

Review

Liberalization and its impact on small scale industries

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Small-scale industries occupy a place of strategic importance in Indian economy in view of its considerable contribution to employment, production and exports. However, since 1991, small-scale industries in India find themselves in an intensely competitive environment due to globalization, domestic economic liberalization and dilution of sector specific protective measures. This paper probes the implications of globalization and domestic economic liberalization for small-scale industries and analyses its growth performance in terms of units, employment, output and exports. The paper concludes with policy recommendations to ensure the sustenance and competitive growth of small-scale industries in India.

Key words: Small-scale industries, policy, globalization, innovation, employment, exports, production, competitiveness, economic liberalization, growth performance, social sector.

INTRODUCTION

In general, liberalization refers to a relaxation of previous government restrictions, usually in areas of social and economic policy. In the arena of social policy it may refer to a relaxation of laws, restricting the society. Most often, the term is used to refer to economic liberalization, especially trade liberalization or capital market liberalization. Policies of liberalization are being pursued as part of economic reforms in India. The objectives of liberalization basically are:

1. To enhance budgetary receipts.
2. To minimize budgetary support towards loss making units.
3. To improve performance by bringing out changes in ownership and performance through disinvestment.
4. To ensure long term viability and sustainable levels of employment in public sector enterprises.

Three broad reasons why liberalization is being pursued are greater economic democracy through increased private initiatives in economic activities, achieving higher levels of economic growth and employment, and reducing budgetary deficits. In other words, liberalization, basically, refers to removal of administrative controls and regulations.

The global economy is undergoing a major change-shift towards knowledge-based growth. India is preparing for and participating in the emerging knowledge-based economy. The new economy and high-tech sectors are exhibiting openness, competitiveness and knowledge intensity. Using its intellectual manpower, India has developed an expertise in producing generic drugs and has been able to increase its exports in a highly competitive market. The international capital market is providing increased opportunities to India to attract FDI. India's established credentials in IT and ITES can be leveraged to develop a competitive advantage in other fields such as different branches of engineering, scientific research, bio-technology, medicine, pharmaceuticals, agriculture and education. Furthermore, textiles and garment industry will expand with the phasing down of quantitative restrictions under MFA (Multi Fiber Agreement).

Current status of small scale industries in India

The small scale industries (SSI) (Table 1) constitute an important segment of the Indian economy in terms of their contribution to the country's industrial production, exports, employment and creation of an entrepreneurial base (Table 1). So far as India is concerned, the small scale industrial sector accounts for about 12.8 million units, 31 million employment and production of over 8000

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Table 1. New Norms for defining SSIs.

Nature of unit	Investment in plant and machinery/equipment (excluding land and building)	
	Manufacturing enterprises	Service enterprises
Micro	Up to Rs. 25 lakh	Up to Rs. 10 lakh
Small	More than Rs. 25 lakh and up to Rs. 5 crore	More than Rs. 10 lakh and up to Rs. 2 crore
Medium	More than Rs. 5 crore and up to Rs. 10 crore	More than Rs. 2 crore and up to Rs. 5 crore

Source: Annual report, 2006 to 2007, Ministry of Small Scale Industries (Now Ministry of MSME).

Table 2. Growth of SSI and employment during pre economic liberalization (EL) and post economic liberalization periods (In percentage).

Period	Percentage increase		Average annual growth rate	
	SSIs	Employment	SSIs	Employment
Pre EL (1981-82 to 1990-91)	2.02	1.67	6.35	5.28
Post EL (1991-92 to 2001-02)	1.60	1.32	5.53	3.54

Source: GOI, Planning commission 2003 report of task force on employment opportunities.

Table 3. Performance of micro and small enterprises.

Year	Number of Units in Lakh			Production (Rs. In Crore at 2001-02 Prices)	Employment in Lakh	Export in Crore (Rs.)
	Registered	Unregistered	Total			
2002-03	16.03	93.46	109.49 (4.1)	3,06,771(8.7)	263.68(4.5)	86,013 (20.7)
2003-04	17.12	96.83	113.95(4.1)	3,36,344 (9.6)	275.30(4.4)	97,644(13.5)
2004-05	18.24	100.35	118.59(4.1)	3,72,938(10.9)	287.55(4.5)	1,24,417(27.4)
2005-06	19.30	104.12	123.42(4.1)	4,18,884(12.3)	299.85(4.3)	1,50,242(20.8)
2006-07	20.32	108.12	128.44(4.1)	4,71,663(12.6)	312.52(4.2)	N.A

Source: Economic survey 2007 to 2008, Ministry of Finance, GOI.

items with export share of about 35% (Table 3). The New Economic Policy pursued since 1991 has brought this sector face to face with competition through delicensing, reduction in customs and excise duties. Several small scale units have withered away but those who have adopted modern production practices like auto ancillary sectors have benefited substantially.

Liberalization and it's impact on SSIs in India

India has traditionally always had a very vibrant and competitive SSI. Even after the dawn of industrialization, British producers of textiles found hand made Indian textiles such a threat that they lobbied hard to have its import banned, succeeding in the late 18th century (Gupta and Sharma, 1996). During pre-economic liberalization period a wide variety of incentives, concessions and institutional facilities were extended for the development of SSIs but these socialistic promotional policy measures, (Tripathi, 2006), in many cases resulted in protection of

weak units rather (Parthasarathy, 1996) than the independent growth of units under competitive business environment (Porter and Linde, 1995; Nyati, 1988). Such situation continued up to the middle of 1991. Under the regime of economic liberalization, the focus was shifted from "protection" to "competitive promotion" (Peattie, 1995; Raja and Rajashekar, 2002).

The public policy in India had been attaching lot of importance to village and SSI on the following grounds. SSI being labor-intensive, helped to increase the volume of employment, particularly in rural areas, it is estimated that about 3 crore persons are engaged in India in these industries. The handloom industry alone employs 50 lakh people. They account for 6% of GDP, and 35% of total exports. The contribution of SSI in India to national development was meager as compared to the contribution of SSI in other countries of the world. India's SSI shared 95% of all establishments, 40% of output, 45% of employment and 35% of exports. But Taiwan ranked first with a share of 97% of establishments, 81% of output, 7% of employment and 48% of exports followed by

Japan contributing highly with 99% of establishments, 52% of output, 72% of employment and 13% of exports (SIDBI Report, 2001).

CONCLUSION AND SUGGESTIONS

Small industry sector has performed exceedingly well and enabled our country to achieve an extensive 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. Under the changing economic scenario especially in the era of liberalization, SSI has both the challenges and opportunities before them. The business can compete on cost, quality and products at domestic and international level only if ideal investment in technology, production process, R&D and effective marketing are made. Infrastructure bottlenecks are not completely solved. The promotional activities for SSI in India need to concentrate on improved credit flows, human resource development, appropriate technology and funds for modernization. So, this is the appropriate time to set up projects in the small-scale sector which can reduce the challenges of social sector in the era of liberalization. This expectation is based on an essential feature of the Indian industry and the demand structures (Roberts, 1995). The variety in the

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 or diverse types of units.

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