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## **GLOBALISATION AND SMALL SCALE INDUSTRIES IN INDIA**

**Dr. K. Rajan\***

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### **INTRODUCTION**

Industrialisation is essential for the economic development of a nation and for industrialisation, the role of small-scale industries are more important than that of the large scale industries in underdeveloped countries like India. The role of small scale industries is crucial in reducing the problem of high unemployment prevalent in under developed labour surplus economies. It also helps in overcoming the dearth of capital in capital scarce countries like India as small scale industries generally use more labour and less capital. Hence, the small scale industries are more suited to a labour surplus economy like India. The Small Scale Industries accounts for about 45 percent of the manufacturing output and 40 percent of the total export of the country in addition to generating employment to about 42 million persons in the country. The importance of Small Scale Industries in Indian economy is due to its contribution to the total industrial production and in the GDP of India. During the year 2002-03, the small scale sector accounts for about 39.12 percent of the total industrial production and although the share of this sector in total industrial production has been slightly diminishing, it still accounts for about 38.57 percent of the industrial production in the year 2007-08. The SSI sector has contributed 5.77 percent of the GDP of India during the period 2002-03 which has really increased to 5.94 percent during the period 2007-08 (Topandasani 2011.). Realizing the decisive role of small-scale industries in reducing unemployment, in the speedy industrialisation and in rapid economic development, governments have extended all types of protection and support to this sector since independence.

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\*Associate Professor in Economics, M.D.College, Pazhanji, Thrissur, Kerala



All our industrial policies have given top priority to small scale industries and provided special concessions by granting protection and support of various types by reserving some industries for SSI units and also by granting exemption from payment of excise duties to the products of the Small Scale sector. The industrial policy resolution of 1948 and 1956 has given a vital role to the small-scale industry in India in generating additional employment per unit of capital invested. This has resulted in the fast growth of the small scale industries in India in terms of number of units and in the provision of employment. Among the diverse roles played by Small Scale Industries in Indian economy, the most important role is in the generation of employment opportunities to the people.

### **DEFINITION OF SMALL SCALE INDUSTRIES (SSI)**

The definition of Small Scale Industry may vary from country to country, year to year, from period to period and from time to time and according to the level of economic development reached in a country. Some times it is defined in terms of number of workers employed and on the use of electric power and also in terms of investment made. Generally the definition of small-scale industries (SSI) is largely in terms of fixed capital investment. An SSI in India is currently defined in terms of which investment in fixed assets such as plant and machinery, whether held on ownership terms or on lease or hire purchase, does not exceed Rs. 10 million. In general, small scale industries are located in urban areas and produce goods employing hired labour and using mechanized equipments. SSI is considered as an important factor in realizing the objectives of economic growth and equity in the distribution of income and wealth. Hence, on account of its capacity to generate employment opportunities in addition to its favorable impact on equitable distribution of income and wealth, governments in India have been supporting the Small Scale Industries. The preferential policies of the governments in India include financial assistance from commercial banks, development financial institutions, tax exemption, reservation of items for Small Scale Industries, preferences in the purchase of products by government agencies, preferential access to materials and provision of infrastructural facilities (Nikaido 2004).

### **GLOBALISATION IN INDIA**

The word globalization may mean different things to different people. There is no unanimity among the users regarding the meaning of the term globalization. Some consider it as emergence of a new global order while others consider it as imperialism in a new garb while



some others consider globalisation as creation of Transnational Corporations (TNCs) which perceive the whole world economy as a single unit by integrating the regional and national economies with the world economy through neo-liberal programmes. Hence, globalisation is defined as marketisation on a global scale and privatisation and liberalisation were prescribed to facilitate global marketisation (Kurian 2009). Therefore privatization and liberalization of the economy by opening the national economy to the countries of the world are the important aspects of globalization. One of the important objectives of the Industrial policy 1991 was attainment of international competitiveness to Indian industries. The poor performance of the Indian Economy and the balance of payment crisis during 1990s have forced the government of India to adopt reform packages which include liberalisation, privatisation and globalisation of Indian Economy. Hence, Indian Economy was fully open to the world countries largely by 1990s. As result of globalization, drastic changes were made in Indian economy including changes in the Industrial Policy of India. One of the important aspects of the changes in the industrial policy was the removal of governmental controls and regulations on industries and government also withdrew concessions and special consideration and protections granted to our small scale industrial units. After globalization of the economy in 1991, the environment of SSI changed drastically as SSI has been experiencing severe competition from foreign firms. As a result of Liberalization in 1990s, the government has liberalised the industrial licensing policy and permitted foreign investment. Moreover, 73 items reserved exclusively for the SSI sector were de-reserved in June 2003 and further 85 items reserved for the SSI sector were de-reserved in October 2004 (Burange and Shruti Yamini, 2011). No need to say that these policy changes will affect the performance of small scale industries in India as Indian small scale industries began to face severe competition from the world industries. In this context, there is an urgent need to examine the impact of globalization and consequent changes that have taken place in the Small Scale Industrial sector in India as a result of policy changes. Hence, in this paper, we have made an attempt to examine the performance of small scale industries in India making a distinction between pre and post reform period.



## **DATA SOURCES**

The paper is mainly based on secondary data collected from various published sources especially by RBI and also from other sources like Journals. For the purpose of analysis, we have used averages, percentages and growth rates.

## **OBJECTIVES**

The present paper is an attempt to examine the performance of Small Scale Industries (SSI) in India during the period 1980-81 to 2007-08 making a distinction between the pre and post reform (globalization) period.

## **PERFORMANCE OF SMALL SCALE INDUSTRIES**

Performance of SSI units can be examined in terms of number of units, in terms of employment, in terms of production and in terms of exports.

### **Performance of SSI in terms of number of Units**

The Small Scale Industries in India have been growing rapidly as a result of the protection and supported granted to it by the governments in India. The growth of Small Scale Industries in India during the pre liberalization period (before globalization) is given in the table 1. As per the table, the number of SSI units was less than one million (0.87 million) in India during the year 1980-81 which has consistently increased over the years and has reached 1.82 million units during the year 1989-90 (pre reform period). There was a significant change in the number of SSI units during the year 1990-91 owing to the changes in the series (1990-91 revised) on the basis of the Third All-India Census of SSI units. It should be noted that although the absolute number of SSI units has increased over the pre reform period, there has been a significant decrease in the year to year rate of growth in the number of SSI units in the country for several years during the pre globalization period. The growth rate in the number of SSI units has decreased from 10.42 percent in the year 1982-83 to 9.43 percent in the year 1983-84 and then fell significantly and reached 6.90 percent in the year 1984-85. Thereafter, the growth rate has slightly increased up to 1988-89 and then again declined to 6.43 percent in the year 1989-90. Thus, the performance of our Small Scale Industrial sector in terms of the number of units although increased in numbers, has decreased in terms of the rate of growth (table 1.1). Barring the year 1990-91, the year when the All India-Census of SSI units were revised, the growth rate of small scale industries during the pre globalization period ranges between 10.42 percent (1982-83) to 6.43 percent



(1989-90). As such, we can conclude that although there was significant increase in the number of SSI units in absolute numbers, the performance of Indian SSI units in terms of the growth was not very good.

When we come to the performance of the Small Scale Industrial sector during the period of globalization (Post reform period from 1991-92 -2007-08), the number of units has been consistently increasing and it has increased from 7.06 million units in 1991-92 to 13.37 million units in 2007-08 (table 2). Thus, the number of SSI units has constantly increased during the post globalization period of 1991-92 to 2007-08. The growth rate of SSI units has remained around 4 percent through out the post reform period and the growth rate in the number of SSI units during the post reform period is in the range of 4.13 (2007-08) percent to 3.98 percent (1991-92).

The analysis of the growth rate of the number of SSI units clearly indicates that the annual growth rate is very much lower during the post liberalization period compared to the growth rate of the pre reform period. The pre globalization growth rate never has gone below 6.43 percent whereas it has reached 3.98 percent during the post globalization period. Thus, we can safely conclude that the performance of SSI units in terms of growth rates during the post globalization period is comparatively poor. Thus, our analysis shows that the performance of SSI units in terms of growth rate of the number units in India has been much better during the pre globalised period compared to the post globalisation period. The comparatively poor performance of SSI sector during the post globalisation period may be due to the competition of these units with the products of the similar firms in foreign countries. The relatively poor performance of SSI units may be because of the withdrawal of the preferential treatment and protection granted to this sector during the pre liberalisation period by the government of India during the post liberalization period as part of liberalization, globalization and privatization (LPG Policies) policies. There are studies which attributed the comparatively poor performance of SSI units in terms of the growth rates in numbers during the post liberalization period to the severe competition from the products of foreign firms. These studies attributed that those SSI units which do not have good infrastructural facilities to face the stiff completion with other foreign firms may have exited from the field resulting in the fall in the growth rates (Subramanya, 2006, p.244).



### **Performance of SSI in terms of Production**

The performance of small scale industries can also be analysed in terms of production of these industries. According to the table 1, the production of small scale industries during the year 1980-81 at constant prices was worth Rs.72, 200 crores which has increased to Rs. 1, 89,900 crores during the year 1989-90. The significant reduction in production in the year 1990-91 compared to the production of earlier years is due to the data inconsistency. In terms of year over year growth rates, the production although has slightly decreased in the initial years of pre liberalization period has shown a rising trend during the period 1983-84 to 1986-87. However, the growth rate of production again showed a decreasing trend during the period 1986-87 to 1989-90 as production declined from 13.12 percent in 86-87 to 11.77 percent in the year 1989-90. As stated before, the drastic fall in the growth rate of production in the year 1990-91 to (-55.38) is explained in terms of data inconsistency. Thus we can conclude that during the pre reform period, the performance of small scale industries in terms of production has grown in the range of 13.12 percent to 8.17 percent during and production has significantly and consistently increased in terms of value of production.

When we analyse the performance of small scale industries in terms of value of production during the post globalization period, we can see that it has consistently increased from Rs. 87, 355 crores in the year 1991-92 to Rs. 1, 84,401 crores in the year 2000-01 (table 2). The great jump in production in the year 2001-02 is due to the changes in the base year prices as the production of 2001-02 is in terms of 2001-02 prices. Production of SSI units again increased from Rs. 3, 06,771 crores in 2002-03 to Rs. 5, 32,979 crores in 2007-08. When we examine the production in terms of growth rates, we can see that production has increased from 3.1 percent to 11.32 percent in the year 1996-97 after that it has declined and remained almost constant at around 8 percent till 2000-01. The multiple increases in the growth rate of production in the year 2001-02 are due to the changes in series of prices in which the production is valued. Barring 2001-02, the growth rate of SSI production has showed the rising trend as it increased from 8.68 percent in 2002-03 to 13 percent in 2007-08. Altogether the growth rate of SSI production during the post reform period ranges between 13 percent to 3.1 percent.



When we compare the performance of SSI during the pre reform and post reform period, we can see that the pre reform production growth rate is at a comparatively higher rate as the growth rate is in the range 8.17 percent to 13.12 percent whereas the post reform growth rate is in the range of 3.1 percent to 13 percent. Hence, it can be generalized that the performance of SSI units in terms of growth rate is almost steady and better during the pre reform period compared to the performance during the post reform period. The relatively fluctuating growth rate and comparatively poorer performance of SSI units in terms of production during the post liberalization period may be because of the withdrawal of the protection and support to this sector by the government due to the liberalization, globalization and privatization policies.

### **Performance of SSI in Terms of Employment**

One of the important reasons behind the concessional treatment given to small scale industries is its capacity to generate more and more employment opportunities and reduction in the rate of unemployment in the country. There are studies which established that a lakh rupees If investment in fixed assets in the small scale sector provides employment to four persons (Pandey and Shivesh, 2007). According to the table 1, SSI in India provided employment to about 7.1 million people in the year 1980-81 which has consistently increased and reached 15.83 million people in the year 1990-91. The rate of increase in employment during the pre reform period although shows slight variations has remained almost stable around 6 percent for the entire pre reform period. The growth rate during the pre reform period is in the range of 6.89 percent to 5.33 percent. As a whole, the available data shows that the performances of the SSI units in terms of employment generation during the pre reform period of 1980-81 to 1990-91 are quite good.

The post liberalisation performance of SSI units in terms of employment also shows that this sector has been consistently improving its performance as this sector has generated employment to 16.60 million people in the year 1991-92 which has increased to 32.23 million people in the year 2007-08 (table 2). However the growth rate of employment has fluctuated during the post liberalisation period and it has been a little more than 3 percent for many years during this period. The employment growth rate during the post liberalization period is in the range of 3.14 percent to 5.30 percent.



Thus, the available data shows that the performance of SSI units in terms of generation of employment is far better during the pre reform period compared to the post reform period. This poorer performance of the SSI sector during the post liberalisation period may be because of the withdrawal of government support to these industries and the consequent competition the SSI sector faced from other foreign firms during the post reform period. There are studies which attributed the comparatively poor performance of SSI units in the generation of employment opportunities during the post liberalisation period to the use of more capital intensive techniques of production by SSI units owing to the severe competition it faced during the post liberalisation period. There are studies which reported that those SSI units which could not use capital intensive techniques of production and compete with the more competent foreign firms during the post liberalization period were closed which have resulted in the comparatively poor performance in the generation of employment opportunities during the post liberalization period (Subramanya, 2006, p.244).

**Table 1 Performance of Small Scale Industries in India during the  
Pre Reform Period**

Year	Units (Million Nos.)	Growth Over Previous Year (%)	Production		Employ ment (Million Nos.)	Growth Over Previous Year (%)	SSI Export	
			At Constant Prices (Rs.Crore)	Growth Over Previous Year (%)			(Rs. Crore at Current Prices)	Growth Over Previous Year (%)
1980-81	0.87	--	72200	8.73	7.10	--	1600	--
1981-82	0.96	10.34	78300	8.45	7.50	5.63	2100	31.25
1982-83	1.06	10.42	84700	8.17	7.90	5.33	2000	-4.76
1983-84	1.16	9.43	93500	10.39	8.42	6.58	2200	10.00
1984-85	1.24	6.90	104600	11.87	9.00	6.89	2500	13.64
1985-86	1.35	8.87	118100	12.91	9.60	6.67	2800	12.00
1986-87	1.46	8.15	133600	13.12	10.14	5.63	3600	28.57
1987-88	1.58	8.22	150500	12.65	10.70	5.52	4400	22.22
1988-89	1.71	8.23	169900	12.89	11.30	5.61	5500	25.00
1989-90	1.82	6.43	189900	11.77	11.96	5.84	7600	38.18
1990-91	6.79	273.08	84728	-55.38	15.83	32.36	9664	27.16

Source: RBI (2009)

Notes: 1.Data has been revised since 1990-91 on the basis of the findings of the Third All India Census of SSI units. 2. Production figures are at 1993-94 prices till 2000-01. However, since 2001-02, they are at 2001-02 prices.



**Table 2 Performance of Small Scale Industries in India during the  
Post Reform Period**

Year	Units (Million Nos.)	Growth Over Previous Year (%)	Production		Employ ment (Million Nos.)	Growth Over Previous Year (%)	SSI Export	
			At Constant Prices (Rs.Crore)	Growth Over Previous Year (%)			(Rs. Crore at Current Prices)	Growth Over Previous Year (%)
1991-92	7.06	3.98	87355	3.1	16.60	4.86	13883	43.66
1992-93	7.35	4.11	92246	5.6	17.48	5.30	17784	28.10
1993-94	7.65	4.08	98796	7.1	18.26	4.46	25307	42.30
1994-95	7.96	4.05	108774	10.1	19.14	4.82	29068	14.86
1995-96	8.28	4.02	121175	11.4	19.79	3.40	36470	25.46
1996-97	8.62	4.11	134892	11.32	20.59	4.04	39248	7.62
1997-98	8.97	4.06	146263	8.43	21.32	3.55	44442	13.23
1998-99	9.34	4.12	157525	7.70	22.06	3.47	48979	10.21
1999-00	9.72	4.07	170379	8.16	22.91	3.85	54200	10.66
2000-01	10.11	4.01	184401	8.23	24.09	5.15	69797	28.78
2001-02	10.52	4.06	282270	53.07	25.23	4.73	71244	2.07
2002-03	10.95	4.09	306771	8.68	26.37	4.52	86013	20.73
2003-04	11.4	4.11	336344	9.64	27.53	4.40	97644	13.52
2004-05	11.86	4.04	372938	10.88	28.76	4.47	124417	27.42
2005-06	12.34	4.05	418884	12.32	29.99	4.28	150242	20.76
2006-07	12.84	4.05	471663	12.60	31.25	4.20	--	--
2007-08	13.37	4.13	532979	13.00	32.23	3.14	--	--

Source: RBI (2009)

Notes: 1.Data has been revised since 1990-91 on the basis of the findings of the Third All India Census of SSI units. 2. Production figures are at 1993-94 prices till 2000-01. However, since 2001-02, they are at 2001-02 prices.

#### Performance of SSI in Terms of Exports

The contribution of SSI sector to our total exports was very much significant and this was one of the important reasons behind the provision of special concessions to the SSI sector in India. This sector was given a pride of place in bringing valuable foreign exchange to our country. As per the available data, the exports of goods by SSI units in the year 1980-81 at current prices was about Rs.1600 crores which has increased to Rs. 2100 crores in the year 1981-82 although, the value of exports has slightly dipped in the year 1982-83 (table 1). However, the exports performance has improved during the pre reform period as it has increased from Rs. 2,200 crores in 1983-84 onwards reaching Rs.7600 crores in the year 1989-90. The performance of this sector in terms of growth rates has gone down



significantly as the growth rate for the year 1982-83 has been negative (-4.76 percent). There after the growth rate has shown an increasing trend for two years (1983-84 and 1984-85); again it has gone down for the year 1985-86. However, the performances of SSI in terms of growth rates of exports are very high for the years 1986-87 and 1989-90. Hence, barring the negative growth rate of SSI exports in the year 1982-83, the performance of SSI is quite good.

When we analyse the performance of SSI units in terms of exports in India during the post reform period, we can see that this sector exported goods worth Rs.13,883 crores in the year 1991-92 which has increased to Rs. 69,797 crores in the year 2000-01 (table 2). Again exports increased from Rs.71, 244 crores in the year 2001-02 to 1, 50,242 crores in the year 2005-06. When we examine the growth rates of exports during the post reform period, we can see large fluctuation in exports. For example, the growth rates of exports in the years 1996-97, 1998-99, and 1999-2000 have significantly declined. On the other hand , the performance of the exports are remarkably better in the early years of post reform period especially in the years 1992-93,1995-96,2000-01,2004-05 and 2006-07. Altogether the export performance of SSI units in the later years of post liberalization period are comparatively poorer compared to the performance of early years of post liberalization and pre liberalization period. The comparatively poorer performance of exports during the post liberalisation period can be attributed to the withdrawal of government support and consequent competition it has faced from the foreign firms which may have resulted in the poorer export performance of SSI units in India.

## **CONCLUSIONS**

India is a developing country trying to achieve rapid economic development by mainly concentrating on the industrial sector. For industrial development, development of small scale industries is more suitable for labour surplus and capital scarce countries like India. Owing to the crucial role of small scale industries in the employment generation, production and exports, government of India has given top most priority to the small scale industries in all our Industrial Policies. However, the opening up of the economy in 1990s as a result of liberalization, privatization and globalization, there were significant changes in the policy of the government towards the small scale sector. The special reservation accorded to the small scale industries and the exemptions given from paying excise duties and other several



concessions given to the small scale sector has been slowly withdrawn and these industries were forced to face severe competition from the products of foreign firms. In other words, there was a general feeling among the industrial sector of India that the reform measures carried out in India would adversely affect the performance of small scale industries. It is in this context that we have made an attempt to examine the performance of small scale industries for the whole period of 1980-81 to 2007-08 with an emphasis on the pre reform period (1980-81 to 1990-91) and globalisation or post reform (1991-92 to 2007-08) period. The performance was analysed in terms of the number of units, in terms of production, in terms of generation of employment and in terms of exports. The paper was mainly based on the secondary data especially the data provided by RBI although data from other published sources like Journals were used. Our analysis shows that the performance of small scale industries in terms of all the indicators in terms of number of units, production, employment and exports, during the pre reform period is much better than the performance during the post reform period. The major reasons behind the comparatively poor performance of small scale industries during the post liberalization (post globalization) period are the stiff competition the small scale industries faced during the post liberalization period owing to the withdrawal of special concessions like reservation of items, exemption from excise duties and withdrawal of protection granted to this sector during the post liberalization period as a result of its liberalization, privatization and globalization (LPG) policies. Hence, the paper indicates the need for granting special care to accelerate the performance of this sector in generating employment, augmenting production and increasing exports. Government should make necessary modifications in its policies towards the small scale sector in the new context according to the changing circumstances so as to enable this sector to improve its performance. Improved performance of this sector will increase the employment opportunities by reducing the problem of unemployment and will increase the earning of valuable foreign exchange by increasing the export of small scale industrial products and would help to have a more egalitarian distribution of income and wealth in the country. Thus, in the present era of globalization, it is essential for the growth of Indian economy to promote and improve the performance of SSI by providing sufficient finance, infrastructural facilities, to enhance skill development and innovation which may improve the quality of the products of small scale industries.



## NOTES AND REFERENCES

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