



## Impact of Globalisation on Small Scale Industries in India

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### ABSTRACT

*Globalisation signifies a process of internationalisation plus liberalisation. It is the process of integrating various economies of the world without creating any hindrances in the free flow of goods and services, technology, capital and even labour or human capital. Globalisation has led to an “unequal competition” – a competition between giant MNC 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. This paper intends to present the impact of globalisation on Indian Small Scale Industries and also focuses on the performance of SSI, before and after globalisation.*

**KEYWORDS : Small Scale Industries, Globalisation and Economic Growth**

### INTRODUCTION-

Small Scale Industries occupy a strategic place in Indian economic structure due to its considerable contribution in terms of output, promotion of exports, creation of employment and alleviation of poverty. This is a fact that small scale industries have been accepted as the engine of economic growth and equitable development at global level. SSI contributes almost 40 percent of the gross industrial value added in the Indian economy. It has been estimated that a million rupees of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an appropriate value addition 10 percent points. The small scale sector has increased vastly over the years. During various five year plans the growth rates in SSI has been very impressive. The number of SSI has also risen at a reasonable rate. The SSI sector has emerged during the last five decades as a highly vibrant and dynamic sector of the Indian economy. This sector now accounts for about 95 percent of industrial units and this is contributing about 40 percent of value addition in the manufacturing sector nearly 80 percent of manufacturing employment and around 35 percent of total exports. The SSI sector is having 32 lakhs units which are spread all over the country producing nearly 7500 items, and providing employment more than 178 lakhs persons. The small enterprises not only play a crucial role in providing large scale employment opportunities at lower capital costs than large scale industries but also helps in industrialisation of rural and backward areas thereby reducing not only regional imbalances but assuring more equitable distribution of nation income and wealth SSI units are complementary to large and medium scale units as ancillary units.

Before the process of reform began in 1991, the government attempted to close the Indian economy to the outside world. The bureaucracy often led to absurd restriction up to 80 agencies had to be satisfied before a firm could be granted a license to produce and the state would decide what was produced, how much, at what price and what source of capital were used. Planning and the state, rather than markets, would determine how much investment was needed in which sectors.

A Balance of Payments crisis in 1991 pushed the country to near insolvency. In return for an IMF bailout, gold was transferred to London as collateral, the rupee devalued and economic reforms (Liberalisation, Privatisation, and Globalisation) were forced upon India. After the world economy was open to attack, the Indian economy has initiated to concentrate on the development of small industrial base, which had contributed positively to India's GDP. The main objective of the government was to transform the economic system from socialism to capitalism so that to achieve high economic growth and industrialise the nation for the well-being of Indian citizens. Controls started to be dismantled, tariffs, duties and taxes progressively lowered, state monopolies broken, the economy was opened to trade and investment, private sector enterprises and competition were encouraged and globalisation was slowly embraced.

### IMPACT OF GLOBALISATION ON SMALL SCALE INDUSTRIES-

Small scale industries have an essential role to play in socioeconomic upliftment of developing countries like India. India initiated the economic reforms in 1991 with the objective of faster economic growth. Since the globalisation process has been in vogue for the past 22 years, it becomes important to analyse whether the new economic order has had a positive or negative impact on the performance of SSIs in India. The decade of 1990s was marked by considerable deregulation of industrial economy through de licensing and de reservations, opening up the industrial sector to internal external competition, lowering of tariffs, removal of quantitative restrictions etc. These reforms have an adverse effect on the small scale sector. Cheaper and good quality of imported goods are posing a serious threat to small scale units operating in various industries like toys, sports goods, footwear, auto parts, silk etc. The most serious threat is being posed by cheap Chinese imports as the so called “China Price” is forcing many small scale units to close down. The costs of production in China are indeed very less as compared to India; it is no doubt correct to say that China is resorting to ‘dumping’ to eliminate its competitor in other markets.

Globalisation had a negative impact on Small Scale Industries. SSIs were not in fashion as they produced goods on small scale and their markets too were little. They are less priced. But with coming the wave of globalisation, the entire scenario changed. Globalisation has ultimately led to the demise of the SSI in India. Large factories produced the goods on much larger scale to get economies of scale and made the prices much cheaper or reasonable and as a result, small scale industries started shutting down because they could have the capability to face competition by the large producers.

### PERFORMANCE OF SSIs IN INDIA: PRE AND POST GLOBALISATION-

The SSIs play a significant role in enhancing the overall economic growth of an economy. The SSIs set up in different states and Union Territories of India have contributed to the increased share in overall production, fixed investment, exports, employment and capacity utilization of SSIs units, etc. The significance of SSI sector in generating large job opportunities is of paramount importance. The policy framework right from the first five year plan has highlighted the need for development of SSI sector keeping in view its strategic importance in the overall economic development of India. The impact of Industrial liberalisation and deregulatory policies on the growth of SSI has been captured by computing and subsequently comparing the growth rates between pre and post globalisation period. In this part, the performance of SSI sector has been examined in brief on the basis of different parameters such as number of SSI units, production and employments. In 2007-08 there were 132.4 lakh units, which were approximately 100 percent more than 1990-91, when the number of units was only 67.87 lakhs units. Further the total number of the

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. It indicates that SSI sector made good progress after globalisation. (SOURCE: Annual Reports MSME).

#### **AVERAGE GROWTH RATE OF SSIs IN PRE AND POST GLOBALISED PERIOD-**

- Growth rate of SSIs in pre globalised era was 4.07 on the contrary on the post globalised era it is 9.36.
- Production in SSIs in pre globalised era was 19.45 on the one hand; on the other hand on the post globalised it is reduced to 13.57.
- In pre globalised era, the employment growth rate in SSIs was 7.25, which is declined to 4.26 on the post globalised era.

**SOURCE: Sania and Kansal, 2006**

On the basis of above data, globalisation has given advantages to the SSIs since 1991 in value term. While a comparative analysis between pre globalised and post globalised era highlighted the effect on production and employment which is showing a falling trend in post globalised era. SSIs in India are facing great challenges and competition due to liberalised policies. The robust and vibrant SSIs (now MSE) 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.

#### **CONCLUSION-**

In this paper, an attempt has been made to analyse the impact of globalisation on the growth of small scale industries. The comparative analysis of growth pattern of key parameters between pre and post globalisation periods reveals that 'globalisation' had a negative impact on the average growth rate of production and employment in SSI. Though the average growth of SSI showed a positive outlook. But in absolute terms it depicted that globalisation made a positive impact on the growth of SSI in Indian economy. Since 1991, the Indian market has started opening up for foreign giants and, in turn, exposed the SSI to serve competition. The major challenges faced by SSIs are industrial sickness, non-availability of concessional loans, technological up gradation, delayed payments which are clearly seen through the reduction of their overall performance. The process of LPG has opened up new avenues and challenges for the SSIs. But this fact cannot be denied that if the government will advertise the domestic products worldwide so that the foreign folk also go in for the ethnic items produced here like khadi, wool, gems, ornaments, silk etc. This step helps to enhance the foreign exchange reserve of Indian economy. The government is doing various efforts to make things simple and provides financial support to interested individuals. The government should channelize the latent skills and talents of people into business ideas which can be transformed into reality with small capital investment and almost nil formalities to start a small business. I personally feel that proper and adequate degree of globalisation can prove boost to Small Scale Industrial growth of Indian economy.

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