

Plight of Small Scale Sector in India under Globalize Era

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Abstract

THE SMALL SCALE SECTOR IN INDIA embraces various types of units, ranging from ancient household industries to modern small scale units, which are mainly located in the urban areas and produce goods using wholly or partly the mechanized equipment. This has considerably diversified its production and is manufacturing a wide variety of products and services, which include the sophisticated items, which are either export oriented or import substitution based products. The successive Industrial Policy Resolutions adopted by Union Government spelt out the expected role of small scale sector in the development of India's national economy. Besides, the various Five Year Plans also gave importance to this sector for industrial development, employment generation and diversification of economic activities to help in equitable distribution of national income and to reduce foreign exchange outlay (Khan, 1989).

The small scale sector occupies a central place in the economy of India but the globalization process which started with high speed about one and a half decades back is only spreading capitalistic economy in another form. Human life has also been turned topsy-turvy through the liberalized economic policies implemented by the government. It is not only the capital that is being imported but also technology. When technology is coordinated with the means of production the importance of human labour is declined. As a result employment potential has decreased and many have lost their jobs and job opportunities (Rani, 2003). The present paper thus attempts to highlight the present state of small scale sector in India in the globalised era arising from the outmoded technology, inadequate marketing outlets, non - availability of timely finances, managerial deficiency, low quality standards and heavy global competition. It also offers suggestions for future development of this sector.

Keywords: Globalization, Sick Units, Performance, Economic Growth.

FULL PAPER

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The small scale sector occupies a central place in the economy of India but the globalization process which started with high speed about one and a half decades back is only spreading capitalistic economy in another form. Human life has also been turned topsy-turvy through the liberalized economic policies implemented by the government. It is not only the capital that is being imported but also technology. When technology is coordinated with the means of production the importance of human labour is declined. As a result employment potential has decreased and many have lost their jobs and job opportunities (Rani, 2003). The present paper thus attempts to highlight the present state of small scale sector in India in the globalised era arising from the outmoded technology, inadequate marketing outlets, non availability of timely finances, managerial deficiency, low quality standards and heavy global competition. It also offers suggestions for future development of this sector.

Presently, small scale industrial undertaking has been defined, as 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. Such small scale industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services and the undertaking supplies or renders or proposes to supply or render not less than 50 per cent of its production or services, as the case may be, to one or more other industrial undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire-purchase, does not exceed Rs 10 million. The units in which investment limit in plant and machinery is Rs 2.5 million irrespective of location of the unit are termed as tiny enterprises. Besides, the enterprises with investment up to Rs 5 lakh in fixed assets, excluding land and building, are called SSSBEs. This limit has been raised to Rs.1 million w.e.f. September 2000.

Small Scale Sector in India – Overall Performance

Small scale sector plays an important role as less capital-intensive producer of consumer goods and provider of employment to labour thereby addressing the problems of reducing the poverty and unemployment. It will not be wrong to say that small scale sector in India creates largest employment opportunities for the Indian populace, next only to agriculture. It has been estimated that a lakh rupees of investment in fixed assets in the small scale sector generates employment for four persons. Data set out in table (1) exhibits that during the year 2003-04 there were about 113.95 lakh small scale units (registered and unregistered) in the country accounting for more than 40 per cent of gross value of output in the manufacturing sector and about 34 per cent of the total export of the country. It provides employment to about 271.36 lakh persons, which is second only to agriculture. One of the measures of the policy support for promoting is the policy of reservation of economically viable and technically feasible items for exclusive manufacture in small scale sector. The policy of reservation initiated in 1967 primarily as promotional and protective measure vis-à-vis the large scale sector, grant protection to small scale units by preventing fresh capacities being created in the large scale sector in areas which are techno-economically highly suitable for being taken up in the small scale sector. The only exception being the case of large-scale units, which undertake minimum level of exports as 75 per cent of their total production. The IDR Act was amended in March 1984 empowering Government to reserve items for small scale sector. Reservation/Dereservation of items for manufacture in small scale sector is a continuing process regularly monitored by an Advisory Committee on Reservation constituted under IDR Act. The total number of items reserved for small scale sector was 675 as on 3rd June 2003 but declined to 506 at the end of March 2005. It is surprising to note that 180 Items have been dereserved in one sweep on 16th May 2006. The small scale sector has acquired a prominent place in the socio-economic development of the country during the past five decades, contributing to the overall growth of the gross domestic product towards employment generation and exports. During the year 2002-03 small scale sector's contribution to the Gross Domestic Product was 6.81 per cent. Having emerged as the engine of growth for Indian industry, performance of small scale sector has had a direct impact on the growth of the national economy. There has been a steady increase in number of small scale units, their production, employment and exports over the years. On the production front also, there has been a steady increase over the previous years. The increase was 9.19 per cent in 1997-98, 7.84 per cent in 1998-99, 7.09 per cent in 1999-2000 and 8.04 per cent in 2000-01 respectively. In the year 2001-02 the increase over previous year was registered 6.06 per cent at constant prices i.e. 1993-94 prices. Similarly the increase in production in the year 2002-03 and 2003-04 were 7.68 per cent and 8.59 per cent respectively. The financial assistance provided to small scale sector by State Financial Corporations (SFCs) has shown a declining trend.

Magnitude of Industrial Sickness in Small Scale Sector in India

Having outlined the performance of small scale sector in India under globalize era, an attempt has been made in the following pages to discuss a significant issue having a direct bearing on the performance of small scale sector i.e. industrial sickness, which has become a cancerous problem for this sector. Sickness is the major hindrance to economic growth as it results in locking up of resources, wastage of capital assets, loss of production and increase in unemployment. In addition, the incidence of sickness leads to reduction of loanable funds of the financial institutions. There are many and varied reasons for sickness in small scale sector such as inadequacy of working capital, delay in sanction of working capital and time gap between sanction of term loan and working capital, poor and obsolete technology, problem related to availability of raw material, inadequate demand and other marketing problems, erratic power supply, labour problems, infrastructural constraints, lack of consultancy and counseling services, poor management, inadequate attention to research and development, diversion of resources, inability of the units to face growing competition due to liberalization and globalization

It has been observed that lack of demand is the most important cause of sickness in small scale sector followed by shortage of working capital and marketing problems. The industrial sickness is not peculiar to India alone. It is prevalent in developed countries also but the approach to industrial sickness in advanced countries is different from that in India e.g. Japan was also in a similar plight in the earlier days of restructuring. Yet, the Japanese small and medium industry withstood the onslaught and even consolidated their position due to Japanese government's efforts. It framed a law for small and medium enterprises with the aim of modernizing and structurally strengthening these enterprises, improving their finances and increasing the government and public sector procurement from them. Moreover, improved technology was an integral part of the restructuring exercise in Japanese small. scale sector. The Japanese government offered free counseling services at testing and research institutes. It also imparted technical training to enhance the skill levels of technicians and engineers. At the same time, it is most saddening to note that the government of India has been going merrily with de-reservation policy due to which the small scale sector has been facing several adverse implications especially with regard to their competitive ability and integration with the global market as against seizing the opportunities of an expanding global market.

Table (1) Performance of Small Scale Sector in India(Period: 1991 -1992 to 2003-2004)

Year	No. of Registered SSI Working units (Lakh Nos)	No. of Unregistered SSI working units (Lakh Nos.)	Total SSI Working Units (Lakh Nos)	Fixed Investment (Rs. Crore)	Employment (Lakh Persons)	Export (Rs. Crore)	WPI of Manufactured Products at 1993-94 Prices
1991-92	8.72	61.91	70.63	79180	165.99	13883	83.60
1992-93	9.94	63.57	73.51	93523	174.84	17784	92.80
93-94	10.63	65.86	76.49	98804	182.64	25307	100.00
94-95	11.61	67.99	79.60	109116	191.40	29068	112.30
95-96	11.57	71.27	82.84	121649	197.93	36470	121.90
96-97	11.99	74.22	86.21	135380	205.86	39248	124.40
97-98	12.04	77.67	89.71	147824	213.16	44442	128.00
98-99	12.00	81.36	93.36	159407	220.55	4897	133.60
99-2000	12.32	84.83	97.	170709	229.10	54200	137.20
200-01	13.10	88.00	101.10	184428	239.09	69797	141.70
2001-02	13.75	91.46	105.21	195613	249.	71244	144.30
2002-03	14.68	94.81	109.49	210636	260.13	86013	148.10
2003-04	15.54 (P)	98.41	113.95(P)	226581	271.36	NA	155.10

Source: SIDO's Half Century, History of Small Industries Development Organisation 1954-2004 and Annual Report 2003-2004, Ministry of Small Scale Industries, Govt. of India, New Delhi.

Table 2 Target and Achievement of Employment in Small Scale Sector in India (Period: 1992-1993 to 2004-2005)

Year	Target	Growth rate	Achievement	Growth Rate
92-93	128.00	2.30	134.06	3.30
93-94	133.00	3.90	139.38	4.00
94-95	138.60	4.20	146.56	5.20
95-96	144.40	4.20	152.61	4.10
96-97	150.50	4.20	160.00	4.80
97-98	165.00	9.60	167.20	4.50
9899	170.00	3.10	220.55	2.60
99-00	175.00	2.90	229.10	4.00
2000-01	180.00	6.80	239.09	4.00
2001-02	249.33	8.60	249.09	3.60
02-03	258.13	5.50	260.13	3.90
03-04	266.93	-	271.36	-
04-05	275.73	-	282.82	-

Source: SIDO's Half Century, History of Small Industries Development Organisation 1954- 2004 & Ministry of Small Scale Industries Govt. of India, New Delhi

Table 3 Growth Rates of Small Scale Sector and Industrial Sector in India (Period: 1994-1995 to 2003-2004) (Base: 1993-94)

Year	Percentage Growth-SSI Sector	Percentage Growth-Industrial Sector
94-95	10.10	9.1
95-96	11.40	13.0
96-97	11.29	6.1
97-98	9.19	6.7
9899	7.84	4.1
99-00	7.09	6.7
2000-01	8.04	5.0
2001-02	6.06	2.7
02-03	7.58	5.7
03-04	8.69	6.9

Source: Ministry of Commerce & Industry, Govt. of India

Table 4 State-wise Sick, Potentially Viable and under Nursing Small Scale Units in Gujarat and India (Period: At the end of March, 2004)

State	Total Sick Units	Potentially Viable Units	SSI Of viable SSI units put under nursing
Gujarat	4180	37	47
India	138811	2385	783

Source: Lok Sabha Unstarred Question No. 1379, dated 02.08.2005.

Future Prospects of Small Scale Sector in Globalize Indian Economy

Notwithstanding the adverse implications due to removal of quantitative restrictions and growing sickness in small scale sector, there are still enormous opportunities within the framework of WTO to protect the legitimate interests of the small scale sector due to its being less capital intensive, extensive promotion and support by the government, reservation for exclusive manufacture by small scale sector, project profiles, funding, finance and subsidies, machinery procurement, raw material procurement, manpower training, technical and managerial skills, tooling and testing support, reservation for exclusive purchase by government, export promotion, growth in demand in the domestic market size due to overall economic growth, increasing export potential for Indian products, growth in requirements for ancillary units due to the increase in number of green field units coming up in the large scale sector (Mattoo, 2003).

Besides, the Government of India has also assigned importance to small scale sector in India's national plans. In order to protect, support and promote small enterprises as also to help them become self-supporting, a number of protective and promotional measures have been undertaken by the Government. The promotional measures cover industrial extension services, institutional support in respect of credit facilities, provision of developed sites for construction of sheds, provision of training facilities, supply of machinery on hire-purchase terms, assistance for domestic marketing as well as exports, special incentive for setting up enterprises in backward areas etc., technical consultancy and financial assistance for technological up gradation. While most of the institutional support services and some incentives are provided by the Central Government, others are offered by the State governments in varying degrees to attract investments and promote small industries with a view to enhancing industrial production and to generate employment in their respective States.

The present economic environment is, therefore, the opportune time to set up projects in the small scale sector. It may be said that the outlook is positive, indeed promising, given some safeguards. This expectation is based on an essential feature of the Indian industry and the demand structures. The diversity in production systems and demand structures will ensure long term co-existence of many layers of demand for consumer products /technologies /processes. There will be flourishing and well grounded markets for the same product/process, differentiated by quality, value added and sophistication. This characteristic of the Indian economy will allow complementary existence for various diverse types of units. The promotional and protective policies of the Government have ensured the entry of this sector in an astonishing diverse range of products, particularly in consumer goods. However now exposed to severe competition from domestic and foreign large scale sector and also from the MNCs, which enter into the market with great publicity and brand names through the satellite channels (Jose, *et al.* 2003). The New Industrial Policy, Licensing Policy, Labour Marketing Reforms, Banking Sector Reforms etc. have all come into existence according to WTO guidelines (Rani, 2003). To satisfy WTO, Quantitative Restrictions (QRs) have been totally dismantled in the EXIM Policy 2000-01. The impact of removal of QRs is being felt by all the industries, which were earlier protected. The small scale sector has been experiencing greater impact, especially with regard to their competitive ability and integration with the global market against the opportunities of an expanding global market. The Indian markets are now experiencing a relatively free flow of cheaper imported consumer goods of international quality, which is leading to a shrinking demand for local products. Besides, it is leading to a large scale piling of stocks of the unsold products churned out by the small scale sector.

Conclusion

Thus the globalisation has posed many threats and also challenges for small scale sector in India. It will be in the fitness of things if these threats are taken as challenges and converted into opportunities for sustained development of nation's economy. This will bring about a great distribution of income and wealth, and a more even distribution of industries in the urban and the rural areas, economic self-dependence through contribution to domestic output, entrepreneurial development employment and a host of other positive and economic uplifting factors. Moreover, in a country like India with an adverse Balance of Payment situation, the growing contribution of the small scale sector in India's export portfolio goes a long way in generating forex and smoothening out the adverse Balance of Payments situation. Hence, coordinated efforts of entrepreneurs, coordinated functioning of promotional agencies, government assistance, proper product development, product diversification and also upgrading the managerial skills of the small scale industrialists and their key officials is needed without red tapism or bureaucratic delays.

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