



# A Study of Globalization & Its Impact on Small Scale Industries in India

Singh Rahul Shitala Prasad, Research Scholar, SunRise University Alwar, Rajasthan

Dr. Neeru Batham, Associate Professor, Department of Commerce and Management, SunRise University Alwar, Rajasthan

## Abstract

Globalization is the free movement of goods, services and people across the world in a seamless and integrated manner. Globalization can be thought of to be the result of the opening up of the global economy and the concomitant increase in trade between nations. In other words, when countries that were hitherto closed to trade and foreign investment open up their economies and go global, the result is an increasing interconnectedness and integration of the economies of the world. Further, globalization can also mean that countries liberalize their import protocols and welcome foreign investment into sectors that are the mainstays of its economy. What this means is that countries become magnets for attracting global capital by opening up their economies to multinational corporations. Further, globalization also means that countries liberalize their visa rules and procedures so as to permit the free flow of people from country to country. Moreover, globalization results in freeing up the unproductive sectors to investment and the productive sectors to export related activities resulting in a win-win situation for the economies of the world.

**Key words - Globalisation, Small Scale Industries, Exponential Growth.**

**Introduction** - Globalisation means gradual integration of economies through free movement of goods, services and capital which has significant impact on the economies of both developed and developing countries. Therefore, globalisation refers to a process of growing economic interdependence among different countries of the world. Thus, in the globalised era, the whole world is changing into a global village in the sense that economic activities in one part of the globe are affecting significantly the rest of the world. For this purpose, it becomes necessary for India to participate in the process of globalisation (Ashutosh, 2002). The New Economic Policy of 1991 aimed at making Indian economy competitive and much better integrated with the rest of the world. The liberalisation and economic reform process which included both short term and long term measures have direct and indirect bearing on the manufacturing sector of India in general and small scale sector in particular. The dynamics of change will bring about inflow of technology, resources and both human and physical capital that are scarce or costly to be procured locally in the developing economies like India. This will lead to rise in the productive capacity of the nation to supply increasingly diverse economic goods and services to its growing population.

**Small Scale Industries & Its importance** - Economic development of a country is directly related to the level of industrial growth. India has also been striving to develop the country's industrial base over since independence. The small-scale industries sector has been appropriately give a strategic position in our planned economy towards the fulfillment of the socio economic objectives particularly in achieving equitable growth. 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 lacs, (iii) Power looms, (iv) Traditional industries which require high workforce.

**Data Base And Methodology** - In the present study an attempt has been made to analyze the impact of globalization on the growth of small scale industries. The reference period for the analysis of the data has been taken from 1973-74 to 2006-07. The study period has been divided into two parts: pre liberalisation (1973-74 to 1989-90) and post liberalisation (1990-



91 to 2006-07) to know the impact of globalization after liberalisation. For this, a comparative analysis of Average Annual Growth Rates for pre and post globalization periods has been carried out for key growth and performance parameters **Pre-liberalization Performance of Small-Scale Industries: (See in the last page)**

1. Number of Units - It is evident from the table that number of small-scale units stood at 13.17 lakhs in 1977-78 and these rose 19.48 lakhs in 1990-91. The average number of small-scale units during pre-liberalisation period is 12.41 lakhs. The compound growth rate for number of small-scale industrial units has been 7.92% from 1977-78 to 1990-91.
2. Investment in SSI - The pre-liberalisation period: 1977-1978 to 1990-91 shows that the investment in Small-scale industries increased from Rs. 3959 crores to 19302 crores during 1977-1978 to 1990-91. The compound growth rate in investment of small-scale industrial unit has been 11.97 percent from 1977-1978 to 1990-91.
3. Production of SSI - The production of about 3 industries in 1977-78 was Rs. 14300 crores and this increased considerably to Rs. 155340 crores in 1990-91. The compound growth rate for the production of small-scale industries during 1977-78 to 1990-91 is 19.78%. The average production during pre-liberalisation is Rs. 61053.43 crores.
4. Employment in SSI - The small-scale industries employed only 54 lakhs people in 1977-78, which increased 125.3 lakhs in 1990-91. The average employment in small-scale industries during the pre-liberalisation period is 88.81 lakhs. The compound growth rate for employment of small-scale industries has been 6.19% from 1977-78 to 1990-91.
5. Exports from SSI - Export from Small-Scale Industries in 1977-78 was Rs. 845 crores which increased Rs. 9664 crores in 1990-91. The average exports during the pre-liberalisation period are Rs. 3369 crores. The pre-liberalisation period registered a compound growth rate of 18.99 per cent.

#### **Post-liberalisation Performance of Small-Scale Industries (See in the last page)**

1. **Number of Units** - The table shows that the number of small-scale units increased from 20.82 lakhs to 39.08 during 1991-92 to 2004-05. The average number of units during the post-liberalisation period is 30.17 lakhs. The compound growth rate for number of small-scale industrial units has been 4.6% from 1991-92 to 2004-05.
2. **Investment in SSI** - The period of 1991-92 to 2004-05 shows a phenomenal growth in investments in SSI sector in India. The compound growth rate in investment of small-scale industrial units has been 13.2 percent during this period. The table also clearly depicts that the investment in small-scale units was Rs. 20438 crores in 1991-92 as against Rs. 115904 crores in 2004-05. The average investment during the post-liberalisation period is 60163.93.
3. **Production of SSI** - Considering value of production in terms of current prices, the compound growth rate during the post-liberalisation period is 12.5%. The Production of small-scale industries during this period has increased from Rs. 178699 crores in 1991-92 to Rs. 939120 in 2004-05.
4. **Employment in SSI** - The small-scale industries employed 129.80 lakhs people in 1991-92, which increased 214.28 lakhs in 2004-05. During post-liberalisation period small-scale sector recorded 3.6% compound growth rate in employment. The average employment during the post-liberalisation period is 169.88 lakhs persons.
5. **Exports from SSI** - Export from small-scale industries - 1992-93 was Rs. 13883.4 crores, which increased 116557.3 crores in 2004-05. The average export from the small-scale during the post liberalisation period a compound growth rate of 16.4% during 1991-92 to 2004-05

**Conclusions-** Since the inception of policy reforms small-scale industries constitutes a dynamic sector of Indian economy. Over the years, small-scale sector has grown substantially in terms of number of units, investment, output, turnover, employment and exports. After liberalisation the rate of growth has significantly increased, although there have



been some variations in growth from year to year. However liberalisation has had a significant direct impact on the performance of small-scale industries. On the basis of analysis of secondary data the number of small-scale units increased from 6.70 lakhs to 19.48 during the pre-liberalisation period i.e., from 1977-78 to 1990-91. While the number of small-scale units increased from 19.48 lakhs to 39.08 during the post-liberalisation period i.e., from 1991-92 to 2004-05. During the pre-liberalisation period, the average numbers of small-scale industrial units were 12.41 lakhs while during the post-liberalisation period, the average number of small-scale units existing were 30.17 lakhs. Though the number of small-scale units has increased during the pre-liberalisation and post liberalisation but the compound growth rate has been higher in the pre-liberalisation period. The compound growth rate of number of small-scale units during the post-liberalisation period was only 4.6 percent as compared to pre-liberalisation period (7.92 percent). The post-liberalisation period shows a phenomenal growth for the amount of investments in SSI sector in India. The compound growth rate of investment in post-liberalisation period (13.2%) was higher than the growth rate in pre-liberalisation period in monetary terms (11.97%). The investment in small-scale industrial units has increased from Rs. 3,989 crores to Rs. 19,302 crores during the pre-liberalisation period. On the other hand during the post-liberalisation period, investment in small-scale industries increased from Rs. 20,438 crores to Rs. 115,904 crores. This is due to the technological developments taking place in the economy and units located in SSI sector also tend to modernize their technology to face the new challenges of globalization.

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### Pre-liberalization Performance of Small-Scale Industries

YEAR	No. of Units lakhs)	Fixed Investment Rs. Crores)	Production (Rs. crores) Current Prices	Employment (lakhs persons)	Exports (Rs. Crores)
1976-77	5.92	3553	12400	49.8	766
1977-78	6.70 (13.17)	3959 (11.42)	14300 (15.32)	54.0 (8.43)	845 (10.31)
1978-79	7.34 (9.55)	4431 (11.92)	15700 (9.79)	63.8 (18.15)	1069 (26.51)
1979-80	8.05 (9.67)	5540 (25.03)	21635 (37.80)	67.0 (5.01)	1226 (14.68)
1980-81	8.74 (8.57)	5850 (5.59)	28060 (29.69)	71.0 (5.97)	1643 (34.01)
1981-82	9.62 (10.06)	6280 (7.35)	32600 (16.18)	75.0 (5.63)	2071 (26.04)
1982-83	10.59 (10.83)	6800 (8.28)	35000 (7.36)	79.0 (5.33)	2045 (-126)
1983-84	11.55 (9.06)	7360 (8.23)	41620 (18.91)	84.2 (6.58)	2164 (5.82)
1984-85	12.40 (7.36)	8380 (13.86)	50520 (21.38)	90.0 (6.89)	2541 (17.42)
1985-86	13.53	9585	61228	96.0	2769



	(9.11)	(14.37)	(21.19)	(6.67)	(8.79)
1986-87	14.62 (8.05)	10881 (13.52)	72250 (18.00)	101.4 (5.63)	3643 (31.56)
1987-88	15.83 (8.27)	12610 (15.89)	87300 (20.83)	107.0 (5.52)	4372 (20.01)
1988-89	17.12 (8.15)	15279 (21.16)	106875 (22.42)	110.0 (2.80)	5489 (25.54)
1989-90	18.23 (6.48)	18196 (19.09)	132320 (23.81)	119.6 (8.72)	7625 (38.91)
1990-91	19.48 (6.85)	19302 . (6.07)	155340 (17.39)	125.3 (4.76)	9664 (26.74)

Source: Compiled from Official Reports of Development Commissioner (SSI)

### Post-liberalisation Performance of Small-Scale Industries

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YEAR	No. of Units lakhs)	Fixed Investment Rs. Crores)	Production (Rs. crores) Current Prices	Employment (lakhs persons)	Exports (Rs. Crores)
1990-91	19.38	19302	155340	125.30	9664.0
1991-92	20.82 (6.87)	20438 (5.88)	178699 (15.03)	129.80 (3.59)	13883.4 (43.66)
1992-93	22.46 (7.88)	21816 (6.74)	209300 (17.12)	134.06 (3.28)	17784.8 (28.1)
1993-94	23.81 (6.01)	24847 (13.9)	241648 (15.45)	139.38 (3.97)	25307.1 (42.3)
1994-95	25.71 (7.98)	26726 (7.6)	293990 (21.16)	146.56 (5.15)	29068.2 (14.9)
1995-96	27.29 (5.95)	30250 (13.2)	356213 (15.83)	152.61 (4.13)	36470.2 (25.5)
1996-97	28.57 (4.69)	35376 (16.9)	412636 (12.73)	160.00 (4.84)	39248.5 (7.6)
1997-98	30.14 (5.56)	54698 (54.6)	465171 (15.73)	167.20 (4.50)	44442.2 (13.2)
1998-99	31.21 (3.55)	72633 (32.8)	538357 (12.53)	171.58 (2.62)	48979.2 (10.2)
1999-00	32.10 (2.91)	79703 (9.7)	572887 (10.03)	178.50 (4.03)	54200.0 (10.6)
2000-01	33.70 (3.11)	82745 (3.81)	645496 (11.55)	185.60 (4.0)	69797.0 (28.77)
2001-02	34.42 (3.93)	84329 (1.9)	690316 (6.94)	192.23 (3.55)	71244.0 (2.1)
2002-03	35.72 (3.78)	90450 (7.25)	742021 (7.49)	199.65 (3.99)	86012.0 (20.7)
2003-04	37.36 (4.6)	102389 (13.2)	834774 (12.5)	206.83 (3.6)	100126.5 (16.41)
2004-05	39.08 <sup>p</sup> (4.6)	115904 <sup>p</sup> (13.2)	939120 <sup>"</sup> (12.5)	214.28 <sup>p</sup> (3-6)	116557.3 <sup>p</sup> (16.41)

Source - Compiled from Official Reports of Development Commissioner (SSI),