



Globalisation and its Impact on Small Scale Industries in India: Bright and Dark Spots

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ABSTRACT

Economic globalization is the increasing economic interdependence of national economies across the world through a rapid increase in cross-border movement of goods, service, technology and capital. Whereas globalization is centered on the rapid development of science and technology and increasing cross-border division of labour, economic globalization is propelled by the rapid growing significance of information in all types of productive activities and marketization; the advance of science and technologies. It provides several things to several people with removal of all trade barriers among countries. Globalization happens through three channels: trade in goods and 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. The current paper is an attempt to critically analyze of the impact of globalization on Indian Small-Scale Industries. The main theme of the paper is to evaluate the performance of SSI, after globalization and to know the impact of Globalization on the performance of SSI.

Keywords: *Globalization, Small Scale Industries (SSI), Employment, etc.*

Introduction

Globalization is the metamorphosis of the individual nations into an integrated entity by means of their interconnection on an economic, social and cultural level, fuelled by easy transport and communication among them. It is the modern renaissance that makes ideas, goods, services, trade, technology and culture permeate into the entire geography of the world thus turning it into a global village. While globalization is a large scale phenomenon, small scale enterprises are a local phenomenon but having effects of dimensions as large as it's global 'friend and foe'. Friend- because both globalization and small scale industries are the two wheels of the vehicle of economic growth and prosperity; foe- because some argue that given the developing nation that India is, Small Scale Industries(SSIs) can suffer and strangle to death by the fierce competition put up by globalization.

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. 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:

- ❖ Emphasis to shift from cheap credit to adequate credit.
- ❖ Equity participation by other undertakings (both domestic and foreign) up to 24 percent.
- ❖ Introducing of factoring services by banks.
- ❖ Marketing of mass consumption goods under common brand name.
- ❖ Setting up of sub-contracting exchanges.
- ❖ Establishment of technology development cell.
- ❖ Opening of quality counseling and technology information centers.
- ❖ New technology up gradation.

Globalization:

For the purpose of the argument in this paper, as well as understanding some of the responses to globalization, it is important to define what is mean by globalization. Globalization 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. The term globalization has, therefore, four parameters:

- i. Reduction of trade barriers to permit free flow of goods and services among nation-states;
- ii. Creation of environment in which free flow of capital can take place among nation-stated;
- iii. Creation of environment, permitting free flow of technology; and
- iv. Foundation of environment in which free movement of labour can take place in different countries of the world.

Small scale industries in India:

With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small-scale industries and medium scale industries in the Indian economy. Due protection was accorded to both sectors, and particularly for small scale industries from 1951 to 1991, till the nation adopted a policy of liberalization and globalization. SMEs always represented the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for import of capital goods and input labour intensive mode of production; employment generation; non concentration of diffusion of economic power in the hands of few (as in the case of big houses); discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations. SMEs developed in a manner, which made it possible for them to achieve the following

Objectives:

- ❖ High contribution to domestic production
- ❖ Significant export earnings
- ❖ Low investment requirements
- ❖ Operational flexibility
- ❖ Location wise mobility
- ❖ Low intensive imports
- ❖ Capacities to develop appropriate indigenous technology
- ❖ Import substitution
- ❖ Contribution towards defense production
- ❖ Technology – oriented industries

SMALL SCALE INDUSTRY AND ITS IMPORTANCE

Economic development of a country is directly related to the level of industrial growth. 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 scale 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. 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:

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7. Opening of quality counseling and technology information centres.
8. New technology up gradation programmes.

The definition of small scale sector is broadened from small-scale industries to small scale enterprises that include all business enterprises in the services sector which provide service to industrial sector in addition to small scale industries taking into account all these factors, at present, Reserve Bank of India uses an expanded definition of small scale industries which include:(i) Small scale industrial undertaking which are engaged in the manufacturing, processing and preservation of goods in which the investment in plant and machinery not to exceed Rs. 5crore. These would include units engaged in mining or quarrying servicing and repairing of machinery. (ii) Tiny enterprises whose investment in plant and machinery do not exceed Rs.25 lacks. (iii) Power looms. (iv) Traditional industries which require high workmanship and techniques and also village and household industries producing common goods of consumption predominantly by using simple tools. (v) The decentralized and informal sector like handlooms and handicrafts. (vi) The industry related to services/ business enterprises. (vii) Food and agro-based industries. (viii) Software industry. The development of small scale industries is being given due importance by the Government in order to achieve the following objectives:

- a) To provide additional employment opportunities.
- b) To mobilize resources of capital and skill from various parts of the country.
- c) To provide a more equitable distribution of national income.
- d) To provide a helping hand to large industries and facilitate them in their work.

OBJECTIVE OF THE STUDY

The major objectives of the study are as follows:

1. To find out SSIs contribution to the economy in India.
2. To analyse the Bright and dark spots of Small scale industries in India during the globalization period.
3. To study the impact of globalization on Small scale industries in terms of growth rate of the employment.

METHODOLOGY

The present study is based upon the secondary data analysis by referring annual reports of SSI issues by Ministry of small scale industries and RBI. The main objective of the present study is to analyse the impact of globalization on the performance of small scale industries.

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 Globalisation 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.

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.

Flow of credit to MSMEs sector:

The Government of India has been extending liberal financial support to MSMEs through banks and financial institutions. The credit flow to MSMEs is regularly monitored by State Level Bankers' Committee (SLBC) Meeting at the State level. At the District level the same is monitored by the District Level Bankers' Committee Meeting with District Collector as its Chairman. The flow of credit for the MSMEs during the XI Plan period is given below:-

Institutional Support for Small Scale Industries

- ❖ Small Industries Development Organization (SIDO)
- ❖ National Small Industries Corporation (NSIC)
- ❖ National Institute of Small Industry Extension Training (NISIET)
- ❖ National Institute for Entrepreneurship & Small Business Development (NIESBUD)
- ❖ National Research Development Corporation (NRDC)
- ❖ Small Industrial Bank of India (SIDBI)

Bright and Dark spots in the economy

Positive Effects

Delicensing, removal of government restrictions on industries and liberalization of foreign investments have reduced the time and money spent in formal procedures for obtaining approvals from the government. This has shifted the focus of enterprises to the actual business of production thus lowering project costs.

Exports have increased so also has the volume of trade.

Policies in areas of foreign investments have attracted inflow of foreign capital especially in sectors like electrical equipment, services and telecommunication. Indian industries and financial institutions have undertaken investments abroad. Several Indian companies have entered into joint ventures with foreign companies. They are becoming internationally competitive.

India is increasing its export orientation through setting up of SEZs (Special Economic Zones) and they are making their international presence felt through mergers and acquisitions.

Industrial labour has become more efficient and skilled due to increased competition and inflow of foreign knowledge. There is a rise in industrial productivity which is reflected in higher industrial wages. Instances of industrial sickness has gone down.

The goods produced by Indian industries in this competitive scenario, sold at competitive prices give higher levels of satisfaction to the Indian consumers as they are of superior quality. The small scale sector is growing more robust with preferential loans, microfinance and other forms of credit being made available. Some SSEs have grown into medium scale operations.

Negative Effects:

Certain sectors that were already well established when opened to foreign investment led to exploitation of their resources by dominating MNCs and stifle their own R and D efforts. Use of foreign technology may not be adaptable to Indian conditions. Sometimes MNCs deliberately use less sophisticated technology in their subsidiaries. There's excessive competition in the market that puts too much pressure on domestic companies to raise productivity, improve product quality etc. Rising urban industrial wages are much higher than rural wages, which leads to disparity in incomes. There's uncontrolled growth of consumerism and the problem of plenty as a consumer has lot of choice. Businesses are solely motivated by private profits. Globalization has in fact raised capital intensity in production and this has affected employment adversely as labour has been replaced by machine.

Globalization has exposed domestic firms to risks such as fluctuations in prices, instability of profits and uncertainties of demand and supply.

EFFECT OF GLOBALIZATION ON EMPLOYMENT

The effects of globalization on employment can be analysed based on the NSSO (National Sample Survey organization) data. The employment (Current daily status) growth accelerated between 1999-2000 and 2004-05 as compared to the previous period of 1993-94 to 1999-2000. During 1999-2000 to 2004-05, about 47 million work opportunities were created and as compared to 24 million during the period 1993-94 to 1999-2000. Employment growth accelerated from 9.25 per cent per annum during 1993-94 to 1999-2000 to 2.62 per cent per annum during 1999-2000 to 2004-05. However, a higher labour force growth of 2.84 per cent per annum during 1999-2000 to 2004-05, which exceeded the growth in workforce of 2.62 per cent per annum, resulted in an increase in unemployment rate from 7.3 per cent in 1999-2000 to 8.3 per cent in 2004-05.

In recent years, the quality of employment created has also been a matter of concern as the organized sector employment has been declining. Moreover the share of regular workforce in total employment was low. This decline is attributed primarily to a decline in employment in PSUs. During 1999-2000 to 2004-05, most of the growth of 4.7 per cent per annum in industrial and tertiary employment was in the unorganized sector. There has been a clear shift in workforce from organized sectors to the casual and informal sectors as liberalization has caused in formalization of labour.

At present, the main challenges for the policymakers are to target a rapid growth of employment creation and also improve the quality of employment generated by strengthening the organized sector.

Negative Impact:

- The organized sectors have become profit-driven and there are a lot of emphasis on cost-cutting and have therefore gone in for downsizing policy. Labour in unorganized sector is not protected, so they have no job security, provident fund, medical facilities or paid leave and suffer due to low wages. Globalization has caused a shift of labour from the organized to the unorganized sector.
- Even large firms like Bajaj Auto and Tata Steel have succumbed to pressure and have chosen automation and computerization of processes over securing jobs of their employees. Excess labour has been retrenched by offering VRS (Voluntary Retirement Scheme) and CRS (Compulsory Retirement Scheme). According to a report of National Commission on Labour (2002) indirect compulsion, pressure tactics have been used to compel employees to resign under VRS
- With disinvestment of some public sector units, employment in these sectors has reduced. The most affected sectors are manufacturing, construction, electricity, gas and water supply.
- The level of employment in the small scale sector has remained stagnant and discouraging. FDI inflow in several sectors has wiped out the business of many small and medium size enterprises forcing them into closure.
- MNCs have exported jobs from developed countries to developing countries through foreign investments. Moreover they offer higher pay than what is offered by employers of local enterprises adding to the inequalities in income.

- Through trade liberalization the government has actually encouraged substitution of domestic goods by imports which have reduced the market size for goods manufactured by domestic labour bringing down their wages and putting their jobs in danger.
- Trade unions have become weaker in negotiating better pay and security for workers as only efficient labour is absorbed by the profit- driven enterprises. To save workers from losing jobs, they were compelled to accept cuts in salaries, freezing of dearness allowance and other benefits and eventually reduction in labour force.

Positive Impact:

- The employment in the services sector has increased from 20% in 1991 to over 30% in 2010. The reason behind this is creation of new jobs in the IT and communication sectors. Jobs in Call Centres, BPOs, and medical transcription as well as other service sectors such as banking, insurance, and airlines have buoyed employment. Foreign companies from different sectors like banking, and finance have come to India to outsource their work creating jobs in accounting, mortgage collections, marketing etc.
- Other sectors where job opportunities have multiplied are Biotechnology; health care especially with chains of private hospitals being set up; medical research centres; food retailing with shopping malls cropping up at every nook and corner of the cities and towns.
- In the field of education, there is a demand for trained professionals as international schools and colleges are poised to enter India on a wider scale.
- MNCs generate employment for the skilled workforce especially in urban areas. It motivates labour to pick up various skills through training.
- There is an increase in contractual and casual employment due to globalization since employers can't afford to have a large workforce on a regular basis.

Female participation in workforce has actually improved.

Especially in the casual, informal sectors affording low wage or flexible employment and export oriented low technology high labour industries such as garments, electronics .etc., there has been an increase in women's employment.

Globalization will kill Small-Scale Industries in India

Globalization is the metamorphosis of the individual nations into an integrated entity by means of their interconnection on an economic, social and cultural level, fuelled by easy transport and communication among them. It is the modern renaissance that makes ideas, goods, services, trade, technology and culture permeate into the entire geography of the world thus turning it into a global village.

While globalization is a large scale phenomenon, small scale enterprises are a local phenomenon but having effects of dimensions as large as it's global 'friend and foe'. Friend- because both globalization and small scale industries are the two wheels of the vehicle of economic growth and prosperity; foe- because some argue that given the developing nation that India is, Small Scale Industries(SSIs) can suffer and stragulate to death by the fierce competition put up by globalization. Let us observe and decide.

Micro and small scale enterprises have existed in India since ages in the form of traditional skills and knowledge based products made by people for the self sufficiency of rural India. Today as per the government definition, "An industrial undertaking in which the investment in fixed assets in plant and machinery whether held on ownership terms on lease or on hire purchase does not exceed Rs. 10 million, can be categorized as small scale undertaking". After independence, the Indian government made various laws to help revive and flourish the SSI because of the employment potential it had at a low capital cost. It needed mediocre technical knowledge and minimal infrastructure to set up. Thus it was and is the most ideal form of employment opportunity for both the urban and rural population. It not only encourages entrepreneurship among people but also makes them self-reliant. Govt. funding, support and intensive promotion has aided people to participate more in this successful phenomenon making SSI the second largest employment sector after agriculture. It forms about 45-50% of our exports. The products also form a large percentage of our domestic market too with SSI producing a number of products like confectionaries, spices, beverages, natural essence oils, dyes, sports goods, wooden furniture, glass, ceramic and earthen wares, cotton and woolen knitted products, silk and synthetic wear, leather shoes, bags, garments and novelty items, plastic items, survey instruments, auto parts, clocks and watches, musical instruments, lab chemicals, basic metallic and non-metallic mineral products. They are the dynamic sectors of our economy. It also leads to the preservation of many traditional and indigenous skills and products our country is famous for. It is the road to rural industrialization and 'rural urbanization' thus creating a regional balance.

India was self-reliant and self-sufficient but with the march of the world towards industrialization India found its closed policy of trade leading to an impending economic crisis. The main reason behind this was the focus of efforts on heavy industries and lack of it on the consumption goods. From 1991 India witnessed a major change as the govt. introduced liberalization, privatization and globalization reforms to pep up the economy. Soon the world realized what a big 1billion-population-market India was. They brought their goods to India which were mass produced and therefore cheaper and of better quality than the local goods. They started challenging the SSI and thus posed an end to them. Further with the introduction of Special Economic Zones (SEZs), the MNCs were facilitated with areas with liberal economic and trade laws, round the clock facilities and concessions to enhance foreign investments and promote exports. This endangered the existence and survival of SSIs.

But this is not the complete picture. A lot of foreign entrepreneurs who do not have the time or funds to build the infrastructure for their own manufacturing unit in India engage a number of SSI owners to produce goods for them in a short span of time and sell them to cater to the international demand. In other words they outsource the manufacturing to the Indians. Thus it leads to more labour absorption and growth of SSIs. Many of the SSIs have turned into LSIs this way. Also the demand for SSI goods will never finish as a lot of their products are not lucrative options for the MNCs. For example, the incense sticks or agarbatties, bangles, pickles, etc. are not a catch for LSIs but have a constant demand and thus SSIs have a great opportunity in identifying such areas.

So it can be said that both globalization and SSIs are the essentials of Indian economy and India must make efforts to promote, sustain and aid both in a fair and unbiased way. A fruitful measure would be to reserve certain goods for production exclusively by the SSIs and their intelligent outsourcing by the govt. to ensure maximum benefits. Also the govt. should advertise the indigenous goods worldwide so that the foreign folk also go in for the ethnic items produced here like khadi, silk, wool, statues, gems, ornaments, etc. as these represent the traditional art form and culture of the region. As far as the financial aids are concerned, the govt. is doing good work to make things simple and possible for the interested individuals by funding and financial support. Also the setting up of institutes for technical training and skill enhancement of the workforce is helping in a big way.

While globalization has put us on the map of superpower countries, SSIs have empowered the common man to walk with the same stride as the big-wigs. For India to be a superpower, it is must make efforts to strengthen each and every thread of its economic fabric to make the flag of its success fly high

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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