

Globalisation and its impact on SSI in India

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Abstract:

The Indian economy has seen a tremendous growth in the recent past. The small and medium scale enterprises are known as the backbone of the industrial growth and development. The role of government and the ideal planners have been the main area of concern somehow. The development of this sector has promoted production, generated employment and has helped in generating a major share of exports in the economy. The paper analysis the impact of SSI on the growth and development of the economy as a whole.

Keywords : MSME, exports, production, economy, employment, output.

I. Introduction :

SSI means small scale industries, which is an industrial undertaking with the investment not exceeding Rs. 100 lakhs in plant and machinery. The small-scale industries sector plays a vital role in the growth of the country. Worldwide, the micro small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. The micro, small and medium enterprises (MSMEs) sector contributes significantly to the manufacturing output, employment and exports of India. It is estimated that in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports.. The sector is estimated to employ about 595 lakh persons in over 261 lakh enterprises throughout the country. This sector has consistently shown a higher growth rate than the rest of the industrial sectors. There are over 6000 products ranging from traditional to high-tech items, and generating employment potential at low capital cost. This sector is constituting over 90 % of their total enterprises in most of the economies and account for a major share of industrial production and exports.[1]

In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. This sector employs an estimated 59.7 million persons spread over 26.1 million enterprises and in terms of value, this sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country. Recently the socio-economic policies adopted by India since the Industries (Development and Regulation) Act, 1951 have laid stress on MSMEs as a means to improve the country's economic conditions. The areas and products covered by this sector is briefly given in the following pie diagram (with its total share in the economy). By looking at the fast development and the growth of the economy due to this sector, the Government of India, Planning Commission and the committee on the Village and Small Scale Industries in its report has stressed that the setting up of small scale industries will provide employment to the people in the rural areas and thus the development of this sector will be the major area of concern in future. [1]

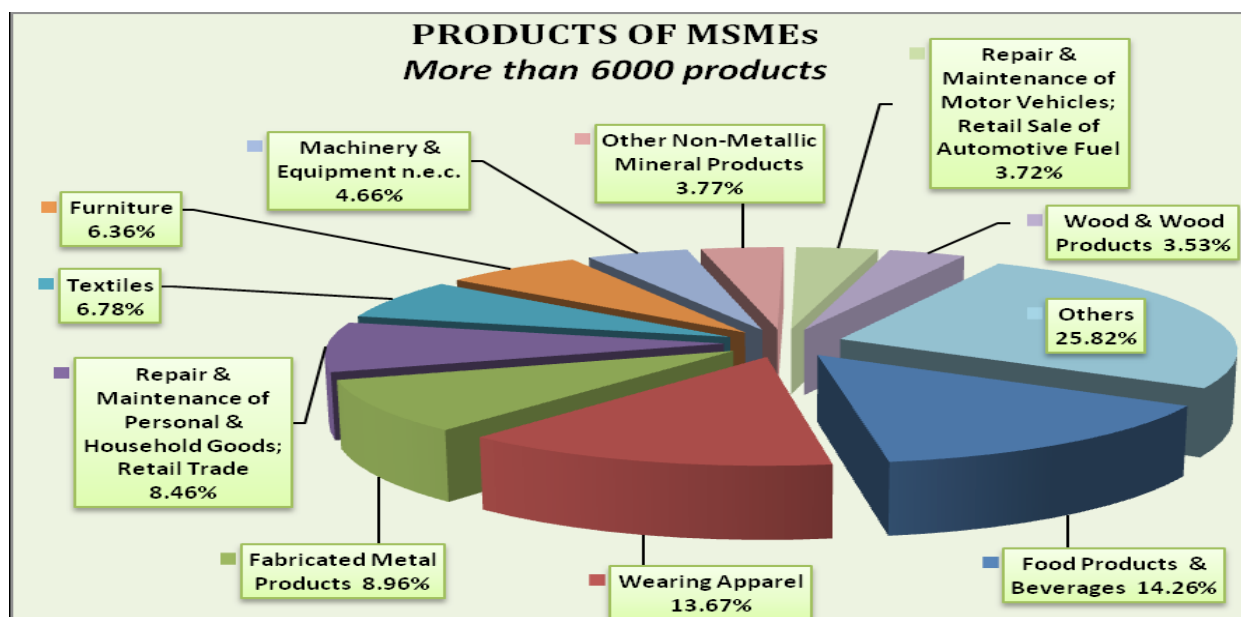


Fig 1.1

Previous researches: Siddharthan.G., in his study entitled, “Entrepreneurship of small scale Industries found that the government of India and the planning commission stressed that this sector plays a major role in the generation of employment in the Indian economy. A study was conducted in Kanyakumari District and it revealed that community and economic back ground alone will determine the growth of entrepreneurship in Kanyakumari. R.K Sharma., in his study entitled, “Industrial development of Andhra Pradesh – A Regional Study” has observed that the backward districts of the state improved their relative positions in terms of units of employment and capital. Majority of the small units are confronted with the problems of raw materials and finance. Banujam K.V., in his study entitled, “Poverty Alleviation through Rural Industrialization” suggested that appropriate technology should be developed to promote the rural small industries. Rethnam N.V., in his study entitled, “Rural Industrialization and IRDP” opined that infrastructure development for industrialization in the rural areas and investment in basic services designed to realize the full potential of human resources in the rural areas should receive a high priority. Gholam Ali, in his study entitled, “Help makes small scale industries viable” revealed that big and small industries have their share in the development of a nation and the prosperity of its masses. A balance must be struck in the development of these industries.

II. PERFORMANCE OF MSMEs

The Office of the DC (MSME) provides estimates in respect of various performance parameters relating to the sector. The time series data in respect of the sector on various economic parameters is given in the following

Table 2.1

MSMEs Performance: Units, Employment, Investments, Production & Exports

Sl.	No. Year	Total working (in lacs)	Employment (in lacs)	Fixed investment	Production (crores)	Exports
1	2001-02	105.21 (4.07)	249.33 (4.44)	154349 (5.11)	282270 (8.03)	71244 (2.07)
2	2002-03	109.49 (4.07)	260.21 (4.36)	162317 (5.16)	314850 (11.54)	86013 (20.73)

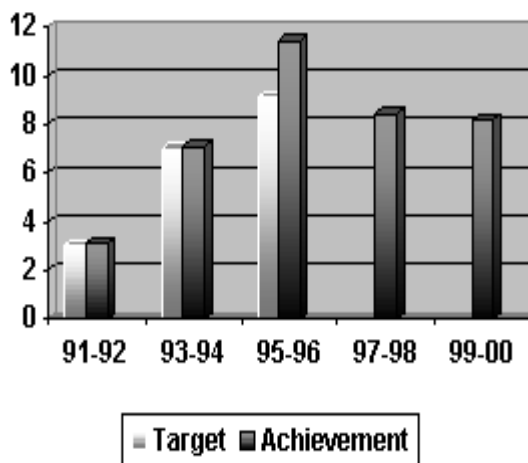
Sl.	No. Year	Total Working MSMEs (lacs)	Employment	Fixed Investment	Production (Current Prices) (Crores)	Exports
3	2003-04	113.95 (4.07)	271.42 (4.31)	170219 (4.87)	364547 (15.78)	97644 (13.52)
4	2004-05	118.59 (4.07)	282.57 (4.11)	178699 (4.98)	429796 (17.90)	124417 (27.42)
5	2005-06	123.42 (4.07)	294.91 (4.37)	188113 (5.27)	497842 (15.83)	150242 (20.76)
6	2006-07	261.12 (111.57)	595.66 (101.98)	500758 (166.20)	709398 (42.49)	182538 (21.50)
7	2007-08	272.79 (4.47)	626.34 (5.15)	558190 (11.47)	790759 (11.47)	202017 (10.67)
8	2008-09	285.16 (4.53)	659.35 (5.27)	621753 (11.39)	880805 (11.39)	N.A
9	2009-10	298.08 (4.53)	695.38 (5.46)	693835 (11.59)	982919 (11.59)	N.A
10	2010-11	311.52 (4.51)	732.17 (5.29)	773487 (11.48)	1095758 (11.48)	N.A

III. Production

It has been estimated that a million Rs. of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points. The number of small-scale units has increased from an estimated 0.87 million units in the year 1980-81 to over 3 million in the year 2000. When the performance of this sector is viewed against the growth in the manufacturing and the industry sector as a whole, it instills confidence in the resilience of the small-scale sector. [1]

Table 2.2 and fig: 1.2

Year	Target	Achievement
1991-92	3.0	3.1
1992-93	5.0	5.6
1993-94	7.0	7.1
1994-95	9.1	10.1
1995-96	9.1	11.4
1996-97	9.1	11.3
1997-98	*	8.43
1998-99	*	7.7
1999-00	*	8.16
2000-01 (P)	*	8.90



P-Projected (April-December)

* Target not fixed at constant prices

Fig 1.3



Employment

SSI Sector in India creates largest employment opportunities for the Indian populace, next only to Agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the small-scale sector generates employment for four persons. The total employment in the MSMEs sector in the country as per the Final Report of the Fourth Census of MSMEs 2006-07: Registered Sector was 93.09 lakh persons. As per the estimates compiled for the year 2010-11, the employment was 732.17 lakh persons in the MSMEs sector. [1] Fig 1.4



Generation of Employment - Industry Group-wise

Food products industry has ranked first in generating employment, providing employment to 0.48 million persons (13.1%). The next two industry groups were Non-metallic mineral products with employment of 0.45 million persons (12.2%) and Metal products with 0.37 million persons (10.2%). In Chemicals & chemical products, Machinery parts except Electrical parts, Wood products, Basic Metal Industries, Paper products & printing, Hosiery & garments, Repair

services and Rubber & plastic products, the contribution ranged from 9% to 5%, the total contribution by these eight industry groups being 49%. In all other industries the contribution was less than 5%. [1]

Per unit employment

Per unit employment was the highest (20) in units engaged in beverages, tobacco & tobacco products mainly due to the high employment potential of this industry particularly in Maharashtra, Andhra Pradesh, Rajasthan, Assam and Tamil Nadu. Next came Cotton textile products (17), Non-metallic mineral products (14.1), Basic metal industries (13.6) and Electrical machinery and parts (11.2.) The lowest figure of 2.4 was in Repair services line. Per unit employment was the highest (10) in metropolitan areas and lowest (5) in rural areas. However, in Chemicals & chemical products, Non-metallic mineral products and Basic metal industries per unit employment was higher in rural areas as compared to metropolitan areas/urban areas. In urban areas highest employment per unit was in Beverages, tobacco products (31 persons) followed by Cotton textile products (18), Basic metal industries (13) and Non-metallic mineral products (12).

[1] Fig 1.5



Location-wise Employment Distribution - Rural

Non-metallic products contributed 22.7% to employment generated in rural areas. Food Products accounted for 21.1%, Wood Products and Chemicals and chemical products shared between them 17.5%.

Urban

As for urban areas, Food Products and Metal Products almost equally shared 22.8% of employment. Machinery parts except electrical, Non-metallic mineral products, and Chemicals & chemical products between them accounted for 26.2% of employment. In metropolitan areas the leading industries were Metal products, Machinery and parts except electrical and Paper products & printing (total share being 33.6%). Fig 1.5



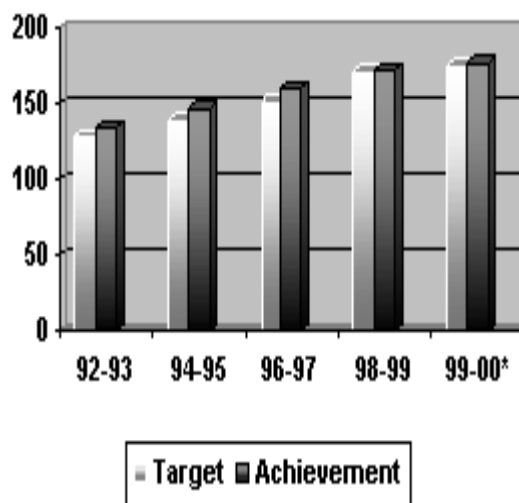
State-wise Employment Distribution

Tamil Nadu (14.5%) made the maximum contribution to employment. This was followed by Maharashtra (9.7%), Uttar Pradesh (9.5%) and West Bengal (8.5%) the total share being 27.7%. Gujarat (7.6%), Andhra Pradesh (7.5%), Karnataka (6.7%) and Punjab (5.6%) together accounted for another 27.4%. Per unit employment was high - 17, 16 and 14 respectively - in Nagaland, Sikkim and Dadra & Nagar Haveli. It was 12 in Maharashtra, Tripura and Delhi. Madhya Pradesh had the lowest figure of 2. In all other cases it was around the average of 6. [1]

Table 2.3

Year	Target (lakh nos.)	Achievement (lakh nos.)	Growth rate
1992-93	128.0	134.06	3.28
1993-94	133.0	139.38	3.28
1994-95	138.6	146.56	5.15
1995-96	144.4	152.61	4.13
1996-97	150.5	160.00	4.88
1997-98	165	167.20	4.50
1998-99	170.1	171.58	2.61
1999-00	175.4	177.3	3.33

fig 1.6



Fixed Investment in MSMEs Sector

Fig 1.7

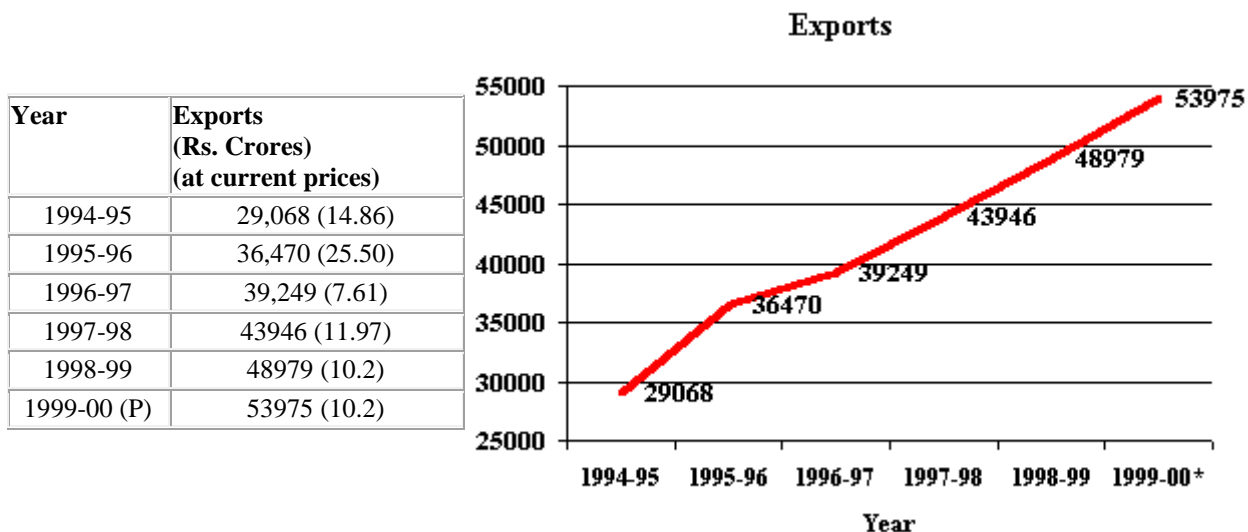


Export

SSI Sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is contributed by SSI Sector wherein direct exports from the SSI Sector account for nearly 35% of total exports thus contributing around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. Also, non-traditional products account for more than 95% of the SSI exports. The performance of garments, leather and gems and jewellery units from this sector have outperformed in their output. The SSI sector dominates in exports, are sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food and leather products and is reorienting its export strategy towards the new trade regime being ushered in by the WTO. [1]

Table 2.4

fig 1.7



Export Destinations

The Export Destinations of SSI products have been identified for 16 product groups.

Production in terms of Gross Output in MSMEs Sector Opportunity



SSI sector has less capital and high labour intensive absorption nature, due to which it has been a major contributor towards generation of employment and rural industrialisation. The outlook of this sector is very promising and positive. Also the promotional and protective policies of the government has ensured the presence of this sector in an astonishing range of products and has been able to make this sector free from inadequacies in capital, technology and marketing. Small scale sector has performed exceedingly well and has played a major role in industrial growth and diversification.

Major Export Markets

The major export markets identified having potential to enhance SSIs exports are US, EU and Japan and have been categorised into three broad categories. They are:

- i. Agriculture, marine and allied products along with engineering/electrical/electronic products hold a major potential for the SSI sector. Japan is a potential market for exporting agriculture, marine and allied products whereas the European union and the US is for the exports of engineering/electrical and electronic items.
- ii. The US and EU have been identified as the potential markets for textile whereas export of chemicals product groups holds a potential for Japan as these areas have been identified as the thrust areas for SSI exports.
- iii. The EU has been identified as the potential market for textiles including sports equipments whereas export of leather items holds potential for the US and the EU.

As far as the role of government is concerned, the ministry of Small Scale industry has been promoting in product specific and general exhibitions in India and abroad every year. Also, export marketing training programmes are also organised to promote this sector and to ensure correct amount of publicity of the products manufactured by this sector, individual assistance for participation in overseas fairs, study tour and production of publicity materials for overseas publicity are also provided.

EXPORT DESTINATION (COUNTRY) OF SSI PRODUCTS

S. No.	PRODUCT GROUP	MAIN DESTINATION (COUNTRIES)
1.	Readymade Garments	USA, Europe, Canada, West Asia, North Africa.
2.	Plastic items	UAE, China, Italy, Saudi Arabia, Oman.
3.	Marine products	Japan, USA, European Union, China, South East Asia.
4.	Sports goods	UK, USA, Australia, Germany, South Africa
5.	Spices	East Asia, European Union, North African Zone & American Zone
6.	Cashew items	USA, Netherlands, UK, Japan & UAE
7.	Shellac items	Indonesia, Germany, Arab Republic Emirates, USA & Italy.
8.	Synthetic items (MADEUPS)	UAE, UK, Turkey, USA & Italy
9.	Leather & Leather items	Germany, UK, Italy, USA & France
10.	Engineering & Elect. items	USA Europe, Japan, Hong Kong, UAE, Germany, Belgium & France
11.	Basic Chemical & Cosmetic	USA, Japan, Saudi Arab, China, Singapore & Netherlands.
12.	Chemical & Allied products.	Japan, Belgaum, Italy, France, Bangladesh, USA & UK.
13.	Wool & Woollen (MADEUPS), Knitted Garments etc	Europe, Japan, Bangladesh
14.	Processed Food items	USA, Europe, Japan
15.	Electronic items & Computer Software	USA, Hong Kong., UAE, UK, Germany & Japan
16.	Tobacco & Tobacco items	East Europe

SSIs IN INDIA

• Estimated No. of Units	3.57 Million
• Employment	19.96 Million
• Share in Industrial Value Added	39%
• Share in Total Exports	Direct 45% Overall 34%
• Total Number of Items Produced	Over 8000
• Number of Reserved Items	675

TRENDS IN GROWTH SSI & INDUSTRIAL SECTOR (in %)

Year	SSI Sector	Industrial Sector
1991-92	3.1	0.6
1992-93	5.6	2.3

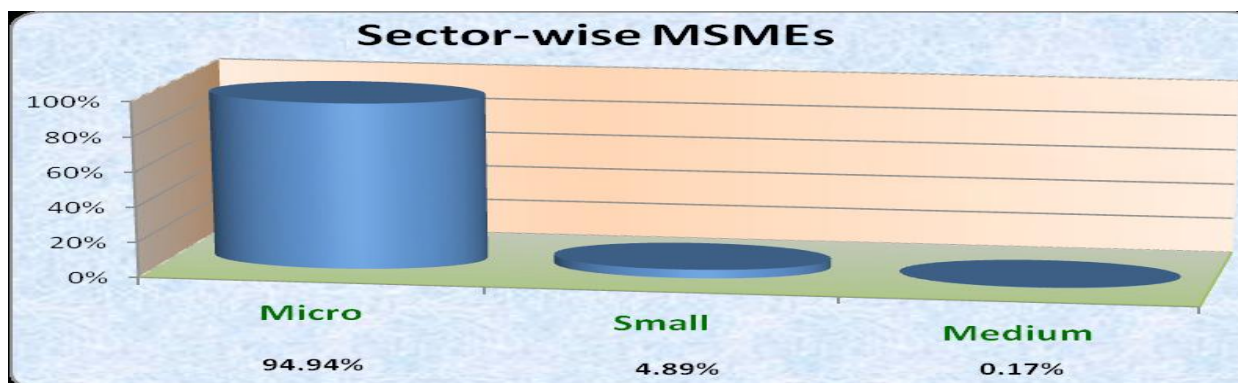
1993-94	7.1	6.0
1994-95	10.1	9.4
1995-96	11.4	12.1
1996-97	11.3	7.1
1997-98	8.43	5.8
1998-99	7.7	4.0
1999-2000	8.16	6.5

**TRENDS IN GROWTH OF EMPLOYMENT IN
& INDUSTRIAL SECTOR (in %)**

Period	GDP Growth per annum	Increase in jobs per annum	
		Organised Sector (including Government)	Unorganised Sector
1980-1990	5.7%	1.59%	6.7%
1991-1997	5.7%	0.86%	3.5%

Year - 1997

Organised Sector	lakh new jobs
Unorganised Sector	lakh new jobs



Contribution of MSEs in GDP

	Contribution of MSEs (%) at 1999-2000 prices in Total industrial production	Contribution of MSEs (%) at 1999-2000 prices in Gross Domestic Product (GDP)
2004-2005	38.62	5.84
2005-2006	38.56	5.83
2006-2007	45.62	7.20
2007-2008	45.24	8.00
2008-2009	44.86	8.72

IV. Conclusion

The data above is the clear proof of the SSI sector playing a role as a backbone of the economy as a whole. The result has shown a fall in the rate of growth of number of units and employment generation in post liberalisation and it also shows that globalisation is almost a complete failure on growth front of this sector. There is a very intense need to help in the growth and upgradation of this sector to ensure the overall development of the economy as a whole.

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