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Impact of Globalization of Small Scale Industries

Analysing the Growth of SSIs & The Policy Reforms

ABSTRACT

“Small is beautiful”. Indeed, the Gandhi was also in famous of small scale and in particular village industries. The environment school has pressed the need for small is indispensable is a sustained economic development. At present, the small scale industries are defined as undertaking with investment in plant and machinery, not more than Rs.1 crore, and tiny units as those with an investment of not more than Rs.25 lacks. Globalisation witnessed the intended benefits. Not only that, the entry of multinationals in ordinary consumer goods like ice cream, Agarbatti manufacturing, food processing, mineral water etc., is also adversely affecting the SSI sector since these were the traditional areas of this sector. This way, Government must secure the SSI Sector as workforce engagement, job opportunities and less investment assume as special significance.

1. INTRODUCTION

With praise for Buddhist religious philosophy, Schumaker (a German economist) long back pinned the world his idea i.e., “Small is beautiful”. Indeed, the Gandhi was also in famous of small scale and in particular village industries. The environment school has pressed the need for small is indispensable is a sustained economic development. In keeping with the dictum, the Govt. of India placed greater importance to small scale industries, and consistently raised the quantum of investment were up to Rs. 2 crore. The state governments followed the suit of the center and directed attraction on SSIs.

Hence, during the 9th Plan the union government deserved 816 items of the SSIs and at present it at all there are only a dozen reserved items of produce to the SSIs. This is no doubt is treated as a part of new economic policy but has acted as

• a carrot and stick policy to the SSIs.
• Because, a) the complementarity between
• SSIs, medium and large industries are
• suffering from great distress, b) these are
• more than one and half lack units unable
• to face price competition. They are
• subject to miner greater pressure in the
• days of globalization. Given the
• background above, the present paper
• attempts to analyze the growth of SSIs
• and make some policy reforms.

2. MEANING OF SMALL SCALE INDUSTRIES

At present, the small scale industries are defined as undertaking with investment in plant and machinery, not more than Rs.1 crore, and tiny units as those with an investment of not more than Rs.25 lacks. The small scale sector as defined above is a part of larger village and small scale industries sector which comprises of a) Modern small scale industries and b) Traditional small scale industries. Small scale industries (both

factory and non-factory sector) and power loom units are covered under Modern small scale industries, while traditional small scale industries include segments like handlooms, khadi and village industries, handicrafts, sericulture, silk, coir etc.

Modern SSIs are mostly units which use power driven machinery and possess relatively better production techniques as compared to traditional units.

3. LARGE NUMBER OF REGISTERED SSIS

Small Industries Development Organization (SIDO) prepares estimates of registered SSI units annually. As per the estimates of SIDO, the number of registered SSI are provided in the below table.

TABLE-1
NUMBER OF REGISTERED SSI UNITS

| Sl. No. | Year (End of March) | No. of Registered SSI units (lakhs) |
|---------|---------------------|-------------------------------------|
| 1. | 1974 | 4.2 |
| 2. | 1980 | 8.1 |
| 3. | 1990 | 18.2 |
| 4. | 2000 | 32.3 |

Source: DC (SSI), Ministry of SSI

Apart from registered SSI units, there is a large number of unregistered SSI units in the unorganized sector.

4. WIDE RANGE OF SSI PRODUCTS

SSIs in India are engaged in the production of 7500 types of products. According to the Manufacturing Enterprise Survey, 145 lakh small scale enterprises, mainly produce following categories of products (see Table-2). It reveals that SSI sector feeds rural & urban masses.

TABLE-2
INDUSTRY GROUP WISE DISTRIBUTION OF SSI UNITS (SELECTED)

| Type of Products | No. of Units (Lakh) | Percentage in Total |
|--------------------------------|---------------------|---------------------|
| Wood products | 28.72 | 19.81 |
| Food products | 23.94 | 16.50 |
| Repairs | 21.86 | 15.08 |
| Beverages and Tobacco Products | 14.26 | 9.84 |
| Misc. Manuf. Industries | 11.59 | 8.0 |
| Hosiery, Garments etc. | 10.93 | 7.54 |
| Cotton Textiles | 8.18 | 5.64 |

Source: CSOs Manufacturing Enterprise Survey, 1994-95.

5. GROWTH OF SSIS IN INDIA

Over the last five decades the small scale industry sector accounts for about 95% of the industrial units and is contributing about 40% of value addition in the manufacturing sector, nearly 80% of the employment from manufacturing sector comes from SSIs, and about 35% of exports are directly made by this sector. There are more than 32 lakh registered SSI units spread all over the country and these registered units only, provide employment to 178 lakh persons. Over and above, there are 145 lakhs SSI units, which are not registered but are covered by CSOs Manufacturing Enterprise Survey (1994-95).

There has been a phenomenal growth in this sector in terms of production, employment and exports. Despite all problems, the growth performance of SSI sector has been good.

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Industries, as a major agent of pollution, are facing increasing criticisms and pressure from different quarters. The judiciary, for example, has come down heavily on industrial enterprises for polluting air, water

The higher rate of growth of the SSI sector has helped in pushing the growth rate of manufacturing as well as overall industrial sector.

6. EXPORTS

SSIs have not only performed well in terms of production, capital productivity and employment but also in term of exports (both absolutely as well as proportionately).

TABLE-3
EXPORTS FROM SSI SECTOR
AT CURRENT PRICES

| Years | Exports (Rs/Cr) | Percent of Total Exports |
|-----------|-----------------|--------------------------|
| 1973-74 | 393 | 15.6 |
| 1980-81 | 1643 | 24.5 |
| 1990-91 | 9664 | 29.7 |
| 1998-99 | 48979 | 35.0 |
| 1999-2000 | 53974 | 33.0 |

Source: GOI, D C (SSI) Ministry of SSI.

Performance in the filed of exports has been one of the most significant achievement of the SSI sector. The share of SSI exports in overall exports of the country increased

rapidly from 15.6 per cent in 1973-74 to 35% in 1998-99, before it marginally declined to 33.0 per cent in 1999-2000. Another significant aspect of exports by SSIs is that import content is negligible there.

7. PERFORMANCE OF SSI SECTOR

Traditionally, a large proportion of SSI units in India are under the unregistered sector. For example, out of a total of 105 lakh units in SSI in 2001-02, more than 91 lakh (87%) belong to the unregistered sector. However, so far as the total gross output of the SSI sector is concerned, the registered sector accounts for the major share 72 per cent (see Table-4).

The share of SSI out (gross) as per cent to total GDP in 2001-02 stood roughly at 14 per cent. As per the latest census information, the SSI sector generated employment as many as 249 lakh people, of which around 33 lakh (13%) employees are women. In terms of the total workforce (based on 2001 population Census), SSI employment constitute a share of 6.2 per cent.

TABLE-4
PERFORMANCE OF SSI SECTOR-2001-02

| Parameters | Registered | Unregistered | Total |
|----------------------------------|-----------------|-----------------|------------------|
| Size of the Sector(Units) | 1374974 (13.1) | 9146216 (86.9) | 10521190 (100.0) |
| No. of SSIs | 901291 (20.3) | 3544577 (79.7) | 4445868 (100.0) |
| Total Employment | 61633479 (24.7) | 18769284 (75.3) | 24932763 (100.0) |
| Female Employment | 974713 (29.4) | 2342783 (70.6) | 3317496 (100.0) |
| Total Output (Gross) in Rs. Lakh | 20325462 (72.0) | 7901536 (28.0) | 28226998 (100.0) |
| Export (US \$ mn) | 12308 (86.7) | 1891 (13.3) | 14199 (100.0) |

Source: Third All-India Census of SSI, 2001-02.

Note: Figures in brackets are percentages.

The size (based on gross output) distribution of SSI is highly skewed; more than 70 per cent of the units employing roughly 39 per cent of the SSI workforce produced an output below Rs.1 lakh. In contrast, less than 4 per cent of the units produced a gross output of over Rs. 50 lakh. Besides, the top 20 industries account for more than half of the total units of SSI. During 2001-02, the export of SSIs stood at US \$ 14,199 mn, the registered sector generated around 87 per cent of total exports. Despite changes in the definition and coverage of SSI units during 1987-88 to 2001-02 i.e. the period between the 2nd and 3rd Censuses of SSI, the registered sector recorded an annual average growth (compound) of 12 per cent in production at current prices. During the same period, employment in the registered sector increased by a compound growth rate of 3.8 per cent. On the other hand, the nominal bank credit to the sector increased only by 11.7 per cent annually.

8. IMPACT OF GLOBALIZATION ON SSI UNITS

Not only emerging economies but even developed nations are trying to promote SSIs by way of various incentives and privileges. In India, the process is being reversed, thanks to globalization and so-called economic reforms.

After independence, the general policy of the government has been to give some special treatment to SSIs. Policy of reservation, priority in bank loans, marketing support of various types and priority in government purchases, infrastructural support, protection from imports etc., are some such policy

measures for the promotion of SSIs adopted by the government. But unfortunately these facilities and privileges which have been instruments; in the SSI growth in terms of production, employment and contribution to exports, are being snatched away, affecting the SSIs adversely, endangering the very existence of SSIs in the country.

From a review of decade of performance after the introduction of globalization, it became evident that globalization policies had not been able to deliver the intended benefits in term of macro indicators: GDP growth, employment generation, boost to investment etc.

It is worth mentioning that many items, on which quantitative restrictions have been lifted, were reserved for exclusive production by SSIs.

Economic survey of 1998 provides information about employment. It reveals that globalization and liberalization have resulted in loss of jobs for the 7 million workers during 1990-98 of which about 4 million were regime, reservations may have to be withdrawn, preferential purchase and other support measures may not be available and thus SSIs have to compete not only with the large units within the country, but also with cheap imported products. Consequently, a very large number of SSI units are becoming sick or have closed down.

Thus, the SSI sector which accounts for 40 per cent of manufacturing output, 50 per cent of employment and over 33 per cent of exports is in jeopardy. Next to agriculture, this sector is the principal source of employment accommodating 18 million persons. The rule of survival

Any violation of the Statutory provisions would invite stringent action. So, business firms must rise to the occasion and perform their environmental responsibilities to the best of their capacities.

Policy makers argue that since there are no quantitative restrictions on the imports of items which are reserved for SSIs, there is no legitimacy for reservation. That is, if we cannot put any restriction on the import of goods, produced abroad, it would not be in national interests to restrict large industries to produce these items.

of the fittest is being applied to this sector and in their game, only a few able ones will be able to survive. Dumping of Chinese goods has seriously affected SSI sector. The real difficulty with the SSI sector is that it does not have adequate resources to prepare the case for anti-dumping duties in view of the prohibitive costs of anti-dumping investigation. The SSIs cannot collect detailed information on individual products required by the anti-dumping directorate to establish a complete case. Consequently, small industries continue to suffer due to such dumping policy.

Not only that, the entry of multinationals in ordinary consumer goods like ice cream, Agarbatti manufacture, food processing, mineral water etc., is also adversely affecting the SSI sector since these were the traditional areas of this sector. In soft drinks, the entry of powerful Coca Cola and Pepsi have eliminated practically all small units engaged in the manufacture of aerated water. MNCs are not interested in hi-tech products. Rather they prefer low technology, quick profit yielding and large volume products with regular demand throughout the year. In the name of consumer interests, MNCs continue to swallow SSIs and eliminate them from the market.

9. RESERVATION

The policy was started in 1967. According to this policy, a list of items was prepared, which were kept for exclusive production by SSIs. Initially policy started with a list of 47 items in 1967. By the year 1996 this list had reached to 836 items. After this initiation of the so-called economic reforms, Abid Hussain Committee, which was constituted to suggest measures for

development of SSIs, recommended the policy of reservation of SSIs. In 1997 the government announced a policy whereby large industries were allowed to produce items which were kept for the exclusive production by SSIs, if they undertake to export 50% of their product. Govt., officials and policy makers have been making pronouncements regarding dereservation of SSIs and many items have already been taken away from the list of reserved items. And this policy is slowly being withdrawn. Policy makers argue that since there are no quantitative restrictions on the imports of items which are reserved for SSIs, there is no legitimacy for reservation. That is, if we cannot put any restriction on the import of goods, produced abroad, it would not be in national interests to restrict large industries to produce these items. But the experts as well as leaders of SSIs opine that instead we can make use of provisions of WTO to restrict of these items, which were reserved for SSIs on the ground of reservation policy.

10. PRIORITY IN GOVERNMENT PURCHASES

To provide marketing support to SSIs a policy was pronounced by the government in 1956 to give priority to products of SSIs in government purchases in terms of quantity and price. National Small Industries Corporation (NSIC) was made the national agency and Director General Supplies and Disposal (DGS&D) was made responsible for arranging purchases from SSIs for government offices. Six groups of items were made for the government purchases and 409 items were kept for the exclusive purchase from by way of a policy change, the list of

exclusive purchase from SSI was reduced to 358. And regarding other items whereby at least 50% or 75% purchase was to be made from SSIs only, by way of a policy change, this facility was also withdrawn. Preferential purchase policy was reduced to only price preference, to the maximum of only 15%.

11. BANK LENDING TO SSIs

Despite commitment of the government to give priority to SSIs in bank lending, their share has always been very low. But the years of globalization and so-called economic reforms have been worst for SSIs in terms of Bank Loans. The below table reveals that, there has been a consistent fall in the number of loan accounts of SSIs and also in terms of loans both absolute as well as in proportional terms.

The table reveals, fall in lending to SSIs by public sector banks from rupees 6344 crores in 1997-98 to rupees 3454 crores in 1999-00. Situation in private sector banks is even worse.

Thus we note that a sector which provides 40% of manufacturing, 35% of exports could get only 15.63% of total loans from public sector bank. Another disturbing feature is that there has been a decline of more than 25% in number of recipients of such loans, whereby worst hit are the very small borrowers.

12. GLOBALIZATION AND EMPLOYMENT

SSI sector is India in the second largest man-power employer in the country, next only to agriculture. High employment generating potential of small enterprises is one of the most important aspects of this sector. This feature gains added importance in a labor surplus economy like India. The number of

Table-6
Public sector banks loans to SSIs

| Years | Net Lending | Percentage in total loans |
|-----------|-------------|---------------------------|
| 1997-98 | 6344 | 17.50 |
| 1998-99 | 4770 | 17.30 |
| 1999-2000 | 3454 | 15.63 |

Source : DC (SSI), Ministry of SSI, Govt. of India.

persons employed in registered SSIs (as per SIDOs estimates) have increased from 39.7 lakh at end March 1974 to 178.5 lakh at end March 2000. We can be understood by the following table.

Table-7

Employment in SSI Sector(selected years)

| Sl.No | Years (As on 31 st March) | Employment (lakh) |
|-------|--------------------------------------|-------------------|
| 1 | 1974 | 39.7 |
| 2 | 1980 | 67.0 |
| 3 | 1990 | 119.6 |
| 4 | 2000 | 178.5 |

Source : DC (SSI), Ministry of SSI, Govt. of India.

A major fall out of the policies of globalization is the decline in the growth rate of employment. During the period 1983-94 the annual growth rate of employment was 2.04 per cent, but it came down to 0.98 per cent during 1994-2000. As a consequence, the unemployment rate went up from 6.03 per cent in 1993-94 to 7.32 per cent in 1999-2000.

This was despite the fact that rate of growth of labor force declined to 1.30 per cent during the period 1993-94 to 1999-2000. This was largely the result of deceleration in employment in agriculture and community and personal services. These two sectors account for nearly 70 per cent of total employment, but they

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Considering a large number of workforce engaged in SSIs and possibility of creating new job opportunities for the vast army of unemployed labor force, with much less investment, this sector assumes a special significance.

recorded virtually no growth in employment.

13. CONCLUSION

Small scale industries not only play a crucial role in providing large scale employment opportunities at a lower capital cost than large scale industries, but also help in industrialization of rural and backward areas, thereby reducing regional

- imbalances, assuring more equitable
- distribution of national income and wealth.
- SSIs are also supplementing and are
- complementary to large and medium scale
- units as their ancillaries. Considering a
- large number of workforce engaged in
- SSIs and possibility of creating new job
- opportunities for the vast army of
- unemployed labor force, with much less
- investment, this sector assumes a special
- significance.

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