

## GLOBALIZATION AND THE PLIGHT OF SMALL SCALE SECTOR IN INDIA

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### ABSTRACT

The small scale sector occupies a predominant place in the Indian economy. The small-scale industry sector has emerged as the engine of growth for the country in the new millennium. This achievement has been possible due to the consistent and sustained policy support from the Government including policy of reservation, investment ceiling for the SSI sector and priority lending. The ongoing programmes of 'Economic Reforms' undertaken by the Government, since 1991 based upon the principle of liberalization, globalization and privatization and the changes at international scene including the emergence of World Trade Organization (WTO), which have brought certain challenges and also several new opportunities before the SSI sector. When technology is coordinated with the means of production as a result of globalization, the importance of human labour is declined. Consequently, employment potential has decreased and many have lost their jobs and job opportunities. As a result of multinational companies entering the country, our Small Scale Industry appears to be outmoded technology with inadequate marketing outlets and low quality standards. Therefore, the industries have to face heavy global competition. Against this backdrop, the present paper aims at analyzing the plight of the Small Scale Sector in India in the context of globalization.

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### INTRODUCTION

The small scale sector occupies a predominant place in the Indian economy. The small-scale industry sector has emerged as the engine of growth for the country in the new millennium. This achievement has been possible due to the consistent and sustained policy support from the Government including policy of reservation, investment ceiling for the SSI sector and priority lending. The ongoing programmes of 'Economic Reforms' undertaken by the Government, since 1991 based upon the principle of liberalization, globalization and privatization and the changes at international scene including the emergence of World Trade Organization (WTO), which have brought certain challenges and also several new opportunities before the SSI sector. When technology is coordinated with the means of production as a result of globalization, the importance of human labour is declined. Consequently, employment potential has decreased and many have lost their jobs and job opportunities. As a result of multinational companies entering the country, our Small Scale Industry appears to be outmoded technology with inadequate marketing outlets and low quality standards. Therefore, the industries have to face heavy global competition.

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. In the Indian context, this has had several implications, such as opening up the economy to Foreign Investment by providing foreign

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firms with several facilities; removing constraints and obstacles to the entry of MNCs; allowing Indian companies to enter into foreign collaborations in India and encouraging them to set up joint ventures abroad; carrying out massive import liberalization programmes; and opting for exchange rate adjustments rather than export promotion schemes as a means to improve export performance. For almost a decade now, policy makers in India have been talking about liberalization, globalization and global integration.

Against this backdrop, the present paper aims at analyzing the plight of the Small Scale Sector in India in the context of globalization.

### **Importance of Small Scale Industry to the Indian economy**

A significant feature of the Indian economy since independence is the rapid growth of the small industry sector, in terms of employment and growth. In spite of the stiff competition from the large sector, and not so encouraging support from the Government, the numbers of small scale units have grown from 4.2 lakh in 1973-74 to 23.84 lakh in 1993-94. Small and Micro producers are crucial in developing economies, and their role is even greater in the largely rural economies of South Asia. In India as well, the sector is the second largest employer, after agriculture, and accounts for nearly 6 percent of the country's GDP.

The Small Scale Sector in India embraces various types of units, ranging from ancient household industries to modern small scale units, which are mainly located in the urban areas and produce goods using wholly or partly the mechanized equipment. In India, Khadi and handloom, sericulture, handicrafts, village industries, coir, Bell metal are some of the traditional small-scale industries. The modern small industries offer a wide range of products starting from simple items like hosiery products, garments, leather products, fishing hook etc to more sophisticated items like television sets, electronics control system, various engineering products especially as ancillaries to large industrial undertakings.

The small-scale industry sector has emerged as the engine of growth for the country in the new millennium. This achievement has been possible due to the consistent and sustained policy support from the Government including policy of reservation, investment ceiling for the SSI sector and priority lending. The ongoing programmes of 'Economic Reforms' undertaken by the Government, since 1991 based upon the principle of liberalization, globalization and privatization and the changes at international scene including the emergence of World Trade Organization (WTO), which have brought certain challenges and also several new opportunities before the SSI sector.

The Industrial Policy Resolutions adopted by the Government of India spelt out the expected role of small scale sector in the development of India's national economy. Moreover, the various Five Year Plans also gave importance to this sector for industrial development, employment generation and diversification of economic activities to help in equitable distribution of national income and to reduce foreign exchange outlay.

Small-scale industries in India are labour intensive in character and they can generate huge number of employment opportunities. Employment generation by this sector has shown a phenomenal growth. It is a powerful tool of job creation. Small-scale industries in the country mobilizes 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 mobilized by the small-scale sector for the development of the economy. Further 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 organized section keeping unorganized sector undeveloped.

## **Pros and cons of Globalization on the Small – Scale Sector**

After the introduction of economic reforms in 1991, there has been a transition from an era of protection to an era of globalization. The traditional small-scale industries clearly differ from their modern counterparts in many respects. The traditional units are highly labour consuming with their age-old machineries and conventional techniques of production resulting in poor productivity rate whereas the modern small-scale units are much more productive with less manpower and more sophisticated equipments. 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.

There are enormous opportunities within the framework of WTO to protect the legitimate interests of the small scale sector due to its being less capital intensive, extensive promotion and support by the government, reservation for exclusive manufacture by small scale sector, project profiles, funding, finance and subsidies, machinery procurement, raw material procurement, manpower training, technical and managerial skills, tooling and testing support, reservation for exclusive purchase by government, export promotion, growth in demand in the domestic market size due to overall economic growth, increasing export potential for Indian products, growth in requirements for ancillary units due to the increase in number of green field units coming up in the large scale sector.

The present economic environment 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 Government have ensured the entry of this sector in an astonishing diverse range of products, particularly in consumer goods.

However, since with globalization, small scale sector is now exposed to severe competition from domestic and foreign large scale sector and also from the MNCs, which enter into the market with great publicity and brand names through the satellite channels. The New Industrial Policy, Licensing Policy, Labour Marketing Reforms, Banking Sector Reforms etc. have all come into existence according to WTO guidelines. To satisfy WTO, Quantitative Restrictions (QRs) have been totally dismantled in the EXIM Policy 2000-01. The impact of removal of QRs is being felt by all the industries, which were earlier protected. The small scale sector has been experiencing greater impact, especially with regard to their competitive ability and integration with the global market against the opportunities of an expanding global market. The Indian markets are now experiencing a relatively free flow of cheaper imported consumer goods of international quality, which is leading to a shrinking demand for local products. Besides, it is leading to a large scale piling of stocks of the unsold products churned out by the small scale sector.

The globalization has posed many threats and also challenges for small scale-sector in India. It will be in the fitness of things if these threats are taken as challenges and converted into opportunities for sustained development of nation's economy. This will bring about a great distribution of income and wealth, and a more even distribution of industries in the urban and

the rural areas, economic self-dependence through contribution to domestic output, entrepreneurial development employment and a host of other positive and economic uplifting factors. Moreover, in a country like India with an adverse Balance of Payment situation, the growing contribution of the small scale sector in India's export portfolio goes along way in generating forex and smoothening out the adverse Balance of Payments situation. Hence, coordinated efforts of entrepreneurs, coordinated functioning of promotional agencies, government assistance, proper product development, product diversification and also upgrading the managerial skills of the small scale industrialists and their key officials is needed without red tapism or bureaucratic delays.

Other negative effects of globalization on Indian industry have been rise in demand for labor and the rise in wage rates leading to some increase in costs. The power of the trade unions over labour in emerging industries and growth sectors is weakened. There will be too much competition in the market leading to continuous pressure on raising productivity, enhancing consumer service, improving product quality, in order to survive. There will be growth of consumerism. There will be problems of dealing with uncertainty in the international market in terms of demand, supply and prices.

### **Conclusion**

To conclude, it can be said that there are positive as well as negative aspects of globalization on the small – scale industry in India. Both globalization and SSIs are the essentials of Indian economy. The entire Indian economy is feeling the pains of transition from a protected economy to an open, competitive one. Sections of the small sector are certainly being hit hard. On the financial front, the problems this sector is facing are the result of the entire process of liberalization. While globalization has put us on the map of superpower countries, SSIs have empowered the common man to walk with the same stride as the big-wigs.

### **Suggestions**

It is suggested that modernization and technology upgradation hold the key to unlock the true potential of the Small Scale sector. 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 government to ensure maximum benefits. Also the government 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.

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