Volume : 1 | Issue : 7 | Dec 2012 • ISSN No 2277 - 8160

Research Paper | Economics

Small Scale Industries in the Era of Globalization : Role of Institution in India

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KEYWORDS :

Introduction

The Indian economy has entered a phase of high growth in recent years after a long period of low growth. After liberalization, the economy grew at a rate of more than 6 per cent, on an average, during the period 1990-2004 (Agarwal, 2008). Despite this remarkable growth performance, a major point of concern has been on the quantity and quality of employment being generated (Nagaraj, 2000, Kannan and Raveendran, 2009 and Uma, 2009) and rise in inequality (Pal and Ghosh, 2007). Therefore, the policy focus appears to have shifted towards making growth inclusive as evident from the Eleventh Five Year Plan (2007-12) of the Government of India (GOI). The structural feature of the Indian economy is characterised by an overwhelming presence of unorganized small scale production (above 99 per cent of all manufacturing) which provides above 86 per cent of employment. In such an economy, the challenge of inclusion is not merely from the point of view of growth per se, but development in a transformative sense (Kannan, 2007).

In this context, the growing concern for employment generation has created renewed interest in small-scale industries (SSI) in all developing countries including India. In India, adding to employment, SSI occupies a place of importance owing to their significant contribution to national income and exports. Economic Survey, 2009-10 showed that Micro, Small and Medium Enterprises (MSMEs) contribute about 8 per cent of the GDP of the country, about 45 per cent of the manufactured output and about 40 per cent of exports. As per quick estimates of Fourth All-India Census of Micro, Small and Medium Enterprises (MSMEs), the number of enterprises is estimated to be about 26 million and these provide employment to an estimated 60 million persons. This shows the role of small scale industries in the economic and social development of the country. However, global integration through opening up of the economy heightened the market competition, the performances of the small scale industries cannot be judged by these certain relative aggregate share. If small firms have to continue well in terms of employment and production in the globalized competitive environment, they have to be competitive (Subrahamanya et al. 2002 and Bhavani, 2002).

Regardless of the school of thought, economists, from Adam Smith, Karl Marx to New Growth theorists cited that technological change has a crucial role in economic growth. Similarly OECD (2007) highlighted that innovative performance is a crucial factor in determining competitiveness and economic growth. But it is the application of advances in technology, in connection with entrepreneurship and innovative approaches to the production, which translates scientific and technological advances into more productive economic activity. Producers in developing countries find that the pressure of external competition requires them to adopt such technologies1 (Patnaik, 2006) developed in advanced countries. In this environment of market competition and rapid technological changes, small scale units can then achieve higher sustained growth by enhancing its technological capabilities, improving its productivity and product quality to global standards and seeking ways of innovation. Hence, policies aim at the expansion of productive employment through the promotion of Small Scale Industries (SSI), the question of technology is of the foremost importance (Sahu, 2006). Rest of the paper is organised as follows. The next section (2) presents a brief overview of the institutional role in technology development. Section 3 provides the problem of the study. Third section is devoted to analyze trends and patterns of SSI. Section 4 and 5 give changes in the policy environment in general and for small scale industries in particular. Section 6 analyzed the policies which aim to develop technological capability in the SSI. Final section will ends with concluding remarks.

Role of Institutions or Policies of Technology Development

Institutions include policy regimes, norms, routines, established practices, rules, laws, standards, and so on. Institutions may range from enforcements on agents to ones that created by the interaction among agents, such as contracts; from more binding to less binding; from formal to informal, such as patent laws or specific regulations vs. traditions and conventions. A number of institutions are national such as the patent system, while others are specific to sectors, such as sector labour markets or sector specific instititutions (Joseph et. al., 2010). These institutions play a major role in shaping industries' technology development and production process. Hence, specific attention to the institutions that governs technology improvement in industries become important in the context of globalization. In this paper, we are focusing on India's institutionalized, led or enabled by government2, technology improvement policies and examine how far these policies achieved its goals, such as helping industries to develop their technology. Government policies can support innovation and technology development by investing in science and basic research, as well as public support innovative activity in the private sector. It calls for an appropriate mix of direct and indirect instruments such as tax credits, direct support and well-designed public-private partnerships, support for innovative clusters (OECD, 2007).

Given the variation across sectors in terms of the employment and income generation, therefore poverty reduction, focus on potential sector in fostering inclusive growth is important. The micro foundations of technology development and, inclusive growth need to be explored at the sectoral level. The main advantage of focusing sector provides better understanding of the nature and structure of the sector, the agents and their interactions, the learning, innovation, technology and production process (Malerba, 2002). The sectoral system framework focuses not only on producing units, who are the prime actors, but also composed of other agents like associations of producers, users, input suppliers, research laboratories/universities, financial institutions, trade unions and government agencies dealing promotion and regulation. They interact through processes of communication, exchange, cooperation, competition and command, and their interactions are shaped by institutions, rules and regulations (Malerba, 2002 and Joseph et. al. 2010,). The present study is focusing on policies regarding technology improvement in small scale industries and analyzes its achievements.

Small-scale industries in India have been receiving increasing attention not only for their contribution to the economy, especially in employment generation, but also to the special packages or policies they enjoy from the government. Particularly after 1991, when India adopted economic reforms, state has introduced a number of policies to improve productive and competitiveness of SSI by developing technology. Joseph et. al., (2010) argued that innovation and technological development matters in growth, if growth has to be inclusive, the technological system that facilitates growth also needs to be inclusive. Hence the policies which are available for SSI to build up their technological capability should make certain that all the small units can approach the state, which is the primary institution aims to develop SSI, and get benefit out of those policies.

Problem of the Study

Subrahmanian (1995) highlighted that India is a pioneer in assigning a strategic role to small scale industries in its industrialization process and development. State is an important institution, in India, takes an important role in level playing between small and large scale industries through various policies, which give protective environment to small

scale industries. The quantitative restrictions on a number of products manufactured by the SSIs, tariffs and the reservation policy remain the major forms of protection. The business environment has changed drastically since the 1990s due to new economic policies deepen the competition between different sectors of the economy especially in the small scale sector by removing the protective shelter. In addition, global integration through trade and capital flows implies that the pace of technological and structural change within the economy gets linked to what prevails in the advanced countries. It is the relationships among the small firms and with the rest of the world that create environment for survival and successful operation of the small industry (Subrahmanian and Pillai, 1994). This requires the small scale sector to enhance the technological capability to improve productivity and competitiveness of the products to withstand in the global competition. The problems faced by small enterprises particularly in accessing technology and maintaining competitiveness have been formidable. Owing to the lack of familiarity with new options, inability to access them, and organizing necessary growth are a few things which are needed to be addressed through institutional support. Therefore, GOI has introduced a series of policies sought to make small scale sector a vibrant and dynamic in the global market.

Despite numerous policy/institutional measures, to improve the technology potential, India's small-scale units have remained mostly concentrated in traditional sectors, technologically backward and lacking in competitive strength. From our below analysis it has been recognized that Indian small scale industries are lacking in technological progress to achieve competitiveness and efficiency. The success of any policy can be judged on the basis of achievement of its objectives. In this context, the primary objective of state policies, which aims to achieve higher productivity and competitiveness by upgrading technological capability, remains unattained and, therefore, underlying reasons for non-attainment deserve a close and critical re-examination. Except few studies like Tendulkar and Bhavani (1997), Subrahmanya (2004) analyzing policies, in general, literatures are looking for trends and characteristics of the small scale industries (Sandesara, 1993 and Prasad, 1995). This lacuna needs to be addressed. Hence in this study we are discussing policies from protective to market-oriented environment in India, in general and for small scale industries in particular. Further, the paper also highlights the policies exclusively for small scale industries to improve technology and bring up the difficulties for SSIs to exploit these policies.

Trends and Patterns of Small Scale Industries

To understand the present situation of small scale industries performance this section provides trends patterns of small scale industries. To begin with, the study compares the performance of small and relatively large small scale industries in India, in terms of its number of units, factor intensity, and prdocutivity. A detailed analysis of growth trends in Indian small scale industry is difficult due to non-availability of time-series data on relevant variables. However, if we define the small scale sector as those units, both factory and nonfactory, are registered under State/Union Territory Directorate of Industries (SDI) to get growth trends by computing compound annual growth rates (CAGR) for selected variables based on the data from All-India Census of Small Scale Industries published by the Development Commissioner of Micro, Small and Medium Enterprises (DCMSME) for the years 2001-02 and 2006-07.

The number of enterprises can be considered as an indicator for assessing the entrepreneurial base in a particular industry. Table 1 showed that around 63.5 per cent of the units have been concentrated in the traditional industries such as food and beverages, metal products, furniture, textiles, apparel and mineral products. When we look at the large scale sector, which is ASI factory sector4, it has been noticed that the number of enterprises in the factory sector are scattered across the industries. In particular, the number of enterprises in technology oriented industries, such as chemical, machinery equipment, non-metallic mineral products, is relatively higher5. From the analysis we can observe that in the context of heightened global competition, India's large industries are moving towards technology oriented industries. However, small scale industries are still concentrated in the low-tech traditional industries.

In case of number of exporting units, once again it may be noted that, majority of the units has been concentrated in traditional industries. The industry groups in this category are food and beverages, metal products, textiles, apparel with an aggregate share of 47.6 per cent of the total. Further, the value of exports from these industries is 61.2 per cent. Interestingly, technology oriented industries such as chemical and machinery equipment together showed only 17 per cent number of exporting units. However, the value of exports from these two industries is only 7 per cent. This analysis reveals that even after twenty years of liberalization small scale industries have not diversified into technology-oriented industries which provides more competitiveness in the global market. Similarly we can also see that, a large amount of output and employment generation takes place in the traditional industries.

In the absence of strictly comparable data, it cannot be possible to draw any conclusion on the performance of small-scale firms in relation to large-scale units. However, to get rough a idea, the annual compound growth rates between 2001-02 and 2006-07 for small and large industries has been calculated (Table 2). Interestingly, small scale sector has shown a better growth performance in terms of output and employment. SSI output growth is 22.93 percent and employment growth is 10.19 per cent, which are higher than the large scale sector, between 2001-02 and 2006-07. Yet during the same period the capital growth is 34.29 percent. It can be seen that there is a mismatch between expansion in the output and capital growth. It indicates that the capital employ in these small scale units are not technology driven growth. Because, if the capital is technological driven, it should reflect in the higher growth of output than capital growth6. By implication, there has not been any significant technological development in the small scale industries.

As stated earlier the importance of small scale enterprises in developing countries argued on the ground that they are good for employment generation. With the labour-using or capital saving technology, SSI produces output with less capital but more labour than large scale enterprises. In this context, small scale industries showed 10 per cent per annum employment growth which is higher than large scale sector (5.8 percent) between 2001-02 and 2006-07.Subrahmanian and Joseph (1994) highlighted that in Indian context the choice of production technique with higher capital/labour ratio renders some competitive advantage of real costefficiency to the exporting firms. However, the matter here is not factor-intensity per se but the factor-use efficiency. It is when labour-intensive bias of technology results in higher productivity of capital, which is scarce in developing countries, the small scale enterprise assumes significance. It is the nature of technology that provides the use of scarce factors more efficiently. Hence, in the fast changing technological frontiers of the industrial world, small scale industries have to undergo a process of technological transformation which renders competitive and dynamic-growth to them (Subrahmanian, 1995). Therefore, we attempt to look at the dynamic efficiency of the small scale sector. Again, a detailed analysis is constrained by the lack of time-series data. Still a rough idea can be developed with the change in the value of efficiency ratios between 2001-02 and 2006-07 (the time points of two Censuses of Small Scale Industries).

From Table 3, it can be inferred that the emerging picture of SSI is not encouraging. The rate of increase in capital productivity is -8.46 whereas the capital intensity has increased substantially at the rate of 21.88 per cent between 2001-02 and 2006-07. During the same period the factory sector capital intensity showed -0.37 per cent growth but their productivity growth is 8.85 percent. It is the technological change that lies at the heart of the industrial competitiveness to ensure efficiency-based growth. However, the analysis shows that there has not been any significant technological progress in India's small scale industry. Ultimately in a market based economy, small scale units have to sustain themselves successfully based on their own competitive strength by facing competition from domestic and foreign units. Our analysis revealed that they are not in position to do it. Before giving suggestions what needs to be done, it is important to study the factors responsible for the present situation.

CONCLUSION:

There may be many factors responsible for this present situation. However, in India, state policies has considered as an important instrument to achieve balancing between small and large scale sector. To achieve this goal, prior to reform, policies have given protective environment to SSI. Policy during the nineties introduced, encourages SSIs to be of more vitality and growth oriented (Ministry of Industry, 2011) via achieving competitiveness in the global market. Despite the fact that the vibrancy and dynamism anticipated under an era of de-regulation and de-reservation, it remained largely unrealized. Hence, in this context, it is necessary to analyse the policy changes with the aim to improve the competitive strength of small firms.

REFERENCES

1. Increased capital intensity in India's organized manufacturing industries in particular after mid-1990s (Kannan and Raveendran, 2009) provides evidence for this hypothesis. | 2. Here we are using government and state interchangeably. | 3. We have used Fourth Census of Small Scale Industries (2006-07) Report for our analysis. Hence we could not compute growth rate at the industry-level. | 4. Annual Survey of Industries (ASI) includes the firms registered under the Factories Act, 1948, which can be considered as the relatively large scale sector or large small scale sector. As these units can come under small scale industries provided their investment in plant and machinery does not exceed Rs. 100 lakhs as on 31.3.2001. Hence, they can also register under State Directorate of Industries. | 5. For confirming this assertion we have computed the share of enterprises across industries in the factor sector, though we did not present these results here. | 6. There is the suggestion that overall efficiency represented by the total factor productivity is rather low (Subrahmanian, 1995). Due to lack of time-series data we could not analyze this hypothesis. |