UP ITS ECONOMY



Figure 8 depicts growth trends of exports in small scale industrial sector after India opened up its economy. That is from the period 1991 to 2004. In this period too exports growth trends of this sector were highly variable but comparatively less from the former period. They ranged from 43.657 to 2.073 with mean export growth rate from this sector as 20.092 which was approximately same as pre globalization period and variance as 216.64, which is comparatively lower than the pre globalization export growth rate variance. This supports that despite global competition Indian small scale industrial sector has sustained its export demand in the world markets by maintaining its exclusivity and by venturing in new vistas of captive global opportunities.

**PRODUCTION PER EMPLOYEE IN SMALL SCALE INDUSTRIAL SECTOR OF INDIA**

Nabiar, R. G, B.L. Mungekar and G.A. Tadas (1999) in their article "Is import liberalization hurting domestic industry and employment?" feared that globalization could hamper value addition in Indian domestic industries. The best tool to analyze value addition in Indian small scale industrial sector is production per employee in this sector. Thus to analyze impact of globalization on efficiency and productivity (Value addition) of the employees in Small scale industrial sector production per employee is compared over the years for both pre and post liberalization period.

FIGURE 9: PRODUCTION (PER EMPLOYEE) TRENDS IN SSI SECTOR BEFORE INDIA OPENED UP ITS ECONOMY

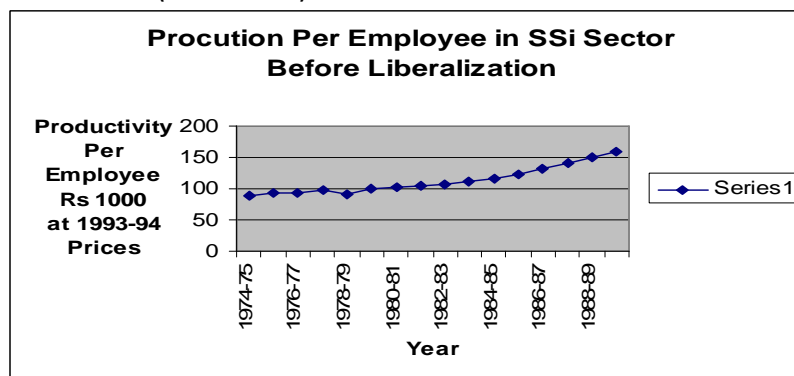


Figure 9 represents productivity per employee in Small Scale Industrial sector, before India opened up its economy. The productivity during this period from 1974 to 1990 followed an increasing trend. Average productivity during this period stood at 111.470588 thousand units per employee (Measured at 1993-94 prices). This was impressive for a country such as India in its initial stage of development.

FIGURE 10: PRODUCTION (PER EMPLOYEE) TRENDS IN SSI SECTOR AFTER INDIA OPENED UP ITS ECONOMY

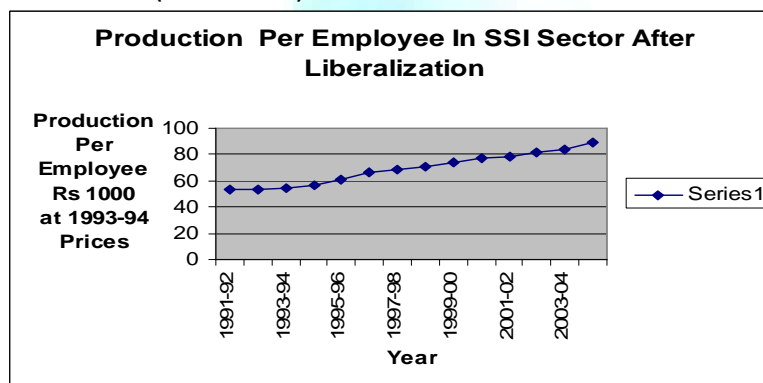


Figure 10 represents productivity per employee in Small Scale Industrial Sector after India opened up its economy to global world. The productivity per employee in small scale industrial sector ranged between 53 thousand 89 thousand measured at 1993-94 Prices, with an average at 69 thousand units per employee. Although productivity per employee showed a growing trend, but however it is not as much as it was during pre liberalization period. Thus this visibly depicts that globalization has deterred per employee value addition in small scale industrial sector of the country.

## FINDINGS AND OBSERVATIONS

Growth trend in setting up of number of units was higher in pre-globalization (1974-89) period as compared to post- globalization era (1991-2006). It ranged between 6% and 19.04% during the period from 1974 to 1990 and 3.9% to 4.13% during the period from 1991 to 2004. Growth Variance for number of units was 8.9 % for the first period and 0.0005% for the second period. The growth rate of production for the pre globalization period (1974-89) varied between 5.5% to 17.8% with the average growth rate at 11.34% and variance as 2.09% and for the post liberalization (1991-2006) period the growth rate of production varied between 3.1% and 11.4%, with the average growth rate of production as 8.256% with variance as 1.77%. Thus it can be concluded that growth rate of production of small scale industrial sector was more rapid in pre globalization era. However it depicts continuous increase from the year 2001-02.

Small scale industrial sector is an important sector from employment perspective in Indian economy. Before India opened up its economy the employment growth rate in this sector ranged between 1.7% and 18.15% from the period 1974 to 1990 with average growth rate during the period as 7.196% and variance as 13.53. It has been observed that growth rate of employment in this sector has also deterred as a result of globalization of the economy as post globalization rates of growth of employment in this sector ranged between 3.3% to 4.9% (1991-2006) with average as 4.236% and variance as 0.2644. Pre globalization (1974-91) growth rate of exports in this sector was extremely variable it ranged between -4.76% to 38.182%, with average export growth rate from the sector as 21.314, and variance as 273.663. However, impact of globalization on growth of exports from small scale industrial sector has been very modest, as from 1991 onwards that are after India opened up its economy (1991-2004) growth of exports in this sector ranged between 2.073% to 43.657% with average as 20.092 and variance as 216.64. This is because globalization assists this sector to venture in many new global opportunities.

The impact of globalization has been deterring in per employee productivity in small scale industrial sector too, as average production per employee in pre globalization period (1974-89) was 111.470 (Rs 1000 at 1993-94 prices) which had plunged to 69 (Rs 1000 at 1993-94 prices) for the post globalization period (1991-2004).

### A). REASONS FOR HIGHER GROWTH TRENDS IN INDIAN SMALL SCALE INDUSTRIAL SECTOR BEFORE INDIA OPENED UP ITS ECONOMY

At initial stage of development after country attained its independence, planning commission sought to develop small firms, as an integral part of the Mahalanobis Strategy which focused on encouraging small scale industry as it had better scope of rural employment. Protection from large firms and from cheaper imported goods was integral under this strategy. This made scope and growth of small scale industrial sector magnificent. Ever since the Mahalanobis plan of regional development was seen as integral to the development of small firms. Small firms were seen as locatable virtually anywhere as long as basic physical infrastructure such as water, electricity, roads etc. could be provided.

Further in the period of redistribution (1965- 1980) and continuing well in 1980s, small and medium enterprises were also promoted to diversify the social basis of capitalism. The important measures taken in public procurement, credit and equity support and increasing differentials in the taxes paid by small firms vis-a-vis the large (Desai and Taneja 1993, Morris 2001). Moreover existence of higher reservations and better incentives attracted manufactures not only small entrepreneurs but others who could afford to take up medium and larger units to get registered as small scale manufacturer. Thus a number of Industrial areas of small scale units were set up all over the country.

### B). REASONS FOR COMPARATIVELY DETERRED GROWTH TRENDS IN SMALL SCALE INDUSTRIAL SECTOR AFTER INDIA OPENED UP ITS ECONOMY

The main reason for slow growth rates in small scale industrial sector after trade liberalization and globalization in India was unfavorable macro economic policies. In second half of 1990's monetary policies had been unduly conservative and were typically targeting money supply rather than interest rate. This started arresting growth impetus and needlessly curtailing demand. It strikingly hurt the manufacturing sector especially the small scale. Further nearly floating exchange rate of rupee, in recent time, has affected profitability of small firms which are producing goods for export. The effective exchange rate of the rupee is

higher than the value that prevailed at the end of the stabilization period. It is doubtful to move back to those values. The small firms involved in export items have to find some means to reduce the input costs to stay in competitive market. Or the State has to think of some subsidization or tax incentives to help such enterprises. Another thing which hampers the overall growth of small scale industrial sector is 'Dumping' practice of East Asian nations especially China. It has been responsible to outrage prominent market share of domestic small scale manufacturing sector deterring its growth prospects. Moreover when large capital flow both on accounts of portfolio flows and direct investment are sought to be sterilized to hold on monetary targets, tight credit conditions are imposed on domestic firms. Such credit tightening operates asymmetrically between firms that have access to foreign capital inflows and FDI and domestic firms that lack such access. Another factor that challenged growth of small scale industrial sector was de-reservation of many categories of commodities that were initially kept in exclusive arena of small scale industries. Because of their higher competency and ability to sell products at lower prices large scale industries and multinational companies mounted their market demand capturing large market share of their small contenders.

Thus considering all the above factors, the growth of small firms in India after liberalization has not been remarkable. However the growth of domestic markets and the input linkages (especially between small and large firms through a variety of networks) facilitated the evolution of modern small scale industries. It has been noticed that successful industrialists from densely populated economies like India, have also played crucial role to strengthen the standing of small scale industrial sector especially in export and ancillary market. Such industrialists have their own comparative advantages of innovation and exploration by remaining in touch with global markets and thus creating vibrant demand of their product.

## CONCLUSION

Despite of open global competition and strengthening of parallel domestic large scale sector Indian Small Scale Industry has been competitive and innovative to ensure their growth and they not only maintained their importance in purview of Indian economy but also widened their spectrum of opportunities and areas of functioning. Apart from this, efficiency, cost effectiveness and constant innovations in Small scale industrial sector have propounded bright export opportunities for the sector. Indian small scale industrial sector has effectively made an impact and created its market in rest of the world. Thus there are many apprehensions concerning impact of globalization and liberalization on growth and competent existence of small scale industries in the country. As it was believed that in reign of globalization, BIG industries will flourish and will be powerful enough to subdue Small industries. But Indian small scale industrial sector has learned to withstand the pressures and competition imposed by its powerful internal and global contenders, as it is still growing and will grow in reign of globalization. And soon its innovativeness and cost effectiveness will increase its pace of growth in present era of globalization and liberalization.

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