

GLOBALISATION AND ITS IMPACT ON SMALL SCALE INDUSTRIES IN INDIA

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Abstract

The development of SSIs has been one of the major planks of India's economic development strategy since independence. Today, SSI sector occupies a place of strategic importance in the Indian economic structure due to its considerable contribution in terms of output, exports and employment. Globalization has led to an 'Unequal Competition'- a competition between 'giant MNC's and dwarf Indian enterprises'. The small scale sector is a vital constituent of overall industrial sector of the country. The small scale sector forms a dominant part of Indian industry and contributing to a significant proportion of production, exports and employment. Therefore, this paper reveals the positive and negative impact of globalization on Indian Small Scale Industries.

Key Words: Globalisation, Small Scale Industries, Positive impact for SSI.

Introduction

Globalization may be defined as 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. Therefore, it signifies internationalization plus liberalization, through which the world has become a small global village.

There are many instruments by which globalization is being promoted and enhanced. But the most important instruments influencing this process are the multinational corporations and the new revolution of information technology. Multinational corporations are main instruments of globalization. They possess huge capitals and assets. As profit maximizers, they establish their factors in many developing countries where cheap workers and raw materials are

found. Because of their size and their contributions to national economies in terms of taxes and employments, they influence decision-making processes in those countries. Their activities usually leave serious effects on many host economies; they even sometime create civil unrests. This is because these companies control not only markets, but also peoples (Wooldridge and Micklethwait, 2000). New Information Technology, which is a product of the industrial revolution, is another instrument of globalization. Its aspects, in particular the Internet and multimedia, remarkably contribute to the spread of globalization due to their rapidity, easiness and availability. In spite of its huge benefits, the revolution is still possessed and controlled by some advanced nations, which might use it as a means of cultural influence and informational hegemony.

In this paper, official definitions of a small enterprise pursued from time to time by the Government of India under the Industries Development & Regulation (IDR) Act, 1951 are followed. Currently, a small enterprise is defined as one having original investment in plant & machinery, whether held on ownership terms or on lease/hire purchase basis, not exceeding Rs 10 million (Planning Commission, 2001).

Small Industry in National Income, Exports And Employment (in %)

Year	National Income	Exports	Employment
1980-81	9.2	24.5	31.0
1990-91	11.0	29.7	47.6
2000-01	7.8	30.9	66.4

Source: Government of India 1998 and 2002, RBI 2001 and EPW Research foundation 2002.

It is observed from the table that Small industries play an important role in National income, Exports and Employment. Through this paper, there is an attempt to explain clearly the impact (merits and demerits) of globalization on the Indian Small Scale Industries.

Positive impacts

Invasion of foreign investment and technology. The SSIs in India suffer from outdated technology and sub-optimal scale of operation. Many foreign companies have ed up with Indian SSIs and helped them to use better technology, managerial skill etc. Thus, a proper collaboration between the small and large companies can help small firms to develop technology base through Research & development activities, contribution from the technological institutes, universities etc.

Opportunities to enter the world markets:

Globalization has opened up the economy and integrated it with the world economy. The SSIs enjoy the benefits of selling their products and services to the world market rather than being confined into domestic market. The free economy ushers inaccessibility to bigger markets, greater linkages for SMEs with larger companies and marketing outfits, improved manufacturing techniques and processes.

Expanding the areas of business

SSIs have been able to identity many uncommon but highly promising business areas like outsourcing, medical transcription,

clinical research trials, sub-contracting, ancillarization and many new technologies like biotechnology, nanotechnology etc which are attractive for the new generation SSI entrepreneurs.

Free flow of capital

In a liberalized economy, banks would try to find out new avenues of giving credits to increase their profitability. Thus, supply of funds may be easier. Development in money market would initiate development in capital market

Less procedural problem

As the economy is mainly market driven; there is less Govt. intervention, red tapes, less control on import and export etc. The SSIs would be allowed to work in a free environment.

Increased Customer Satisfaction

As the domestic market gets competitive, small and medium firms try to satisfy the consumers in every possible way. They try to produce products as per the needs and preferences of the consumers *anti* satisfy the customers in best possible way.

Opportunities for generation of employment

Being labour-intensive in nature, the SSIs make significant contribution in employment generation and expanding industrial network in rural areas. This sector nurtures the traditional skills and knowledge based small and cottage industries. The workers inherit and transfer skills from generation to generation. The handicrafts and other products produced by this sector have good demand in market The SSIs have been a good source of employment generation.

Regional disparity Removal

People from remote areas have the tendency to migrate to urban areas in search of jobs. This creates excessive pressure on urban areas and initiates social and personal problems. This problem can be addressed by sethng up a network of micro, small and medium enterprises in economically backward areas. SSI sector can take care of local needs, improve economic condition of the area and most importantly, can bring a qualitative change in the economy of the country.

High performance level of SSIs

Before globalization, the SSI sector was a highly protected sector. Suddenly, after Globalization they discover that many of such protective measures were withdrawn and they

have to fight for their existence. This competitiveness in domestic and global market may bring out superior performance.

Contribution on quantity of export

The products produced by SSI sector (like sports goods, readymade garments, and woolen Garments and knitwear, plastic products, processed food and leather products, handicrafts etc) have an excellent foreign market. As per the results of fourth SSI census (2006-07), this sector has registered an export earning of Rs. 202017 crores in 2007-08.

Good industrial relations

The SSIs are less prone to industrial disputes. However, the truth behind the scene is the workers the small sectors are mostly from unorganized sector and cannot raise their voice collectively. Thus, apparently, they share harmonious relation with the firm owners.

Negative impacts

Though there are many benefits derived from the process of Globalisation, it has resulted in some serious constraints on the growth of SSIs in India. High level competition. The SSIs face ruthless competition from the large domestic firms and multinationals armed with improved technology, managerial ability, skilled workers, marketing skills, better product quality, and wide range of products. The small firms find it difficult to maintain their existence as the cases of merger and acquisition are continuously increasing.

Problems related to finance

Financing has always been a major problem for the small and medium industries in India. The SSIs mostly depend on internal sources of finance (personal savings, loan from relatives, and loan from local money lenders) than that of institutional financing by banks and other financing institutions.

Poor Technology Base

There exists considerable heterogeneity among the SSIs in India. A small percentage of firms operate with sophisticated technology base whereas majority of firms use outdated technology. They suffer from low productivity and poor product quality. Due to their small size, they cannot enjoy large-scale production economies.

Delayed payments

The small firms find it difficult to recover their dues from the large firms and even from Government Departments due to

complex payment procedure and corruption. Due to lack of funds, they cannot employ credit collection machineries (like factoring services). The large firms force them to offer long credit period and even pay advance to ensure timely supply of materials.

Inadequate infrastructure facility

Infrastructural lacking includes inadequate power supply, transportation, water supply etc. Small firms cannot bear the cost of setting up independent power supply unit. They have to depend on irregular power supply from the electricity boards. Inadequate transportation system increases cost of production. The SSIs producing beverages, tobacco products, medicines etc face the problem of inadequate water supply. As per the study conducted by Keshab Das and Sebastian Morris (2001), out of 1063 surveyed firms, 716 firms (more than sixty-seven percent) confessed that they have serious infrastructural problems.

Shortage of Skilled workers

Though India has no shortage of human resource, most of them are unskilled workers. Large firms pay higher remuneration and employ skilled workers. The SSIs have to operate with unskilled or semi-skilled workers. Thus, the SSIs suffer from low managerial capabilities.

Problems of Marketing and Distribution

Marketing is probably the most neglected and less explored problem for Micro and Small firms. Most of them do not have any well formulated marketing strategy, market research programmes, innovative advertisement techniques etc. Most of the SSIs do not have adequate monetary support to develop marketing section and many are not aware of modern low-cost marketing techniques (blogging, sending mails, developing web site for the company).

Gradually withdrawal of Reservation Policy

Reservation Policy, introduced in 1967 emphasized that some products 'Mould be earmarked for exclusive production by the small enterprises and Non-SSI units can undertake manufacture of reserved items only if they undertake 50 percent export obligations. Withdrawal of reservation policy allowed MNCs and large domestic firms to produce reserved items without any restrictions and increased the degree of competition for the small firms.

Outflow of wealth

Globalization process seems to favour the developed countries and the multinationals more than that of developing countries and the SSIs. The MNCs use domestic wealth, infrastructure, and local unskilled workers at a lower cost and repatriate huge profits to their own countries.

Negligence of social welfare

The MNCs are more willing to produce consumer goods to maximize their profit. The qualitative services like health, education etc which require huge investment but generate less and time taking return on investment, would be neglected.

Conclusion

Small industry in India finds itself in an intensely competitive environment since 1991. Thanks to globalization, domestic economic liberalization and dilution of sector specific protective measures. As a result, its growth in terms of units, employment, output and exports has come down. This has resulted in less impressive growth in its contribution to national income and exports though not in terms of employment in the 90s. Lack of reliable and stable economic infrastructure, reduced growth of credit inflow and technological obsolescence, which together would have led to inferior quality and low productivity are the major banes of small industry in India.

But at the same time, international and national policy changes have thrown open new opportunities and markets to Indian small industry. Technological upgradation and in house technological innovations and promotion of inter-firm linkages need to be encouraged consciously and consistently. Financial infrastructure need to be broadened and adequate inflow of credit to the sector be ensured taking into consideration the growing investment demand including the requirements of technological transformation. Small industry should be allowed to come up only in

designated industrial areas for better monitoring and periodic surveys through DICs should enable policy corrections from time to time. A technologically vibrant; internationally competitive small industry should be encouraged to emerge, to make a sustainable contribution to national income, employment and exports.

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