
GLOBALIZATION & ITS IMPACT IN SMALL SCALE INDUSTRIES

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Abstract

Globalization signifies a process of internationalization plus liberalization, in which the world has become a small village due to the concept of globalization. The competition has become intense in every field. Nations fight with game plan to sustain their economy, by introducing new policies and announcing incentives to support mainly their economic- indicators. After the world economy was open to attack, the Indian economy has initiate to concentrate on the development of small industrial base, which had contribute positively to the India's GDP.

Key Words: liberalization, economy, GDP

Introduction

India's GDP growth is better than other developing countries with the developed small industrial sector. In order to impart more vitality and growth to small scale sector, a separate policy statement has been announced for small, tiny and village enterprises on 6th August, 1991. This policy statement was a leap-forward because it was the first time that Government had issued a separate policy statement for the small and decentralized sector. In the past, small scale sector merited only two or three paragraphs in the more general industrial policy statements. The fact that Government considered it necessary to make a separate policy statement for small enterprises was a welcome recognition to the dynamic and vibrant nature of the sector. This policy statement proposed some path-breaking measures to

mitigate the handicaps that were faced up by small enterprises in respect. Government of India introduced a large number of innovative promotional measures to uplift the growth of small scale sector.

MAJOR FEATURES OF THE SMALL INDUSTRIAL POLICY

1. Emphasis to shift from cheap credit to adequate credit.
2. Equity participation by other undertakings (both domestic and foreign) upto 24 percent.
3. Introducing of factoring services by banks.
4. Marketing of mass consumption goods under common brand name.

5. Setting up of sub- contracting exchanges.
6. Establishment of technology development cell.
7. Opening of quality counseling and technology information centers.
8. New technology up gradation programmes.

WHAT IS GLOBALIZATION?

Globalization refers to an advanced stage of development where capital, technology, labour, raw materials, information and transportation, distribution and marketing are integrated or interdependent on a globe scale. Globalization is not a new phenomenon. In the immediate post-World War-II period, globalization was mainly driven by rapid growth in foreign trade while in the 1950s and 1960s, foreign direct investment (FDI) started to play an increasingly important role in this process. Over the last three decades and based on a global trend of trade and investment liberalization, the world economy has evolved into a highly integrated system. Today, globalization involves numerous features, but the following three seem to be the main engine driving global economic integration:

- a) Internationalization of production accompanied by changes in the structure of production
- b) Expansion of international trade in trade and services, and
- c) Widening and deepening of international capital flows.

FOREIGN TRADE GLOBALIZATION

Foreign trade Globalization opens the economic borders of the countries and emphasizes to remove the trade barriers and curtail in import tariffs of the countries. In the context of globalization and being the member of WTO, the member should not discriminate the foreign product. The countries with the comparative advantages in the products can be benefited. But, in Nepal the trade balance is worsening year by year. Export is shrinking and import has been expanding nowadays. The trade deficit has been widened and the import/export ratio is about 3:1. The trade dependency has been significantly increasing with India comprising 61 percent of total volume of trade in fiscal year.

PRIVATIZATION AND INDUSTRIAL GROWTH

Globalization always favors private sectors. Privatization and less role of state in business activities can increase the quality and working efficiency. It reduces the government burden on unnecessary economic activities and budget deficit. In Nepal, Privatization Act, 1993 has been introduced and 27 public enterprises have been privatized till the date. But, most of the privatized enterprises have not run efficiently, some have already been closed down. The process has somehow become irrational in Nepal. Globalization and liberalization in the industrial sector has negligible impact on industrial growth in Nepal. Manufacturing sector only contributes 7-8

percent in GDP. In general, the private sector in Nepal has a trade-oriented character rather than an industrial character and hence it is reluctant to bear high risks. It seeks to harvest larger profits from a short period investment, often through small amount of share capital and big volume of institutional loans. Secondly, the private sector is in the form of family groups that has recently taken a shape of 'Business Houses'.

PERFORMANCE OF SMALL SCALE INDUSTRIES IN THE GLOBALIZATION ERA

SSI is considered as the backbone of the private sector all over the world, which assures their role in production, employment and sales. In addition to their role in economic development they play a vital role in social, political, and cultural development as well. However, the notable spread of SSI contributed to the increased severity of competition between these industries that often leads to the failure of these industries. Most SSI fail during the first year of establishment, and 90% of these industries are subject to failure during a period not exceeding their first 5 years.

WHAT IS THE ROLE AND IMPORTANCE OF SMALL SCALE INDUSTRY IN INDIA?

In a developing country like India, the role and importance of small-scale industries is very significant towards poverty eradication, employment generation, rural development and creating regional balance in promotion and growth of various

development activities. It is estimated that this sector has been contributing about 40% of the gross value of output produced in the manufacturing sector and the generation of employment by the small-scale sector is more than five times to that of the large-scale sector. This clearly shows the importance of small-scale industries in the economic development of the country. The small-scale industry have been playing an important role in the growth process of Indian economy since independence in spite of stiff competition from the large sector and not very encouraging support from the government.

THE FOLLOWING ARE SOME OF THE IMPORTANT ROLE PLAYED BY SMALL-SCALE INDUSTRIES IN INDIA.

1. Employment generation:

The basic problem that is confronting the Indian economy is increasing pressure of population on the land and the need to create massive employment opportunities. This problem is solved to larger extent by small-scale industries because small-scale industries are labour intensive in character. They generate huge number of employment opportunities. Employment generation by this sector has shown a phenomenal growth. It is a powerful tool of job creation.

2. Mobilisation of resources and entrepreneurial skill:

Small-scale industries can mobilize a good amount of savings and entrepreneurial skill from rural and semi-urban areas remain untouched from the clutches of large industries and put them into productive use by investing in small-scale units. Small entrepreneurs also improve social welfare of a country by harnessing dormant, previously overlooked talent. Thus, a huge amount of latent resources are being mobilised by the small-scale sector for the development of the economy.

3. Equitable distribution of income:

Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive. Thus small-scale industries ensures equitable distribution of income and wealth in the Indian society which is largely characterised by more concentration of income and wealth in the organised section keeping unorganised sector undeveloped. This is mainly due to the fact that small industries are widespread as compared to large industries and are having large employment potential.

4. Regional dispersal of industries:

There has been massive concentration of industries in a few large cities of different states of Indian union. People migrate from rural and semi urban areas to these highly developed centres in search of employment and sometimes to earn a better living which ultimately leads to many evil consequences of

over-crowding, pollution, creation of slums, etc. This problem of Indian economy is better solved by small-scale industries which utilise local resources and brings about dispersion of industries in the various parts of the country thus promotes balanced regional development.

5. Provides opportunities for development of technology:

Small-scale industries have tremendous capacity to generate or absorb innovations. They provide ample opportunities for the development of technology and technology in return, creates an environment conducive to the development of small units. The entrepreneurs of small units play a strategic role in commercialising new inventions and products. It also facilitates the transfer of technology from one to the other. As a result, the economy reaps the benefit of improved technology.

6. Indigenization:

Small-scale industries make better use of indigenous organizational and management capabilities by drawing on a pool of entrepreneurial talent that is limited in the early stages of economic development. They provide productive outlets for the enterprising independent people. They also provide a seed bed for entrepreneurial talent and a testing round for new ventures.

7. Promotes exports:

Small-scale industries have registered a phenomenal growth in export over the years. This contributes about 35% India's total export. Thus they help in increasing the country's foreign exchange reserves thereby reduces the pressure on country's balance of payment.

8. Supports the growth of large industries: The small-scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing, components, accessories and semi finished goods required by them. In fact, small industries can breathe vitality into the life of large industries.

9. Better industrial relations:

Better industrial relations between the employer and employees helps in increasing the efficiency of employees and reducing the frequency of industrial disputes. The loss of production and man-days are comparatively less in small- scale industries. There is hardly any strikes and lock out in these industries due to good employee-employer relationship.

Of course, increase in number of units, production, employment and exports of small- scale industries over the years are considered essential for the economic growth and development of the country. It is encouraging to mention that the small-scale enterprises accounts for 35% of the gross value of the output in the manufacturing sector, about 80% of

the total industrial employment and about 40% of total export of the country.

OPPORTUNITY

The opportunities in the small-scale sector are enormous due to the following factors:

1. Less Capital Intensive
2. Extensive Promotion & Support by Government
3. Reservation for Exclusive Manufacture by small scale sector
4. Project Profiles
5. Funding - Finance & Subsidies
6. Machinery Procurement
7. Raw Material Procurement
8. Manpower Training
9. Technical & Managerial skills
10. Tooling & Testing support
11. Reservation for Exclusive Purchase by Government
12. Export Promotion
13. Growth in demand in the domestic market size due to overall economic growth
14. Increasing Export Potential for Indian products
15. Growth in Requirements for ancillary units due to the increase in number of Greenfield units coming up in the large scale sector.

Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification.

By its less capital intensive and high labor absorption nature, SSI sector has made significant contributions to employment generation and also to rural industrialization. This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. This is 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 Govt. have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods. However, the bugbear of the sector has been the inadequacies in capital, technology and marketing. The process of liberalisation coupled with Government support will

therefore, attract the infusion of just these things in the sector. [2]

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GLOBALIZATION WILL KILL SMALL-SCALE INDUSTRIES IN INDIA

Globalization is the metamorphosis of the individual nations into an integrated entity by means of their interconnection on an economic, social and cultural level, fuelled by easy transport and communication among them. It is the modern renaissance that makes ideas, goods, services, trade, technology and culture permeate into the entire geography of the world thus turning it into a global village. [1]

While globalization is a large scale phenomenon, small scale enterprises are a local phenomenon but having effects of dimensions as large as it's global 'friend and foe'. Friend- because both globalization and small scale industries are the two wheels of the vehicle of economic growth and prosperity; foe- because some argue that given the developing nation that India is, Small Scale Industries(SSIs) can suffer and strangulate to death by the fierce competition put up by globalization. Let us observe and decide.

Micro and small scale enterprises have existed in India since ages in the form of traditional skills and knowledge based products made by people for the self sufficiency of rural India. Today as per the government definition, "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, can be categorized as small scale undertaking". After independence, the Indian government made various laws to help revive and

flourish the SSI because of the employment potential it had at a low capital cost. It needed mediocre technical knowledge and minimal infrastructure to set up. Thus it was and is the most ideal form of employment opportunity for both the urban and rural population. It not only encourages entrepreneurship among people but also makes them self reliant. Govt. funding, support and intensive promotion has aided people to participate more in this successful phenomenon making SSI the second largest employment sector after agriculture. It forms about 45-50% of our exports. The products also form a large percentage of our domestic market too with SSI producing a number of products like confectionaries, spices, beverages, natural essence oils, dyes, sports goods, wooden furniture, glass, ceramic and earthen wares, cotton and woolen knitted products, silk and synthetic wear, leather shoes, bags, garments and novelty items, plastic items, survey instruments, auto parts, clocks and watches, musical instruments, lab chemicals, basic metallic and non-metallic mineral products. They are the dynamic sectors of our economy. It also leads to the preservation of many traditional and indigenous skills and products our country is famous for. It is the road to rural industrialization and 'rural urbanization' thus creating a regional balance.

India was self reliant and self sufficient but with the march of the world towards industrialization India found its closed policy of trade leading to an impending economic crisis. The main reason behind this was the focus of efforts on heavy industries and

lack of it on the consumption goods. From 1991 India witnessed a major change as the govt. introduced liberalization, privatization and globalization reforms to pep up the economy. Soon the world realized what a big 1billion-population-market India was. They brought their goods to India which were mass produced and therefore cheaper and of better quality than the local goods. They started challenging the SSI and thus posed an end to them. Further with the introduction of Special Economic Zones (SEZs), the MNCs were facilitated with areas with liberal economic and trade laws, round the clock facilities and concessions to enhance foreign investments and promote exports. This endangered the existence and survival of SSIs.

But this is not the complete picture. A lot of foreign entrepreneurs who do not have the time or funds to build the infrastructure for their own manufacturing unit in India engage a number of SSI owners to produce goods for them in a short span of time and sell them to cater to the international demand. In other words they outsource the manufacturing to the Indians. Thus it leads to more labour absorption and growth of SSIs. Many of the SSIs have turned into LSIs this way. Also the demand for SSI goods will never finish as a lot of their products are not lucrative options for the MNCs. For example, the incense sticks or agarbatties, bangles, pickles, etc. are not a catch for LSIs but have a constant demand and thus SSIs have a great opportunity in identifying such areas.

So it can be said that both globalization and SSIs are the essentials of Indian economy and India must make efforts to promote, sustain and aid both in a fair and unbiased way. A fruitful measure would be to reserve certain goods for production exclusively by the SSIs and their intelligent outsourcing by the govt. to ensure maximum benefits. Also the govt. should advertise the indigenous goods worldwide so that the foreign folk also go in for the ethnic items produced here like khadi, silk, wool, statues, gems, ornaments, etc. as these represent the traditional art form and culture of the region. As far as the financial aids are concerned, the govt. is doing good work to make things simple and possible for the interested individuals by funding and financial support. Also the setting up of institutes for technical training and skill enhancement of the workforce is helping in a big way. [3]

CONCLUSIONS

Small industry in India finds itself in an intensely competitive environment international and national policy changes have thrown open new opportunities and markets to Indian small industry. Concerted efforts are needed both from the government and more importantly, from small industry itself to imbibe technological dynamism into Indian small industry. Technological upgradation and in-house technological innovations and promotion of inter-firm linkages need to be encouraged consciously and consistently. The benefits and need to go for technology development through either technology

transfer or technological innovations or inter-firm linkages should be emphasized in the light of dimensions of global competition and its negative fallouts as well as positive opportunities, to small industry entrepreneurs through seminars and workshops at the local level. Financial infrastructure need to be broadened and adequate inflow of credit to the sector be ensured for the advancement.

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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