Globalization and Small-Scale Industries: A Blessing or Curse?

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**ABSTRACT**

Globalization refers to the growing interdependence of national economies worldwide, driven by the rapid movement of goods, services, technology, and capital across borders. This process is closely linked to advancements in science and technology, as well as the increasing cross-border division of labor. Economic globalization is characterized by the growing significance of information in productive activities and marketization. It encompasses the removal of trade barriers among countries, offering various benefits to different stakeholders. This global integration occurs through three primary channels: trade in goods and services, movement of capital, and the flow of finance. In the context of India, globalization is often understood as "integrating" the country's economy with the world economy. The impetus for globalization in India came from the new economic policy introduced by the Government in July 1991, under the guidance of the IMF and the World Bank. The small-scale sector holds a prominent position in the Indian industry, contributing significantly to production, exports, and employment. Consequently, this study aims to examine the impact of globalization on Indian Small-Scale Industries (SSI). The primary objective of the paper is to evaluate the performance of SSI before and after liberalization, comparing them with average annual growth rates to gauge the influence of globalization. The study period spans from 1973 to 2007, and the analysis is based on secondary information.

***Keywords:*** Globalization, Small-Scale Industries, Employment, Economic Reforms, Liberalization

**INTRODUCTION**

Globalization can be described as the unimpeded integration of different world economies, allowing goods, services, technology, capital, and even labor or human capital to flow freely. In essence, it combines internationalization and liberalization, ultimately transforming the world into a closely interconnected global community, often referred to as a "global village." Numerous mechanisms are contributing to the advancement and facilitation of globalization. However, two pivotal instruments significantly influencing this process are multinational corporations and the revolutionary impact of information technology.Multinational corporations play a central role in globalization, wielding vast capital and assets. Driven by profit maximization, they strategically set up factories in multiple developing nations, where they can take advantage of low-cost labor and access to raw materials.

Information Technology, a direct outcome of the industrial revolution, constitutes yet another influential instrument of globalization. Its various facets, particularly the Internet and multimedia, significantly contribute to the global spread of ideas and connectivity owing to their speed, convenience, and widespread accessibility. While the benefits of this revolution are substantial, it's important to note that some advanced nations continue to dominate and regulate this technology. This control raises concerns as it could potentially be utilized as a tool for cultural influence and exerting informational hegemony on a global scale.

Globally, micro, small, and medium enterprises (MSMEs) are widely acknowledged as the driving force behind economic growth and play a crucial role in fostering equitable development. In India, the small-scale industry sector has held significant importance since gaining independence due to its substantial contributions to employment, production, and exports.The development of small-scale industries (SSI) has consistently received special attention in the country's five-year plans and industrial policies. This emphasis is driven by the realization that the increasing number of micro, small, and medium enterprises leads to decentralized industrial development, promotes a more balanced distribution of wealth, and encourages investments and entrepreneurial talent to flourish. Recognizing these benefits, authorities have continuously supported and nurtured this sector to ensure its continued growth and positive impact on the nation's economic landscape.

Small-scale industries play a vital role in all developing countries, as they become a significant contributor to their economies. Due to limited available resources and capital for investment, establishing and developing large industries becomes a challenging endeavor for such economies. This circumstance is particularly true for countries like India, where the small-scale sector's importance does not require justification. Not only does the small-scale industry contribute to the country's GDP, but it also plays a crucial indirect role by generating substantial employment opportunities. In India, a developing nation, the small-scale sector contributes approximately forty-five percent of the manufacturing output and about forty percent of the total exports, further bolstering the country's economic activities. Besides economic growth, this sector also serves as a major source of employment, benefiting the workforce and contributing to overall national development.

Until 1991, small-scale industries in India received both promotion and protection through a range of incentives, including financial, fiscal, and infrastructure support. They also benefited from a robust industrial base during this period. However, starting from 1991, the scenario changed significantly for these industries. They encountered a highly competitive environment primarily due to the forces of globalization and domestic economic liberalization. Additionally, sector-specific protective measures were diluted, further impacting the small-scale industries' ability to compete and thrive in the changing economic landscape. This shift marked a challenging phase for the sector, as it had to adapt and navigate new economic realities while facing increased competition both domestically and globally.

Indeed, while globalization and domestic economic liberalization presented challenges to small-scale industries, they also opened up immense potential for growth and development. Recognizing this, the government has taken proactive steps to enable these industries to harness the benefits of globalization and liberalization, thereby transforming them into engines of economic growth in the 21st century.

To achieve this goal, the government has initiated various policy measures aimed at supporting and empowering small-scale industries. These measures are designed to create a conducive environment for their growth and competitiveness. Such policies may include financial incentives, access to international markets, technology support, skill development programs, infrastructure improvements, and streamlined regulatory frameworks, among others.

By implementing these strategic policy measures, the government aims to help small-scale industries seize the opportunities presented by globalization and liberalization. In doing so, these industries can contribute significantly to the country's economic growth and overall development in the rapidly evolving global landscape.

**OBJECTIVES**

The main objectives of this study are:

1. To explore and examine the growth of small-scale industries both pre and post-globalization.
2. To highlight the impact of globalization on the productivity of small-scale industries.
3. To assess the employment generation capacity of Small-Scale Industries (SSI) in India before and after the era of globalization.
4. To throw light on the growth of exports of small-scale industries before and after globalization.

**METHODOLOGY**

The research comprises secondary data sourced from the government Ministry of Micro, Small, and Medium Enterprises' annual reports. This data covers a period of 42 years, ranging from 1974-1975 to 2005-2006. The other secondary sources include various articles, journals, research papers, and the publications of government organizations.

**MAJOR FINDINGS**

**Table 1. Growth of SSI in Pre and Post Globalization**

**(Units = Million Nos.)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | Units | % increase to previous year | Year | Units | % increase to previous year |
| 1973-74 | 0.42 | - | 1990-91 | 6.79 | 273.08 |
| 1974-75 | 0.50 | 19.05 | 1991-92 | 7.06 | 3.98 |
| 1975-76 | 0.55 | 10.00 | 1992-93 | 7.35 | 4.11 |
| 1976-77 | 0.59 | 7.27 | 1993-94 | 7.65 | 4.08 |
| 1977-78 | 0.67 | 13.56 | 1994-95 | 7.96 | 4.05 |
| 1978-79 | 0.73 | 8.96 | 1995-96 | 8.28 | 4.02 |
| 1979-80 | 0.81 | 10.96 | 1996-97 | 8.62 | 4.11 |
| 1980-81 | 0.87 | 7.41 | 1997-98 | 8.97 | 4.06 |
| 1981-82 | 0.96 | 10.34 | 1998-99 | 9.34 | 4.12 |
| 1982-83 | 1.06 | 10.42 | 1999-00 | 9.72 | 4.07 |
| 1983-84 | 1.16 | 9.43 | 2000-01 | 10.11 | 4.01 |
| 1984-85 | 1.24 | 6.90 | 2001-02 | 10.52 | 4.06 |
| 1985-86 | 1.35 | 8.87 | 2002-03 | 10.95 | 4.09 |
| 1986-87 | 1.46 | 8.15 | 2003-04 | 11.40 | 4.11 |
| 1987-88 | 1.58 | 8.22 | 2004-05 | 11.86 | 4.04 |
| 1988-89 | 1.71 | 8.23 | 2005-06 | 12.34 | 4.05 |
| 1989-90 | 1.82 | 6.43 | 2006-07 | 12.84 | 4.05 |
| AAGR | **9.36** |  | **AAGR** | **4.07** |  |

***Source:*** *Ministry of Micro, Small, and Medium Enterprises, GOI*

**AAGR**= Annual Average Growth Rate or Exponential Growth Rate

The data presented in the above table indicates that during the pre-globalization period (from 1973-74 to 1989-90), the Annual Average Growth Rate of the number of units was 9.36 percent, while in the post-globalization period, it decreased to 4.07 percent. In the pre-globalized era, the yearly growth rate surpassed the average growth rate in the initial years and between 1984-85 to 1989-90, but it fell below the average growth rate during the latter period. Notably, in 1989-90, the yearly growth rate was at its lowest in the pre-globalization period.

After the initiation of liberalization and globalization, in 1990-91, the yearly growth rate surged significantly, but it later fluctuated between 3.98 percent and 4.12 percent. Throughout the post-globalization period, the yearly growth rate mostly remained lower than the average growth rate, except in 1999-00, where the yearly growth rate aligned with the average growth rate. Although the number of units increased during the study period, both the average and yearly growth rates were higher in the pre-globalized period compared to the post-globalized period.

**Table 2. Growth of Production of Small-Scale Industries**

**(Production=Crores)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | Production(CurrentPrices) | % Increase toprevious year | Year | Production(CurrentPrices) | % Increaseto previous year |
| 127973-74 | 7200 | - | 1990-91 | 78802 | -40.44 |
| 1974-75 | 9200 | 27.78 | 1991-92 | 80615 | 2.30 |
| 1975-76 | 11000 | 19.57 | 1992-93 | 84413 | 4.71 |
| 1976-77 | 12400 | 12.73 | 1993-94 | 98796 | 17.04 |
| 1977-78 | 14300 | 15.32 | 1994-95 | 122154 | 23.64 |
| 1978-79 | 15800 | 10.49 | 1995-96 | 147712 | 20.92 |
| 1979-80 | 21600 | 36.71 | 1996-97 | 167805 | 13.60 |
| 1980-81 | 28100 | 30.09 | 1997-98 | 187217 | 11.57 |
| 1981-82 | 32600 | 16.01 | 1998-99 | 210454 | 12.41 |
| 1982-83 | 35000 | 7.36 | 1999-2000 | 233760 | 11.07 |
| 1983-84 | 41600 | 18.86 | 2000-01 | 261297 | 11.78 |
| 1984-85 | 50500 | 21.39 | 2001-02 | 282270 | 8.03 |
| 1985-86 | 61200 | 21.19 | 2002-03 | 314850 | 11.54 |
| 1986-87 | 72300 | 18.14 | 2003-04 | 364547 | 15.78 |
| 1987-88 | 87300 | 20.75 | 2004-05 | 492796 | 17.90 |
| 1988-89 | 106400 | 21.88 | 2005-06 | 497842 | 15.83 |
| 1989-90 | 132300 | 24.34 | 2006-07 | 585112 | 17.53 |
| AAGR | **19.45** |  | **AAGR** | **13.57** |  |

***Source:*** *Ministry of Micro, Small, and Medium Enterprises, GOI.*

**AAGR**= Annual Average Growth Rate or Exponential Growth Rate

Since 2001-02, Production figures are at 2001-02 prices.

The above table indicates that during the pre-globalization period (from 1973-74 to 1989-90), the Annual Average Growth Rate of production was 19.45 percent. However, in the post-globalization period, from an extended timeframe of 1990-91 to 2002-03, the Annual Average Growth Rate reduced to 13.57 percent. Within the pre-globalization period, the yearly growth rate experienced fluctuations. Initially, it decreased in the early years, then from 1973-74 to 1978-79, it fluctuated. Afterward, there was an increasing trend in the yearly growth rate, with the exception of a downturn in 1986-87. In contrast, the post-globalization period saw a low and negative yearly growth rate in 1990-91. However, it subsequently showed an increasing trend from 1991-92 to 1994-95. Nonetheless, from 1995-96 to 2002-03, the yearly growth rate generally decreased, except for slight increases in 1998-99 and 2001-02. Throughout the study period, the yearly growth rate remained mostly below the average growth rate. Although the production showed an overall increase, the average and yearly growth rates were notably higher in the pre-globalized period compared to the post-globalized period.

**Table 3. Small-Scale Industries and Employment Generation**

**(Employment= Million Nos.)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | Employment | % increase to previous year | Year | Employment | % increase to previous year |
| 1973-74 | 3.97 | - | 1990-91 | 15.83 | 32.36 |
| 1974-75 | 4.04 | 1.76 | 1991-92 | 16.60 | 4.86 |
| 1975-76 | 4.59 | 13.61 | 1992-93 | 17.48 | 5.30 |
| 1976-77 | 4.98 | 8.50 | 1993-94 | 18.26 | 4.46 |
| 1977-78 | 5.40 | 8.43 | 1994-95 | 19.14 | 4.82 |
| 1978-79 | 6.38 | 18.15 | 1995-96 | 19.79 | 3.40 |
| 1979-80 | 6.70 | 5.02 | 1996-97 | 20.59 | 4.04 |
| 1980-81 | 7.10 | 5.97 | 1997-98 | 21.32 | 3.55 |
| 1981-82 | 7.50 | 5.63 | 1998-99 | 22.06 | 3.47 |
| 1982-83 | 7.90 | 5.33 | 1999-2000 | 22.91 | 3.85 |
| 1983-84 | 8.42 | 6.58 | 2000-01 | 24.09 | 5.15 |
| 1984-85 | 9.00 | 6.89 | 2001-02 | 25.23 | 4.73 |
| 1985-86 | 9.60 | 6.67 | 2002-03 | 26.37 | 4.52 |
| 1986-87 | 10.14 | 5.63 | 2003-04 | 27.53 | 4.40 |
| 1987-88 | 10.70 | 5.52 | 2004-05 | 28.76 | 4.47 |
| 1988-89 | 11.30 | 5.61 | 2005-06 | 29.99 | 4.28 |
| 1989-90 | 11.96 | 5.84 | 2006-07 | 31.25 | 4.20 |
| AAGR | **7.25** |  | **AAGR** | **4.26** |  |

***Source:*** *Ministry of Micro, Small, and Medium Enterprises, GOI.*

**AAGR**= Annual Average Growth Rate or Exponential Growth Rate

The above table provides information about the Annual Average Growth Rate of employment during the pre-globalization period (1973-74 to 1989-90), which stood at 7.25 percent. In the post-globalization period, from 1990-91 to 2003-04, the Annual Average Growth Rate reduced to 4.26 percent. Within the pre-globalization period, the yearly growth rate initially surpassed the average growth rate in the early years, from 1973-74 to 1978-79. However, from 1978-79 to 1989-90, the yearly growth rate experienced a substantial decrease, fluctuating between 5.02 percent and 6.89 percent.

On the other hand, during the post-globalization period, the yearly growth rate was notably higher than the average growth rate in 1990-91. Subsequently, from 1991-92 to 2003-04, the yearly growth rate fluctuated. Throughout the study period, the yearly growth rate mostly remained below the average growth rate. Additionally, in the last seven years of the study, the annual growth rate showed a decreasing trend. Although employment showed an overall increase during the study period, the average and yearly growth rates were significantly higher in the pre-globalized period compared to the post-globalized period.

**Table 4. Growth of Exports in Small-Scale Industries**

**(Exports= Million Nos.)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year  | Exports | % increase to previous year | Year | Exports | % increase to previous year |
| 1973-74 | 400 | - | 1990-91 | 9664 | 27.16 |
| 1974-75 | 500 | 25.00 | 1991-92 | 13883 | 43.66 |
| 1975-76 | 500 | 0 | 1992-93 | 17784 | 28.10 |
| 1976-77 | 800 | 60.00 | 1993-94 | 25307 | 42.30 |
| 1977-78 | 800 | 0 | 1994-95 | 29068 | 14.86 |
| 1978-79 | 1100 | 37.50 | 1995-96 | 36470 | 25.46 |
| 1979-80 | 1200 | 9.09 | 1996-97 | 39248 | 7.62 |
| 1980-81 | 1600 | 33.33 | 1997-98 | 44442 | 13.23 |
| 1981-82 | 2100 | 31.25 | 1998-99 | 48979 | 10.21 |
| 1982-83 | 2000 | -4.76 | 1999-2000 | 54200 | 10.66 |
| 1983-84 | 2200 | 10.00 | 2000-01 | 69797 | 28.78 |
| 1984-85 | 2500 | 13.64 | 2001-02 | 71244 | 2.07 |
| 1985-86 | 2800 | 12.00 | 2002-03 | 86013 | 20.73 |
| 1986-87 | 3600 | 28.57 | 2003-04 | 97644 | 13.52 |
| 1987-88 | 4400 | 22.22 | 2004-05 | 124417 | 27.42 |
| 1988-89 | 5500 | 25.00 | 2005-06 | 150242 | 20.76 |
| 1989-90 | 7600 | 38.18 | 2006-07 | - | - |
| AAGR | **18.66** |  | **AAGR** | **17.56** |  |

***Source:*** *Ministry of Micro, Small, and Medium Enterprises, GOI.*

**AAGR**= Annual Average Growth Rate or Exponential Growth Rate

**Note:** Exports information for 2006-07 is not available.

The data presented in the above table reveals that the Annual Average Growth Rate (AAGR) of exports exhibited different patterns during the pre-globalization period (1973-74 to 1989-90) compared to the post-globalization period. Specifically, the AAGR in the pre-globalization era was recorded at 18.66 percent, while in the post-globalization period, it stood at 17.56 percent.

During the pre-globalized phase, the yearly growth rate of exports showed significant fluctuations, at times surpassing the average growth rate. Notably, in 1976-77, the yearly growth rate reached an impressive 60 percent, marking the highest point during the pre-globalization era. From 1978-79 to 1984-85, the AAGR exhibited fluctuations, with both increasing and decreasing trends. The lowest peak was observed in 1982-83, where it even showed a negative trend. Subsequently, from 1985-86 to 1989-90, the yearly growth rate experienced a steady rise, culminating at 38.18 percent. In the post-globalization period, from 1990-91 onwards, the yearly growth rate of exports underwent fluctuations with varying trends each year. In some years, it showed an upward trend, while in others, it declined. The lowest rate was recorded in 2001-02, whereas the highest rate occurred in 1991-92. Overall, while exports witnessed growth throughout the study period, it is evident that both the average and yearly growth rates were higher during the pre-globalized period compared to the post-globalized period.

**CONCLUSION**

Since 1991, Small Scale Industries (SSI) in India have faced a highly competitive landscape due to globalization, economic liberalization, and reduced sector-specific protective measures. Consequently, the growth of SSI in terms of units, employment, output, and exports has declined. This has led to a less remarkable contribution to national income and exports, while employment levels have shown a more positive trend during the 1990s. The comparative analysis of growth patterns for key parameters between the Pre- and Post-Globalization periods reveals a detrimental impact of "globalization" on the small-scale sector. This impact is evident in terms of the number of units, production, employment, and exports. The decline in the growth rate of the number of units and employment generation during the post-globalization period is a matter of significant concern for policymakers and planners.
The results indicate that globalization has largely failed to foster growth in the small-scale sector, presenting almost a complete failure on this front. In conclusion, the recent growth trend in the SSI sector reflects the Indian economy's trust in globalization and liberalization, yet it has failed to yield a positive impact on the growth of the Indian Small-Scale Sector. None of the indicators show a positive impact, as the average growth rate is lower in the post-globalization period compared to the pre-globalization period.

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