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**WTO and its Impact on Small Scale Industries in India**

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**Abstracts**

Small Scale Industries have emerged as an engine of growth in several developed and developing countries of the world including India and has acquired a prominent place in our socio-economic development since Independence through their ever-increasing contribution to national income.

However, with the advent of economic reforms in 1991 it had to face stiff competition from globalization and economic liberalization as it has allowed companies to increase their base of operations, expand their workplace with minimal investment and has facilitated consumers to enjoy a wide array of goods and services.

WTO aims to develop the country's economy by encouraging its export among the member countries. Further, it facilitates for availing new technologies from various countries at a lower cost. In this connection, the present paper attempts to probe peculiar issues relating to WTO, its repercussions on Indian SSIs in the globalized scenario and analyzes its growth performance with regard to units, employment, output, exports and concludes by recommending appropriate credit availability measures for ensuring their sustenance along with competitive growth.

**Keywords:** Globalization, World Trade Organization, Small Scale Industries.

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**Introduction**

Small Scale Industries acts as a catalyst in the socio-economic development of India as it facilitates in tapping of resources for judicious use with low capital investment in reducing regional disparities, generating employment opportunities and increasing exports by fostering entrepreneurship. Indian economy is undergoing a transition phase over the decades and is witnessing the challenges of liberal and market oriented environment which is posing a big threat before the SSI for its survival and warrants for technology development and to strengthen the financial infrastructure for boosting them.

**Objectives of the study**

The study is based on the following objectives

- To evaluate the positive impact of WTO on SSI by analyzing its performance in terms of contribution to the overall growth of the Indian economy
- To investigate into various problems faced by SSI units for availing of financial assistance.

**Methodology**

The present study is analytical and descriptive in nature, hence, keeping in view the objectives of the study secondary data has been collected from publication of R.B.I viz, R.B.I Bulletin, Statistical tables relating to banks of India, reports on

trends and progress, reports of the Banking Commission. After collection of data, it has been analyzed through statistical tools like percentage and hence growth trend has been depicted.

**Review of Literature**

Naik S.D. (2000), "SSI sector: Still groping for a WTO compatible policy" through his study appraises the various committees framed for the SSI and talks of the need of technology up gradation of this sector.

Naik S.D (2002), 'Small – Scale Industries: Preparing for the WTO Challenges', through his article focuses on the post liberalization era which became very stern for the Small Scale Industries and they should keep pace with the internal and external competition. He has further emphasized that there is a pressing need to refashion the policies governing the sector so as to improve their competitive strength.

Somayajulu G. & Venkataramana V. (2002) 'Impact of Exim policy – 2001 – WTO on Small and Medium Enterprises' through his study highlights the origin, objective of WTO and its implication on Small Scale Industries.

R.Gopalakrishnan (2004) through his online paper entitled, "SSI needs guidance on FTAs ,WTO" urges that Small Industries Development Bank of India (SIDBI) to start counseling centers on WTO as both domestic and international environment has

turned out to be complex and unpredictable with the coming up of FTAs.

Shukla Paurav, (2004), "WTO and Survival of Small Scale Industry: The Myth Entrepreneurial Framework with Case Study of Rajkot Diesel Engine Factory" through his article attempts to present the impact of WTO on the SSI by conducting his study in Rajkot diesel engine industry in India and presents the possible solutions for the five myth conceptual framework as an outcome of his study.

Uppal Vinayak (2006), through his paper entitled, "Small Scale "Industry in India: An Analysis in the Context of Liberalization", attempts to analyze the issues peculiar to small scale of production in India in an increasingly globalized scenario. Moreover, it also highlights some of the other issues plaguing the sector such as credit availability and maintaining quality standards

Anand, Sands Murugaiah V. (2006) through their paper entitled, "Small Scale Industries in India: An Evaluation of Performance in the Post-Liberalized Scenario", has examined the role and importance of small scale industries in India, problems they encounter and the performance in terms of their contribution to the overall growth of the Indian economy.

Pandey, Aday Prasad (2007) "Routes of Survival of SSI in India and its Futurity –A Study of Pre-Post Reform Period, through his paper has highlighted the performance of SSI, policy implications of WTO and concludes with the issues and challenges and future prospects of this promising sector.

K. Nath Hiranya (2008) through his paper entitled, "Relative Efficiency of Modern Small Scale Industries in India: An Inter-State Comparison", tries to measure the relative efficiency for nine small scale industries in fifteen major states of India by using an index of relative efficiency based on total factor productivity. He has found that the extent of variations in efficiency is much wider in intermediate product and consumer non-durable industries than in consumer durable industries.

However, its performance can be studied through the analyzing the performance portfolios of SSI's.

### Origin and Objectives of WTO

The World Trade Organization (WTO) was established on 1st January 1995. During 15th April 1994 "Marrakesh Declaration" was made whereby affirmation was done that the Uruguay Round would strengthen the world economy thereby leading towards more trade, investment, employment and income

growth throughout the world. The WTO is the embodiment of the Uruguay Round Results and the successor to the GATT. It was the only forum for negotiating lower customs duty rates and other trade hurdles starting from 1947 to 1994. When GATT came under the WTO umbrella, it has certain annexes regarding sector like agriculture and textiles, burning issues like State Trading, Product Standards, Subsidies and Actions taken against dumping. It aims to boost country's economy by accelerating exports among the member countries

### Key Subjects in WTO

The WTO is the umbrella organization for overseeing the implementation of all agreement - multilateral (signed by all WTO members) and plurilateral (signed by a group of members regarding a particular issue) that have been discussed under Uruguay Round or will be dealt in due course of time. Secondly, it frames international standardized labour wages and working conditions, globalizes the trade and weeds out the corruption at Government level while dealing with its procurement policies. Thirdly, it is responsible for settlement of disputes among member nations. Fourthly, it facilitates procuring new technologies from different countries at lower cost. Fifthly, it monitors periodically trade policies among member nations.

### WTO Agreements

The WTO Agreements cover

- Goods (main agreement (GATT) e.g. all industrial products, FMCGs (consumer durables) etc.
- Services (main agreement GATS) e.g. Banking, Insurance, consultancy etc.
- Intellectual property (TRIPS) e.g. Patents, Copyrights, and Trademarks etc.

GATT & GATS follow three part structure viz. General principles, associate agreements/annexes on specific sectors/issues and commitments of member countries. The TRIPS agreement contains general principles only that are to be followed by members.

Two important principles that serve as edifice of most Agreements are;

- Most Favored Nation (MFN) clause. It exhibits that there should be no discrimination among member countries.
- National treatment clause: It emphasizes uniform treatment in case of imported and domestic products.

**WTO And SSI Sector**

- It has been realized that the repercussions of WTO and its agreements have been felt on every economic activity whether it is agriculture, trading, service or manufacturing.
- Enlightened and awakened entrepreneurs can avail of the opportunities arising from comparative advantages as world markets are opening up due to lowering of tariffs and dismantling of other restrictions in developed and developing countries.
- It will pose a threat to domestic markets due to lowering of tariffs thereby leading to free entry of foreign goods and because of foreign companies establishing base locally.
- The developed countries will receive benefits by opening up of service sector and tightening of Intellectual Property Regime, while developing countries will receive greater economies from cost based comparative advantages like textiles, agriculture etc. opportunities in sectors
- Emergence of tough competition among developing countries having similar comparative advantage.
- The breeze of standardization swept across the globe ,products from developing countries have to face strict quality standards in developed markets specifically in the areas where they have comparative cost advantage.

- Availing modern technologies at minimal cost from other advanced countries.

Performance and Contribution of SSI During 2006-07 the number of SSI units was of the order of 128.4 lakhs with production of Rs 587196 crores employing 312.5 lakh people, accounting for more than 40 percent of gross value of output in the manufacturing sector.

The performance of small scale industries in the pre and post liberalized period can be inferred from the Table no.1. It has been deduced from the said table that the number of small industrial units were 67.9 lakhs in the year 1990-91, 118.6 lakhs during 2004-05 and increased to the tune of 128.4 lakhs in the year 2006-07 registering an average annual growth rate of 5.51 percent. Further, it can be clearly understood that number of small scale industries witnessed an upward trend by 34.73 percent from 13.53 lakhs to 18.23 lakhs during the quinquennium period starting from 1985-86 to 1989-90. This accelerating trend continued further and though the number of small scale units increased from 82.8 lakhs in 1995-96 to 97.2 lakhs in 1999-2000 but in terms of actual growth rate it further slowed down to 17.39 percent.

The number of small scale units increased from 101.1 lakhs during the year 2000-01 to 118.6 lakhs during 2004-05 registering, a decreasing trend in the growth rate in actual term to 17.30 percent .The data reveals that though the number of small scale units has been increasing and in terms of percentage, we are witnessing a slightly upward trend starting from the period 1990-91to 1994-95 (17.23 percent) and 1995-96 to 1999-2000 (17.39 percent). However , during the year 2000-01 to 2004-05 a mild decline has been registered as against 1990s amounting to 17.30 percent and this phenomenon can be largely attributed to the winds of globalization which has created intense competitive environment posing threat for small units .

**Positive impact of WTO on SSIs**

With the emergence of WTO, the Indian SSI reaped the following benefits.

- It enabled India to export goods to the member countries of the WTO with lesser restrictions. Tariff based protection has come to the scene for tariffs was reduced on export products to India.
- Exports have shown an upward trend registering Rs.13883 cores during 1991-92 to Rs.150242crores during 2005-06.
- Better prospects of agricultural exports due to likely increase in the world prices of agricultural products as a result of lowering domestic subsidies and hindrances to trade.
- Developing market orientation.
- Exploration of new investment opportunities due to remarkable trade in SSI thereby boosting economic growth.

*Chart No: 1 Number of SSI units ( in lakhs)*



Table No: 1 Small Industry Portfolios

Year	Date of Industrial Policy Resolution	Investment limit (in lacs)	Number of Units (in lacs)	Production (Rs. crore )	Employment (in lacs)	Exports (Rs. crore )
1950-51	6.4.1948	5	0.16	615	7.0	40
1960-61	30.4.1956	5	0.37	1280	14.0	15
1966-67		7.5	1.31	2850	30.0	210
1973-74		7.5	4.2	7200	39.7	400
1974-75		10	5.0	9200	40.4	500
1975-76		10	5.5	11000	45.9	500
1976-77		10	5.9	12400	49.8	800
1977-78	23 .12.1977	10	6.7	14300	54.0	800
1978-79		10	7.3	15800	63.8	1100
1979-80		10	8.1	21600	67.0	1200
1980-81	23.7.1980	20	8.7	28100	71.0	1600
1981-82		20	9.6	32600	75.0	2100
1982-83		20	10.6	35000	79.0	2000
1983-84		20	11.6	41600	84.2	2200
1984-85		20	12.4	50500	90.0	2500
1985-86		35	13.5	61200	96.0	2800
1986-87		35	14.6	72300	101.4	3600
1987-88		35	15.8	87300	107.0	4400
1988-89		35	17.1	106400	113.0	5500
1989-90		35	18.2	132300	119.6	7600
1990-91	1990	60	67.9	78802	158.3	9664
1991-92	6.8. 1991	60	70.6	80615	166	13883
1992-93		60	73.5	84413	174.8	17784
1993-94		60	76.5	98796	182.6	25307
1994-95		60	79.6	122154	191.4	29068
1995-96		60	82.8	147712	197.9	36470
1996-97		60	86.2	167805	205.9	39248
1997-98		300	89.7	187217	213.2	44442
1998-99		300	93.4	210454	220.6	48979
1999-00		100	97.2	233760	229.1	54200
2000-01	30.8 2000	100	101.1	261297	240.9	69797
2001-02		100	105.2	282270	252.3	71244
2002-03		100	109.5	314850	263.7	86013
2003-04		100	114.0	364547	275.3	97644
2004-05		100	118.6	429796	287.6	124417
2005-06		100	123.4	497842	299.9	150242
2006-07		500	128.4	587196	312.5	---

Source: Handbook of Statistics of Indian Economy,  
R.B.I., Mumbai.

#### Employment generation

Indian SSI sector absorbs a major chunk of population and provides livelihood next only to

agriculture According to third census, it has been estimated that out of 100,000 rupee of investment in fixed assets made in the small scale sector will generate employment for four persons. The above table shows that the employment generated by small industrial units in India increased from 39.70 lakh persons in 1973-74 to 287.6 lakh persons during the year 2004-05. It has further been revealed that the number of persons employed in small scale units increased by 24.58 percent, from 96.00 lakh to 119.60 lakh during the five years starting from 1985-86 to 1989-90. The employment provided in small scale increased by 20.90 percent from 158.3 lakh persons to 191.4 lakh persons in the quinquennium period from 1990-91 to 1994-95, thereby slipped in terms of actual growth rate during this period ; whereas the employment in small scale units increased by 15.76 percent from 197.9 lakh persons to 229.1 lakh persons in the quinquennium period starting from 1995-96 to 1999-2000 .During the year 2000-01 , the numbers of people engaged in it were 240.9 lakh persons to 287.9 lakh persons in 2004-05 and stood at 19.38 percent upping 3.78 percent as against previous year. During the year 2006-07, nearly 312.5 lakh persons were employed in this sector. Through the above analysis, it has been concluded that though in terms of number, small scale units are increasing but in actual terms there is a declining trend in employment generation may be due to the waves of globalization which has liberally opened up our economy.

According to the third census regarding Small Scale Industries two industry groups manufacturing non-metallic mineral products and metal products created employment potential of 0.45 million persons (12.2 percent) 0.37 million persons (10.2 percent) respectively which was next only to food products industry has ranked first in absorbing almost 0.48 million persons (13.1 percent) .On the contrary, the only 5 percent was contributed by the rest of the industries.

Thus, it can be concluded that on employment front, the performance of small scale is found to be very satisfactory during the liberalization process. The values of the targets set for employment during the Tenth Plan Period have been revised on the basis of the third All India Census keeping the 4.4 million additional jobs proposed for the Tenth Plan Period fixed.

### Production

The small scale industries sector plays an indispensable role in term of accelerating the country's

growth contributing to nearly 40 percent of the gross industrial value added in the Indian economy. It is clearly understood from table no.1 that the production of SSI has increased tremendously during 1973-74 and 1989-90. It was Rs.7200 crores during the year 1973-74 and increased to 429796 during 2004-05 and reached to Rs 58, 7196 crores during 2006-07 .Moreover, it explains that the production of small scale industries in India increased by 116.17 percent from Rs 61,200 crores to Rs.13, 2300 crores during the quinquennium period beginning from 1985-86 to 1989-90. The production of small scale units witnessed an upward trend by 55.01 percent from Rs 78802 crores in the year 1973-74 to Rs 122154 crores during the quinquennium period from 1995-96 to 1999-2000 (while sluggish trend can be observed in terms of actual growth). The production of small scale industries increased by 64.48 percent from Rs 261297 to Rs 429796 crores in the quinquennium period from 2000-01 to 2004-05 and thus exhibiting an increasing trend in terms of actual growth rate (in percentage) .

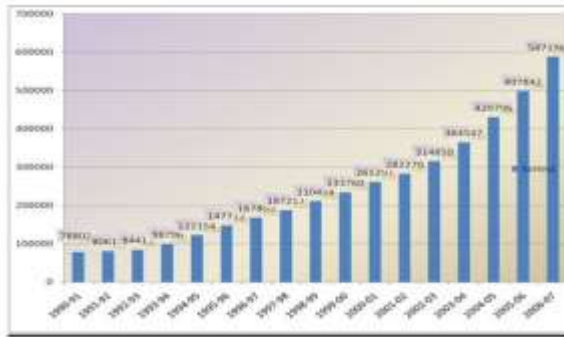
### Contribution to exports

Upping of exports made by SSI units has been witnessed contributing towards 45.50 percent of the Indian exports. The SSI sector contributes nearly 35percent directly and 15 percent indirectly towards the exports by way of merchant exporters, trading houses and export houses.

The SSI sector has made a remarkable contribution towards exports with the establishment of a large number of modern small-scale industries during the post independence era. The major export items of this sector embraces non-traditional items , readymade garments , sports –goods , finished leather , leather products , woolen –garments and knitwear , plastic products processed food , chemicals and allied products and a large number engineering Rs 400 crores during 1973-74 to Rs 86013 crores during the year in 2002-03.It further reveals that the exports from small scale sector in India was of the order Rs 2800 crores which increased to Rs 7600 crores during the quinquennium period beginning from 1995-96 to 1999-2000



Chart No: 2 SSI's Production (after 1990's)



### Problems facing the SSI sector

Despite occupying a strategic position in any country's industrialization strategy and employment generation, the main obstacle in the progress path of SSI is the dearth of timely and adequate credit. During 1997 Abid Hussian Committee on SSIs analyzed their problems and recommended a package of policies to restructure the industry in view of prevailing global economic changes. They were of the view that the existing institutional structure was inappropriate for delivering credit to SSEs, advocated the recommendations of the Nayak Committee and urged the RBI to implement the same. The Committee recommended restructuring for financial support through SFCs and SIDCs, tapping of other sources of funding for SSEs, extending credit rating services to small units and addressing the credit needs of tiny units for ensuring that they are not bypassed by the commercial banking system.

The Nayak Committee has advocated a desirable norm of 20 percent of the value of production as a working capital through term –lending institutions and commercial banks .A norm of 75 percent was established for fixed assets whereas actual availability was only 55 percent. Paucity of finance has been one of the main causes of sickness in the SSI sector, blocking access to technological modernization and other growth possibilities. There is a pressing need for expanding the flow of credit to the SSI sector from Institutional sources. Nurturing facilitating environment for SSIs will centre on access to credit. The Ninth Five Year Plan (1997-2002) estimated the additional working capital funds at Rs-1420 to 1460 billion for the small sector. Lowering interest rates, specifying a deadline to clear loans applications and conformance with norms set down by the Nayak Committee are some of the measures that were adopted.

Certain legislative measures were need to be taken so as to have effective performance by the SSIs basically for ensuring adequate credit facility to them. These measures were:

- Insulation against non-normative demands for security.
- Appeal and implementation by Ombudsman /Board.
- Easy availability to public funds in the form of debentures, securities.
- Loans backed by government guarantee from banks.

The measures to assisting Marketing and Competitiveness are as follows:

- State should exempt from contract security.
- Immediate return of contract securities in case of others.
- Prompt payment measures.
- Protection against undue bundling of contracts by the state.
- Protection against monopolistic restrictive and trade practices Ombudsman/arbitral services for enforcement.

### Conclusion

WTO plays an indispensable role in strengthening the SSIs .Conversely, it was apprehended that a slew of rules framed by WTO are biased and more beneficial for developed countries while indigenously built industries might collapse as they are not able to withstand the tough competition being thrown from foreign stalwarts thereby effecting adversely on the employment pattern of our country.

Under this changing economic scenario, SSI has to face challenges and opportunities. Finance is to industry what blood is to body and therefore appropriate financial aid should be made available from institutional sources, because it will facilitate in achieving economic growth with the active participation of entrepreneurs by deploying modern technology and methods of production, so its suitable time to invest in the projects of Small Scale Sector and indeed it is a promising sector keeping in view the structure of Indian economy.

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