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Fear and Challenges Faced by Small Scale Industries of India in the World of Globalisation

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Abstract- The small-scale sector has emerged as an engine of growth in most of the developing and newly industrialized countries of the world. In India the SSI has played a catalytic role in socio-economic transformation of the country. This sector has exhibited tremendous capacity for employment generation, greater resource use efficiency, and technical innovation, promoting inter-sectoral linkages, raising exports and reducing regional imbalances. Small business has low capital investment and therefore the risk of the entrepreneur is limited and he can afford to be venturesome. Moreover small businesses have a small gestation period so returns are also quick. The flexibility inherent in this sector allows the entrepreneur to work aggressively if a project seems promising or change course in case things do not work out. In his manner the small business functions as a nursery for developing entrepreneurial talent. The cumulative effect of these innumerable entrepreneurs leads to economic growth and higher standards of living, which transform the society. The world trading system is constantly offering new challenges for businesses in emerging economy. The WTO is bound to impact every economic activity-the small-scale-sector is no exception.WTO Agreement have thrown up a variety of threats and challenges in the sight of WTO Agreement SSIs lost the shield of protective policy of the government and have been exposed to the onslaught of multinational organization and international competition. The strategy to survive and flourish will have begun with clear understanding of the changes that are taking place, not only domestically but globally. This paper attempts to study the performance of SSI since 1995 to 2010 when WTO came in to existence and to identify the various problem which the SSIs are facing in the changing environment and to suggest strategic imperatives to make them competitive in present scenario.

Keywords: small scale industries, capital investment, economic activity, efficiency and wto (world trade organization).

I. Introduction

The last fifteen years ranging from 1995 to 2010 has witnessed a growing and irreversibly trade towards globalization and liberalization with integration of the production process by subcontracting and international division of labor, dismantling of institutional barriers to international trade and capital flows, and rapid technological advances particularly in information dissemination and communication. The same has quickened the pace of growth of world trade and thrown up opportunities for emerging economies. At the same time, competitiveness has been established as the predominant factor in global as well as domestic markets which no longer remain preserves of indigenous businesses. Another significant remark to the globalization process has been swiftly changing regulatory scenario the trading system all over the world is continuously offering new opportunities as well as creating new threats. The threats are created due to tariffs and quotas, new technical norms, measures relative to sanitary and phyto-sanitary and anti-dumping actions which are rendering more challenges for business in emerging economies.

The importance of small scale industry in any economy as a foundation of strong and competitive industry is well understood as the same drives economic development through employment, production and research. The small scale industry of India forms the backbone of the Indian economy, the small scale industries, which are defined in terms of the investment limit in plant and machinery (Rs. 10 million or one crore for SSI) contributing to around 40% of India's total manufacturing sector output, around 35% of total export i.e. Rs.28, 87.5 crores in to 2009-10 in comparison to Rs 93 crore in 1973-74 and providing employment to nearly 25 million person. The regulations imposed by WTO regime together with pressures for enhanced product/ service obligations is however placing an increasing demand for competitive effort from the small scale industrial(SSI) sector in India. The sector needs to be nurtured and backed by a Conducive environment and strong support mechanisms if it is to realize its full potential in the present scenario. With the globalization of the economy various economic reform which are undertaken, the SSI sector is exposed global economic environment. There is near dismantling of state barriers, replacement of national competition policy by global competition policy, harmonization of trade policies and procedures and free movement of factors of production, new business and new challenges of management in a highly networked global economy. The globalization as well as liberalization has created threats and opportunities for this sector. Maximum number of problems arises due to unorganized nature of this sector, lack of data and information, use of obsolete and low technology and some time poor infrastructure. The basic problem that is confronting the Indian economy is increasing pressure of population on the land and the need to create

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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. The small-scale industries ensure equitable distribution of income and wealth in the Indian society which is largely characterized by more concentration of income and wealth in the organized sector keeping unorganized 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. To compete internationally, reasonable economy of scale and continues investment in technology up gradation have become a necessity.

II. Objectives Under Study

1. To assess the performance of SSI's in economic development of India.
2. To assess the challenges and threats faced by SSI sector internationally

III. Research Methodology

The data has been collected from secondary sources comprising of micro, small and medium enterprises annual reports and Ministry of Commerce, Government of India from the period of 1995-1996 to 2009-10. The collected data has been classified and analyzed in a systematic manner. For analysis, statistical tools such as annul growth rates and compound annual growth rates (CAGR) have been used in the study.

$$CAGR\ (t_0, t_n) = (V(t_n)/V(t_0))^{1/t_n - t_0} - 1$$

$V(t_0)$: Start value, $V(t_n)$: finish value, $t_n - t_n$: number of years

Performance of SSI units in India (1995-96 to 2009-10)

Year	Number of units(Lakhs)	Yearly growth of Number of units (%)	Production (Rupees Crore)	Yearly growth of production (%)	Exports (Rupees lakhs)	Yearly growth of exports (%)	Investment (Rs.lakhs)	Yearly growth of investment (%)
1995-96	8.28	----	121175	11.40	36470	25.46	125750	1.58
1996-97	8.62	3.94	134892	11.32	39248	7.62	130560	3.83
1997-98	8.97	4.06	146263	8.43	44442	13.23	133242	2.05
1998-99	9.34	4.12	157525	7.69	48979	10.21	135482	1.68
1999-2000	9.72	4.06	170379	58.16	54200	10.66	139982	3.32
2000-01	10.11	4.01	184401	8.23	69797	28.78	146845	4.90
2001-02	10.52	4.05	282270	53.07	71244	2.07	154349	5.11
2002-03	10.95	4.08	306771	8.68	86013	20.73	162317	5.16
2003-04	11.40	4.10	336344	9.64	97644	13.52	170219	4.87
2004-05	11.86	4.03	372938	10.38	124417	27.42	178699	4.98
2005-06	12.34	4.04	418883	12.32	450242	20.75	188113	5.27
2006-07	26.10	11.50	471663	12.59	182538	21.49	207307	10.20
2007-08	27.28	4.52	532979	12.99	202017	10.67	197046	-4.95
2008-09	28.52	4.54	594295	11.50	214387	6.12	203149.3	3.09
2009-10	29.81	4.52	655611	10.32	238752	11.36	209252.6	3.00

Source: RBI hand book of Statistics on Indian Economy 2009-2010.

Computed annual average compound growth rate of investment =3.606%

Computed annual average compound growth rate of production=17.269%

Computed annual average compound growth rate of the number of units in SSI sector=4.348%

Computed annual average compound growth rate of export=15.33%

Since with the introduction of Industrial policy resolution (1948) there has been increasing emphasis on the development of SSIs in India. It was in year 1952 when the concept of SSI sector was introduce in India with the objective of promoting and developing small scale industries. The number of SSI unit has been estimated to have gone up from 8.28 lakhs in 1995-96 to 29.81 lakhs in 2009-10. During this period the value production of SSI units also increasing to 11.40% i.e. 121175 crore to 10.32%i.e 655511 crore; while compound annual average growth rate of production stood to be 17.269%. Exports in the SSI sector went up to 238752 lakhs from 36470 lakhs during the period 1995-96 to 2009-10 which contributed 15.33% compound annual average growth rate of exports.

IV. Factors Responsible for Fear and Challenges to Small Scale Industry of India

Force of WTO (world trade organization) on SSI in India: - with the coming of WTO in 1995 it has far reaching effect on all types of SSI units in India, whether catering for domestic or global market. With the

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enforcement of several agreements it is likely to have for reaching implication SSI sector in India, with regard to their competitive ability and integration with the global markets. Following are some of the factors which are relevant for India, particularly from the point of view of small scale sector (SSI) and need to be addressed appropriately so that much needed protection is required to be given to the Indian SSI units:-

1. Spread of quantitative restrictions (QRs): - There are some quantitative restrictions which India is maintaining on certain agricultural, textile and other industrial products under Article XVIII-B of General agreement of trade and tariffs. India has notified a particular period to WTO, spread over seven years during which these import restrictions are to be removed. The restrictions imposed by India before WTO has been disputed by USA and dispute settlement panel has given judgment against India. Withdrawal of QRs means diluting the reservation policy on SSI product. Due to the removal of QRs many of the SSI units, especially those in the consumer goods sector, will find it difficult to survive as more imported product will find easy access to the Indian market. Therefore, government should provide a package of assistance to those products which are without any reservation so that their competitive power is enhanced.
2. Tariffs on industrial goods: - Though Indian SSIs have been hindered by some bottlenecks and have no access to economies of scale therefore some protection has been granted to them. As by the passage of time India has remove quantitative restrictions as per notification given by India to WTO so that protection level by way of tariff is also likely to come down. India is committed to a ceiling tariff binding of 40% on finished goods and 20% on intermediate goods, machinery and equipment. This brings another challenge for the SMEs, with their high cost of in efficiency and low support facilities such as better infrastructure in comparison to others.
3. Subsidies to the SSI units: - Though subsidies are not permitted but subsidies provide by the government to Small and Medium Enterprises (SMEs) identified on the bases of their size, number or employment would be Non-Actionable Subsidies. Non-Actionable Subsidies are those which are granted on the bases of objective criteria that are economic in nature and horizontal in application and do not favor certain enterprises over others and are not specific. Countries which import cannot levy countervailing duties on Non-Actionable Subsidies. Therefore, in India SMEs should know to be competitive without present set of subsidies. This is really big challenge what SMEs are facing.
4. Access to the market: - It has been argued by some of the people that bringing down of tariff walls is in the country's interest and will get higher market access globally. There are several such items where India stands to gain and by taking liberal stand on this issue, India can actually benefit in terms of market access. We may lose in certain areas, but it is important to note that India cannot gain a large share in the global market it tries to keep its tariffs high.
5. Measures retaliated to environment and ecological perspective: - These measures mainly affect agro based and dairy products. In the developed words, there are high standers which are difficult to achieve in developing countries like India, due to heavy investment involved. Developing countries have been regularly opposing it. For example, textile export account for 55% of India's export earning and according to one estimate, over 60% of production is by small scale enterprises. But the stringent environment conditions in developed countries have adverse consequences for India's export performance.

V. Conclusion and Various Measures to be Taken

The greatest challenge before SSI is to globally change itself. It cannot survive because of high tariff barriers or non tariff barriers like import licensing. It cannot hope to get subsidies from the government indefinitely. Indian SSI will have to be at par with the best in the world by raising their level of efficiency and competitiveness because at present time they are facing competition in the domestic as well as international market from multiple sources. Imported goods coming into the domestic market at lower import duties are offering stiff competition. Therefore, various measures that can be taken in order to revive SSI from such fears and challenge are: - In present scenario Indian SSI have poor infrastructure, technically and financially weak and unable to look at their right destination. Therefore, we may have to redefine the SSI unit in tune with international SME.

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