

GROWTH OF SMALL SCALE INDUSTRIES IN INDIA DURING PRE AND POST REFORM PERIOD -AN ANALYSIS

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Abstract

Today small-scale industrial sector constitutes a very important segment of the Indian economy. Small scale industries have a high potential for generating employment in semi-urban and rural areas, which is essential for solving widespread unemployment problems of underdeveloped nations. Small scale industries are labor intensive i.e., they use more of labor per unit of output than investment. As India is a capital scarce and labor abundant country it provides 15 to 20 time's greater employment than corresponding large industries with any given investment. Small scale industries have all the characteristics of the decentralized sector such as small size, and employment intensity. The development of this sector is an integral part of the overall economic, social and industrial development of our country.

Keywords: small-scale industrial, unemployment, decentralized sector, industrial development, economic growth, World Trade Organization, global market

At present small scale industries contributes more than 80 per cent of the total industrial units in the country, 40 per cent of the total industrial production, 35 per cent of the total exports and nearly 80 per cent of industrial employment in Indian economy.

Further this industry produce wide range of goods from comparatively simple items to sophisticated products such as television sets, electronics, control system, various engineering products, rubber products, plastic products, chemical products, glass and ceramics, mechanical engineering items, bicycle parts, instruments, sport goods, transport equipment, automobile parts, particularly as ancillaries to the large industries. Hence the existence of small scale industries is essential to country's growth.

Statement of the Problem

After independence, the Indian government recognized the importance of developing small scale industries and incorporated the same in its industrial policy. India

initiated the economic reform in 1991 with the objective of faster economic growth. But, after the introduction of new economic reform this sector has enabled to face challenges from the opening up of economy, need for increasing exports and to meet World Trade Organization Commitments. Many of small scale industrial units are either under threat or facing stiff competition of cheap imports in the global market and to make a choice between low-priced imports over high-priced domestic products. Since the globalization process has been in vogue for the past 20 years, it becomes essential to analyze whether the new economic policy has had a positive or negative impact on the performance of small scale industries in India.

Objectives of the Study

To analyze the performance of small scale industries in India during pre and post reform period with the help of four indicators. These indicators are

1. numbers of units,
2. production,
3. employment, and
4. Exports of small scale industries.

Sources of Data

The present study was primarily based on the secondary data and collected from 'Ministry of Micro, Small and Medium Enterprises' Annual report 2010-11, Hand book of Statistics on Indian Economy, Reserve Bank of India, 2011.

Study Period

The period of study was 33 years. To analyze the performance of small scale industries in India the study period has been classified into two periods.

1. Pre-liberalization period (1973-1990)
2. Post liberalization period (1991-2010)

Statistical Tools Used in the Study

To study the yearly changes in growth for the selected variables simple statistical tools like annual percentage growth rate, compound average growth rate, tabular analysis was used. The following analysis presents the growth of number of small scale industrial units, employment generated, production achieved and export promoted by small scale industries in India during the pre and post reform period.

Number of SSI Units

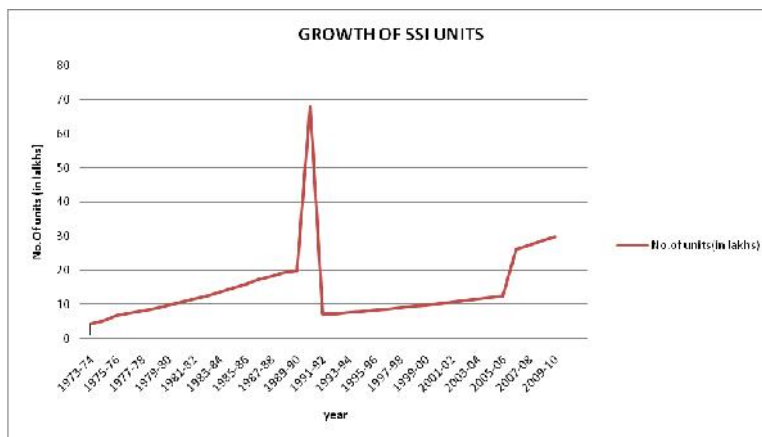
The growth number of small scale industrial units in pre and post liberalization period in India is shown in the following table.

The Table 1 reveals that in the pre-liberalized period, the growth rate was higher in the initial years from 1974-75 to 1977-78. In 1989-90 the annual growth rate attain the least position with 6.43 percent.

Table 1

Year	No. of units (in lakhs)	Annual Growth rate (%)	Year	No. of units (in lakhs)	Annual Growth rate (%)
Pre - Liberalization Period			Post - Liberalization Period		
1973-74	4.2	-	1991-92	7.06	273.08
1974-75	5	19.05	1992-93	7.25	3.98
1975-76	6.7	10	1993-94	7.65	4.11
1976-77	7.3	7.27	1994-95	7.96	4.08
1977-78	8.1	13.56	1995-96	8.28	4.05
1978-79	8.7	8.96	1996-97	8.62	4.02
1979-80	9.6	10.96	1997-98	8.97	4.11
1980-81	10.6	7.41	1998-99	9.34	4.06
1981-82	11.6	10.34	1999-00	9.72	4.12
1982-83	12.4	10.42	2000-01	10.11	4.07
1983-84	13.5	9.43	2001-02	10.52	4.01
1984-85	14.6	6.9	2002-03	10.95	4.06
1985-86	15.8	8.87	2003-04	11.4	4.09
1986-87	17.1	8.15	2004-05	11.86	4.11
1987-88	18.2	8.22	2005-06	12.34	4.04
1988-89	19.2	8.23	2006-07	26.1	4.05
1989-90	19.7	6.43	2007-08	27.28	4.05
1990-91	67.9	6.21	2008-09	28.52	4.07
			2009-10	29.81	4.07
CAGR pre-period	11.64		CAGR Post-period	6.82	
OVERALL PERIOD CAGR	12.93				

Source: 1. 'Ministry of Micro, Small and Medium Enterprises, Annual report 2010-11.
2. Hand book of Statistics on Indian Economy, Reserve Bank of India, 2011.



In the post-liberalized period, in 1992-93 the growth rate was 4.11 percent. After that it starts fluctuating between 4.01 percent to 4.12 percent. From 2007-08 to 2009-10 the growth rate was remains constant. The data reveals that though in terms of number of units there has been increasing trends, but in terms of actual percentage

growth, the numbers of small scale units have shown decelerating trend during the study period. The compound annual growth rate for the post-liberalization period was 11.64 percent, which declined to 6.82 percent in the liberalization period. However, a significant CAGR of 12.95 of percent was observed during the overall period.

Employment

In India, small scale industries have a great potential to create immediate large-scale employment opportunities which is essential for solving widespread unemployment problem. India is a capital scarce and labor abundant country and the major problem of the economy refers to unemployment, it could have been addressed by small-scale industries.

Table 2

Year	Employment (in lakhs)	Annual Growth rate (%)	Year	Employment (in lakhs)	Annual Growth rate (%)
Pre - Liberalization Period			Post - Liberalization Period		
1973-74	39.70	-	1991-92	16.60	4.86
1974-75	40.40	1.76	1992-93	17.48	5.30
1975-76	45.90	13.61	1993-94	18.26	4.46
1976-77	49.80	8.50	1994-95	19.14	4.82
1977-78	54.00	8.43	1995-96	19.79	3.40
1978-79	63.80	18.15	1996-97	20.59	4.04
1979-80	67.00	5.02	1997-98	21.32	3.55
1980-81	71.00	5.97	1998-99	22.06	3.47
1981-82	75.00	5.63	1999-00	22.91	3.85
1982-83	79.00	5.33	2000-01	24.09	5.15
1983-84	84.20	6.58	2001-02	24.93	4.73
1984-85	90.00	6.89	2002-03	26.03	4.52
1985-86	96.00	6.67	2003-04	27.14	4.40
1986-87	101.40	5.63	2004-05	28.26	4.47
1987-88	107.10	5.52	2005-06	29.49	4.28
1988-89	113.10	5.61	2006-07	59.46	4.20
1989-90	119.60	5.84	2007-08	62.63	117.62
1990-91	158.30	32.36	2008-09	65.92	5.37
			2009-10	69.54	5.50
CAGR pre-period	7.55		CAGR post-period	6.82	
OVERALL PERIOD CAGR	7.11				

Source: 1. 'Ministry of Micro, Small and Medium Enterprises, Annual report 2010-11.

2. Hand book of Statistics on Indian Economy, Reserve Bank of India, 2011.



The Table 2 shows the employment generated by small industrial units in India. In pre-liberalized period the yearly growth rate was nearly 10 per cent in the initial years from 1975-76 to 1977-78. After that it was fluctuate between 5.02 per cent and 6.89 per cent. In the post-

liberalization period in 1990-91 the yearly growth rate was 32.36 per cent. After that the annual growth rate starts fluctuating from 1991-92 to 2003-04. In 2007-08 it shows very high growth rate with 111.62 percent. Further it declines to 5.47 per cent in the year 2009-10.

The data for employment of small-scale units in India was increasing during the period but a significant CAGR of 7.55 percent has been noticed in the pre-liberalization period than the liberalization period which was declined with the CAGR of 6.68 per cent. However, a CAGR of 7.31 per cent was observed for the overall period of the study.

Production

The growth of small scale industrial productions in pre and post liberalization period India is shown in the following table.

Table 3

Year	production in crores	Annual Growth rate (%)	Year	production in crores	Annual Growth rate (%)
Pre - Liberalization Period			Post - Liberalization Period		
1973-74	7200	-	1991-92	80615	2.30
1974-75	8500	27.78	1992-93	84413	4.71
1975-76	11000	19.57	1993-94	98796	17.04
1976-77	12400	12.73	1994-95	122154	23.64
1977-78	14300	15.32	1995-96	147712	20.92
1978-79	15800	10.49	1996-97	167805	13.60
1979-80	21600	36.71	1997-98	187217	11.57
1980-81	28100	30.09	1998-99	210454	12.41
1981-82	32600	16.01	1999-00	233760	11.07
1982-83	41600	7.36	2000-01	264297	11.78
1983-84	50500	18.86	2001-02	282270	8.03
1984-85	61200	21.39	2002-03	314850	11.54
1985-86	72300	21.19	2003-04	364547	15.78
1986-87	87300	18.14	2004-05	429796	17.90
1987-88	106400	20.75	2005-06	497842	15.83
1988-89	112812	21.22	2006-07	709398	42.49
1989-90	132300	24.34	2007-08	790759	11.41
1990-91	78802	-40.44	2008-09	880805	11.39
			2009-10	982919	11.59
CAGR pre-period	18.07		CAGR post-period	14.63	
OVERALL PERIOD CAGR	13.13				

Source: 1. 'Ministry of Micro, Small and Medium Enterprises, Annual report 2010-11.
2. Hand book of Statistics on Indian Economy, Reserve Bank of India, 2011.



It can be noticed from the Table 3 the annual growth rate was decelerating trend from 19.57 per cent to 10.49 per cent in the year 1975-74 to 1978-79. It was started fluctuating from 1980-81 to 1983-84 after that it shows increasing trend except in 1990-91 were the annual growth rate attains negative trend. Further it starts increasing from 4.71 per cent to 20.92 per cent during the

year 1992-93 to 1995-96 in the post-liberalization period, and attain highest growth rate with 42.49 per cent in the year 2006-07. After that the production growth rate starts declining till the end of the study period. This shows that the globalization had badly affected the small scale industrial production by the way of dumping in the domestic market. The CAGR for the pre-liberalization period was 18.07 percent, which decelerated to 14.63 percent in the liberalization period. For over all period, the CAGR was 13.13 per cent for the production variable.

Export Performance

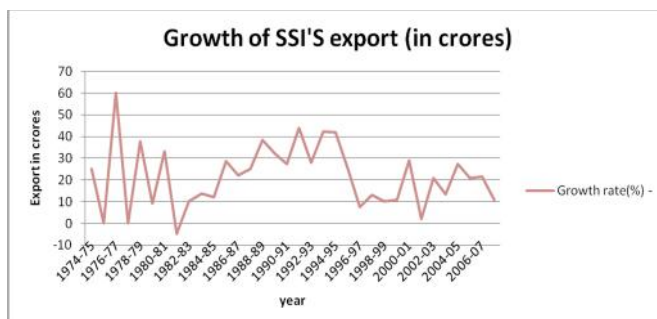
Table 4 provides growth of export of small scale industrial units in pre and post liberalization period in India.

Table 4

Year	Export (in crores)	Annual Growth rate (%)	Year	Export (in crores)	Annual Growth rate (%)
Pre - Liberalization Period			Post - Liberalization Period		
1973-74	400	-	1991-92	13883	43.66
1974-75	500	25.00	1992-93	17784	28.10
1975-76	500	0	1993-94	25307	42.30
1976-77	800	60.00	1994-95	29068	41.86
1977-78	800	0	1995-96	36470	25.46
1978-79	1100	37.50	1996-97	39248	7.62
1979-80	1200	9.09	1997-98	44412	13.21
1980-81	1600	33.00	1998-99	48976	10.21
1981-82	2100	-4.76	1999-00	54200	10.66
1982-83	200	10.00	2000-01	69797	28.78
1983-84	2200	13.64	2001-02	71244	2.07
1984-85	2500	12.00	2002-03	86013	20.76
1985-86	2800	28.57	2003-04	97644	13.52
1986-87	3600	22.22	2004-05	124417	27.42
1987-88	4400	25.00	2005-06	150242	20.76
1988-89	5500	38.18	2006-07	182538	21.50
1989-90	7600	32.04	2007-08	202017	10.67
1990-91	9664	27.16	2008-09	NA	NA
			2009-10	NA	NA
CAGR pre-period	19.72		CAGR post -period	16.77	
OVERALL PERIOD CAGR	20.83				

Source: 1. 'Ministry of Micro, Small and Medium Enterprises, Annual report 2010-11.

2. Hand book of Statistics on Indian Economy, Reserve Bank of India, 2011.



4.76 less per cent. As far as the post liberalization period of export was concerned it

Table 4 shows the export performance of small scale industries. In the pre liberalization period the annual growth rate of export was fluctuating 0 per cent to 60 per cent. After that the annual growth rate shows positive trend and attains negative growth rate in 1982-83 with -

attains maximum growth rate of 43.66 per cent in 1992-93 and reach the minimum growth rate of 2.07 per cent in 2002-03. This may be due to unfavorable economic condition. After 2004-06 it shows accelerating trend. In 2009-2010 the export growth rate of small scale industrial sector was 10.67 per cent as compared lower than the previous year. There was a significant CAGR of 19.12 per cent in the pre-liberalization period, which declined to 16.77 per cent in the liberalization period. However, a CAGR of 20.83 per cent was observed for the entire period of study.

Findings

1. The compound annual growth rate for the post liberalization period was 11.64 percent, which declined to 6.82 percent in the liberalization period. However, a significant CAGR of 12.95 of percent was observed during the overall period.
2. The data for employment of small-scale units was increasing during the period but a significant CAGR of 7.55 percent has been noticed in the pre-liberalization period than the liberalization period which was declined with the CAGR of 6.68 per cent. However, a CAGR of 7.31 per cent was observed for the overall period of the study.
3. The CAGR for the pre-liberalization period was 18.07 percent, which decelerated to 14.63 percent in the liberalization period.
4. There was a significant CAGR of 19.12 per cent in the pre-liberalization period, which declined to 16.77 per cent in the liberalization period.

Conclusion

The conclusion that can be drawn from the above analysis is that the economic reform period failed to register improvements in the compound annual average growth rate in all the four variables. It is revealed from the study that after economic reforms the number of units increasing only in numbers, but the production level is not increased according to the proportionate increase in number of units. In case of employment also shows decelerating trend. The compound average growth rate for employment was marginally decreased in the post liberalization period. Only the export variables show the overall growing trend. The policy support provided so far has acted as a catalyst in promoting this sector. Small scale industries has not been able to assure their supplies at affordable rates because majority of them could not upgrade their machinery and equipment due to high cost of borrowings. Due to this situation, the competitiveness of small scale industries has eroded to a great extent. At this juncture the planning commission should be felt an urgent need to review the policy measures not only to improve the growth of export but also for the strengthening the existing units to meet the global competition.

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