IMPACT OF GLOBALIZATION ON MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

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ABSTRACT

The process of globalization is an inevitable phenomenon in human history which has been bringing the world closer since the time of early trader and exploration through the exchange of goods, products, information, jobs, knowledge and culture. Globalization is the process of integration of the world into one huge market. It provides several things to several people with removal of all trade barriers among countries. Globalization happens through three channels: trade in goods and services, movement of capital and flow of finance. Globalization in India is generally taken to mean ‘integrating’ the economy of the country with the world economy. The real thrust to the globalization process was provided by the new economic policy introduced by the Government of India in 1991 at the behest of the IMF and the World Bank. Globalization has led to an “Unequal Competition” – a competition between giant MNC’s and dwarf Indian enterprises”. Therefore there is a need to study and analyze the impact of globalization on Indian Small Scale Industries. This paper focuses on the implication of Globalization; analyze the performance of small scale industries based on number of units, ployment, production, investment and exports on post liberalization.

KEYWORDS: Globalization, MSMSE, Growth, Post Liberalization, Globalization, Entrepreneurial Development
INTRODUCTION

After attaining independence in 1947 India adopted mixed economic planning as a method to achieve economic development. Along with the Large Scale sector the thrust was on Small Scale sector because of its small size, indigenous technology, employment intensity and its suitability for rural area with limited techno-economic structure. Industrial policies are focused to promote SSIs through various incentives related to financial, fiscal and infrastructure measure; along with a heavy industrial base. 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 taken initiative to concentrate on the development of small industrial base, which had contributed positively to the India’s GDP. 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 is 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 of 1991:

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.

THE AIM OF GLOBALIZATION

Globalization can be defined as the process of change, increasing interconnectedness and interdependence among countries and economies, bringing the world closer through better world-wide communication, transport and trade links. This process is changing the world dramatically and quickly, affecting economic, social, political and cultural aspects of life. 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.
BENEFITS AND DISADVANTAGES

While globalization is a catalyst for human progress, it is also a chaotic process which offers both benefits and disadvantages to people across the world. Positive consequences of globalization include:

- Improvements in local productivity can promote prosperity
- The movement and sharing of information, knowledge and expertise
- The improvement of international standards for variables such as education and health
- Increases the variety of goods available to the world market and provides a bigger range of markets for internationally sourced products

Negative consequences of globalization include:

(i) The loss of employment in manufacturing in developed countries
(ii) A drift towards a more homogenized culture and society internationally
(iii) Local economies may be more vulnerable to fast changes in the international economy
(iv) Increased centralization of power in the hands of large transnational corporations
(v) The location of industry in less developed countries, for many reasons, often leads to environmental degradation

STATUS OF MSMEs IN INDIA

Indian small scale industry is playing an imperative role in the economic expansion of the country and has vast approaching for employment generation. Increasing small scale sector units also results in decentralized industrial development, better distribution of wealth and investment and entrepreneurial talent. The government has initiated several policies for the growth and development of small scale industries. Post liberalization economic conditions have created immense growth prospect for the small scale industries. The Micro, Small and Medium Enterprises in India are acting as power and spirit of economic growth in the 21st century. The Ministry of Agro and Land Rural industries and Ministry of SSI have been merged into a single, Ministry namely, Ministry of Micro, Small and Medium enterprises. The small scale sector has played an extremely essential role in the socio economic development of the country during the past 50 years. It has significantly contributed to the overall growth in terms of Gross Domestic Product (GDP), employment generation and exports. According to MSMEs Act 2006 the enterprises are broadly classified in terms of activity such as enterprises engaged in manufacturing, production and enterprises engaged in services. The classification of SSI’s is shown in following chart.

CLASSIFICATION OF MSME
The Micro, Small and Medium Enterprise (MSME) sectors contributes significantly to manufacturing output, employment and exports of the country. It is estimated that in terms of the value, the sector accounts for about 45 percent of the manufacturing output and 40 percent of the total exports of the country. The sector is estimated to employ about 69 million persons in over 26 million units throughout the country. There are over 6000 products ranging from traditional to high tech items which are being manufactured by MSMEs in the country. It is well known that MSME sector provides maximum opportunities for both self employment and job outside agriculture sector.

SCOPE, OBJECTIVE AND METHODOLOGY:

The aim of present paper is to highlight the role of small-scale industrial units in economic development of India and impact of globalization on the performance of MSMEs. The period of the study is limited to 19 years, i.e. from 1992-93 to 2010-11 and only secondary data is taken into consideration for purpose of the study. The relevant secondary data is collected from the publication of ‘Ministry of Micro, Small and Medium Enterprises, Government of India’ published by Reserve Bank of India and Handbook of Statistics on Indian Economy.

LIMITATIONS

All the indicators related to the growth of small scale industries has been computed from 1992-93 to 2010-11 are taken under post- globalization period. In this study there is only one limitation that is exports in 2008-09 to 2010-11are not available.

GROWTH OF MSMES: POST LIBERALIZATION PERIOD

Since the advent of planning in 1950-51, as discussed above, considerable effective efforts have been made for the development of Micro, Small and Medium enterprises in view of their potential for creating employment. The Table–1 and Table-2 shows the development of MSMEs in India.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total MSMEs (lakh numbers)</th>
<th>Fixed Investment (Rs. Crore)</th>
<th>Production (Rs. crore)</th>
<th>Employment (lakh person)</th>
<th>Exports (Rs. crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>73.51 (4.07)</td>
<td>109623 (9.24)</td>
<td>84413 (4.71)</td>
<td>174.84 (5.33)</td>
<td>17784 (28.10)</td>
</tr>
<tr>
<td>1993-94</td>
<td>76.49 (4.07)</td>
<td>115795 (5.63)</td>
<td>98796 (17.04)</td>
<td>182.64 (4.46)</td>
<td>25307 (42.30)</td>
</tr>
<tr>
<td>1994-95</td>
<td>79.60 (4.07)</td>
<td>123790 (6.9)</td>
<td>122154 (23.64)</td>
<td>191.40 (4.79)</td>
<td>29068 (14.86)</td>
</tr>
<tr>
<td>1995-96</td>
<td>82.84 (4.07)</td>
<td>125750 (1.58)</td>
<td>147712 (20.92)</td>
<td>197.93 (3.42)</td>
<td>36470 (25.46)</td>
</tr>
<tr>
<td>1996-97</td>
<td>86.21 (4.07)</td>
<td>130560 (3.82)</td>
<td>167005 (13.60)</td>
<td>205.86 (4.00)</td>
<td>39248 (7.62)</td>
</tr>
<tr>
<td>1997-98</td>
<td>89.71 (4.07)</td>
<td>133242 (2.05)</td>
<td>187217 (11.57)</td>
<td>213.16 (3.55)</td>
<td>44442 (13.23)</td>
</tr>
<tr>
<td>1998-99</td>
<td>93.36 (4.07)</td>
<td>135482 (1.68)</td>
<td>210454 (12.41)</td>
<td>220.55 (3.46)</td>
<td>48979 (10.21)</td>
</tr>
<tr>
<td>1999-00</td>
<td>97.15 (4.07)</td>
<td>139982 (3.32)</td>
<td>233760 (11.07)</td>
<td>229.10 (3.88)</td>
<td>54200 (10.66)</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India and Ministry of Micro, Small and Medium Enterprises, Govt. of India.
## TABLE -2 DEVELOPMENTS OF MSMES DURING THE 2000’s

<table>
<thead>
<tr>
<th>Year</th>
<th>Total MSMEs (lakh number)</th>
<th>Fixed Investment (Rs. Crore)</th>
<th>Production (Rs. crore)</th>
<th>Employment (lakh person)</th>
<th>Exports (Rs. crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>105.21 (4.07)</td>
<td>154349 (5.11)</td>
<td>282270 (8.03)</td>
<td>249.33 (4.44)</td>
<td>71244 (2.07)</td>
</tr>
<tr>
<td>2002-03</td>
<td>109.49 (4.07)</td>
<td>162317 (5.16)</td>
<td>314850 (11.54)</td>
<td>260.21 (4.36)</td>
<td>86013 (20.73)</td>
</tr>
<tr>
<td>2003-04</td>
<td>113.95 (4.07)</td>
<td>170219 (4.87)</td>
<td>364547 (15.78)</td>
<td>271.42 (4.31)</td>
<td>97644 (13.52)</td>
</tr>
<tr>
<td>2004-05</td>
<td>118.59 (4.07)</td>
<td>178699 (4.98)</td>
<td>429796 (17.90)</td>
<td>282.57 (4.11)</td>
<td>124417 (27.42)</td>
</tr>
<tr>
<td>2005-06</td>
<td>123.42 (4.07)</td>
<td>188113 (5.27)</td>
<td>497842 (15.83)</td>
<td>294.91 (4.37)</td>
<td>150242 (20.76)</td>
</tr>
<tr>
<td>2006-07</td>
<td>261.01 (111.48)</td>
<td>500758 (166.20)</td>
<td>709398 (42.49)</td>
<td>594.61 (101.62)</td>
<td>182538 (21.50)</td>
</tr>
<tr>
<td>2007-08</td>
<td>272.79 (4.51)</td>
<td>558190 (11.47)</td>
<td>790759 (11.47)</td>
<td>626.34 (5.34)</td>
<td>202017 (10.67)</td>
</tr>
<tr>
<td>2008-09</td>
<td>285.16 (4.53)</td>
<td>621753 (11.39)</td>
<td>880805 (11.39)</td>
<td>659.35 (5.35)</td>
<td>N. A.</td>
</tr>
<tr>
<td>2009-10</td>
<td>298.08 (4.53)</td>
<td>693835 (11.59)</td>
<td>982919 (11.59)</td>
<td>695.38 (5.47)</td>
<td>N. A.</td>
</tr>
<tr>
<td>2010-11</td>
<td>311.52 (4.51)</td>
<td>773487 (11.48)</td>
<td>1095758 (11.47)</td>
<td>732.7 (5.29)</td>
<td>N.A</td>
</tr>
<tr>
<td>Average growth rate</td>
<td>16.1</td>
<td>24.1</td>
<td>14.5</td>
<td>14.4</td>
<td>16.6</td>
</tr>
</tbody>
</table>

*Source: Annual report, 2010-2011, Ministry of Micro, Small and Medium Enterprises. (The above table in brackets shows the percentage growth over the previous years.)*

- This sector contributes 8 % of the country GDP, 45 % of the manufactured output and 40 % of its total exports of the country.
- The sector provides employment nearly to 60 million persons, in over 26 million units throughout the country.
- The number of MSMEs units has increased from 105.21 lakh units in 2001-02 to 311.52 lakh units in 2010-11.
- The investment and production increased from Rs.154349 crore in 2001-02 to Rs.1095758 crore in 2010-11 at current prices.
- The employment in MSMEs units increased from 249.33 lakh in 2001-02 to 732.7 lakh in 2010-11.
- The exports have increased from Rs.71244 crore to Rs.202017 crore during the same period.
CONCLUSION

The overall performance and contribution of small scale industries to Indian economy is described in terms of its absolute growth in units, employment, production and exports. The MSMEs Development Act of 2006 perhaps is the most crucial of these recent policy changes. The growth of small scale industries can be evaluated into two ways: To compare the growth rates of units. Employment, output and exports of Small scale industries in 2000 with that of 1990s. To ascertain the change in the relative contribution of Small Scale industries to GDP, Exports and Organized Sector employment in the 2000s with that of 1990s. The small scale sector has grown rapidly over the years. The period of liberalization and the development the MSMEs sector constituted an important segment of our economy. MSMEs are a very important segment in the Indian industrial sector and would continue to play a crucial role in the Indian Economy in the future. It also brought in huge amounts of foreign investments into the country and provided employment opportunities for many people in the country which in its turn helped reduce the level of poverty in the country. A rewarding feature of economic development in India is due to impressive growth of modern MSMEs.

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