



Research Paper

Economic Reforms and its impact on performance of Micro, Small and Medium Scale Industries in India

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ABSTRACT: *The small-scale industrial sector is becoming a significant part of the Indian economy. Small-scale industries have a significant potential for creating jobs in semi-urban and rural areas, which is critical for alleviating developing countries' widespread unemployment problems. Reforms was intended to uplift these industries and improve their working conditions. The present study is an attempt to find the impact of reforms on MSME's. the analysis divides the study into two parts with respect to four indicators. As per the time series analysis it is found that even though this sector has attained continuous growth, the CAGR of post reforms is less than the pre-reforms period.*

KEYWORDS: *Reforms, Small scale industries, Employment, Production, Exports.*

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I. INTRODUCTION

Small Scale Industries (SSIs) play an important role in economic development and are widely regarded as the most important component of developing-country development strategies. Small-scale industries have a high potential for creating jobs in semi-urban and rural areas, which is critical for addressing underdeveloped countries' widespread unemployment problems. In India, SSIs contribute to the economy in a variety of ways, including job creation, export earnings, and the use of surplus labour from the agricultural sector. Since independence, Indian economists have advocated for SSI promotion measures.

The primary goal of economic liberalization in India is to increase productivity growth and competitiveness in the industrial sector. These reforms aimed to make SSI in India more efficient and technologically advanced, with the goal of achieving higher and more sustainable growth. On the one hand, the process of liberalization and market reforms has resulted in numerous opportunities for development of SSI's. Simultaneously, the changing global scenario has posed new challenges to the small-scale sector's very survival. As a result, the appropriate strength of the industrial sector could adapt to beat the competition and grow excellently. Over the last five decades, the government has developed policies to protect the interests of India's SSI sector while also facilitating rapid growth. These policy formulation and implementation were related to the development of the SSI sector through support agencies and various programmes such as modernization, technological advancement, marketing assistance, and fiscal incentives, among others (Saini and Chaudary, 2015). The development of this sector is an essential component of our country's overall economic, social, and industrial development.

II. STATEMENT OF THE PROBLEM:

Following independence, the Indian government recognized the importance of small-scale industry development and incorporated it into its industrial policy. India began economic reform in 1991 with the goal of achieving faster economic growth. However, since the implementation of new economic reforms, this sector has been able to face challenges such as the economy's opening up and the need to increase exports. Many small-scale industrial units are under threat or face stiff competition from low-cost imports in the global market, forcing them to choose between low-cost imports and high-cost domestic products. Since the globalization process has been popular for the past 30 years, it is critical to assess whether the new economic policy has had a positive or negative impact on the performance of MSMEs in the economy. Whether or not MSME growth is on the increasing trend?

III. SIGNIFICANCE OF THE STUDY:

Without industrialization, the problems of poverty and unemployment, national defence, and economic regeneration in general cannot be solved. The limited literature review demonstrates that small-scale industry development is dynamic, and a rigorous one-time study that explores the causal relationship among the variables that aid in judging the performance of small-scale industries for all times is not possible. The study attempted to compare performance of SSI parameters before and after liberalization.

IV. OBJECTIVES:

1. To examine the performance of small-scale industries in India before and after reforms on the basis of selected indicators.

V. METHODOLOGY:

The current study is basically based on secondary data gathered from the 'Ministry of Micro, Small and Medium Enterprises' Annual Report, Handbook of Statistics on Indian Economy, the Reserve Bank of India. The study period extends 42 years. The study spans the years 1973-74 to 2016-17. However, the study's overall analysis divides the study into two sub-periods i.e. Before reforms (1973-1990) and after reforms (1991-2017) and the entire period (1973-74 to 2016-17) with respect to four indicators: number of units, production, employment, and exports.

Statistical Tools used:

Simple statistical tools such as annual percentage growth rate, compound average growth rate, and tabular analysis were used to study the yearly changes in growth for the selected variables. The following analysis shows the increase in the number of small scale industrial units, jobs created, output achieved, and exports promoted by small scale industries in India during the pre and post-reform periods.

VI. REVIEW OF LITERATURE:

There are numerous studies published in the literature on small scale industries in India and other countries. Some studies demonstrate the significance of SSI, while there are only few studies based on SSI's growth performance during the pre- and post-liberalization periods. The majority of studies counted the four major factors of industrial growth: employment, number of units, exports, and production. Subrahmanya Bala (2004) emphasised the impact of globalisation and domestic reforms on the small-scale manufacturing sector. According to the study, small-scale industries have suffered in terms of unit growth, employment, output, and exports. The study also recommended that technology be developed and financial infrastructure be strengthened in order to increase SSI's international competitiveness. Rathod (2007) discussed the significance of the small-scale industrial sector, as well as the contribution of Indian small-scale entrepreneurs to the global economy. According to the study, exports have increased to double digits in the last ten years. In order to grow SSI in India, the study recommended a simplified legal and regulatory framework, good governance, adequate and accessible finance, suitable infrastructure, and a competitive environment. Bargal et al. (2009) investigated the causal relationship between the three variables GDP, SSI output, and SSI exports and compared the performance parameters of SSIs before and after liberalisation. The study discovered that the CAGR (compound average growth rate) of various SSI parameters decreased during the pre-reform period, but increased during the post-reform period. Sonia and Kansal (2009) examined the impact of globalisation on small-scale industry in India from 1973 to 2007. The study concluded that the increase in the number of units is excessive, while the rate of production growth has declined at a rapid rate in 1990-91. It showed a negative growth trend and reached a production growth rate of -40.44 percent. The growth rate of employment increased in the first year of globalisation, indicating that employment opportunities increased after globalisation. The value of exports increased too much in 2005-06, and the rate of growth in exports was highest in 1991-92 due to a subsequent change in Indian Economy. Asra and Prasad (2011) examined the impact of reforms on small-scale industry growth, employment, exports, and sickness from 1982-1983 to 1989-1990 (pre-reforms) and 1990-1991 to 2001-02. (post reform period). They claimed that the SSI sector's policy framework had a significant impact on the economic reform process. Garg and Walia (2014) examined the growth and performance of micro, small, and medium enterprises (MSMES) in the Indian economy from 2001-02 to 2010-11. The study stated the significant growth of MSMEs over time and also demonstrated that the industrial sector was a major contributor to the Indian economy's GDP, employment, and exports. Patil and chaudary (2014) also investigated the growth and performance of small scale industries with small scale industry problems from 2001-02 to 2010-11. The study concluded that SSI promotion is critical in India in order to achieve equitable income and wealth distribution, economic self-sufficiency, and entrepreneurial development.

VII. ANALYSIS:

Small-scale industries play a significant role in boosting an economy's overall economic growth. The importance of the SSI sector in providing large-scale employment cannot be overstated. The policy framework has emphasised the need for the development of the SSI sector since the first plan, recognising its strategic importance in India's overall economic development. Overall analysis divides the study into two sub-periods i.e. Before reforms (1973-1990) and after reforms (1991-2017) and the entire period (1973-74 to 2016-17) with respect to four indicators: number of units, production, employment, and export.

Annual Average Growth Rate (AAGR):

The average annual growth rate (AAGR) can be used to calculate the average return you've got over a period of time. This is calculated by taking the average of the annual growth rates for each year. It's utilized to get a better understanding of how the economy is changing.

Compound Annual Growth Rate (CAGR):

The compound annual growth rate (CAGR) is one of the most precise methods for calculating and determining returns for anything that might rise or fall in value over time. Investors can compare the CAGR of two options to see how one stock performed in comparison to other stocks in a peer group or a market index.

Growth performance of SSI before reforms:

Table 1 depicts the growth and performance of small-scale industries from 1973-74 to 1990-91. In the context of India, the growth performance is based on the number of units, production, employment, and exports of SSI.

Table 1: Growth performance of SSI (pre– reform period)

Year	No: of units (in lakhs)	AGR(%)	Employment (in lakhs)	AGR(%)	Production (in lakhs)	AGR (%)	Export (in lakhs)	AGR (%)
PRE- REFORM PERIOD								
1973-74	4.2	-	39.70	-	7200	-	400	-
1974-75	5	19.05	40.40	1.76	9200	27.78	500	25.0
1975-76	6.7	10	45.90	13.61	11000	19.57	500	0
1976-77	7.3	7.27	49.80	8.50	12400	12.73	800	60.0
1977-78	8.1	13.56	54.00	8.43	14300	15.32	800	0
1978-79	8.7	8.96	63.80	18.15	15800	10.49	1100	37.50
1979-80	9.6	10.96	67.00	5.02	21600	36.71	1200	9.09
1980-81	10.6	7.41	71.00	5.97	28100	30.09	1600	33.0
1981-82	11.6	10.34	75.00	5.63	32600	16.01	2100	31.25
1982-83	12.4	10.42	79.00	5.33	35000	7.36	2000	-4.76
1983-84	13.5	9.43	84.20	6.58	41600	18.86	2200	10
1984-85	14.6	6.9	90.00	6.89	50500	21.39	2500	13.64
1985-86	15.8	8.87	96.00	6.67	61200	21.19	2800	12.00
1986-87	17.1	8.15	101.40	5.63	72300	18.14	3600	28.57
1987-88	18.2	8.22	107.10	5.52	87300	20.75	4400	22.22
1988-89	19.2	8.23	113.10	5.61	106400	21.22	5500	25.00
1989-90	19.7	6.43	119.60	5.84	132300	24.34	7600	38.18
1990-91	67.9	244.67	158.30	32.36	78802	-40.44	9664	27.16
CAGR:	27.01		CAGR: 8.47		CAGR: 15.11		CAGR: 20.60	

Source:

1. 'Ministry of Micro, Small and Medium Enterprises, Annual report.
2. Hand book of Statistics on Indian Economy, Reserve Bank of India

Table 1 shows that the growth rate was higher in the early years of the pre-reform period, from 1974-75 to 1977-78. The annual growth rate in 1989-90 was the lowest, at 6.43 percent. Overall the number of units increased from 4.2 to 67.9 during 1974-75 to 1990-91. The growth rate of number of units was highest in the year 1990-91. The trend-line underwent significant changes in 1990-91. This year, the number of units increased by 273.08 percent to 67.9 lakhs, up from 18.2 lakhs in 1989-90. It was because the results of the third All India census of SSIs 2001-02 were officially published in 2003-04. Till second All India census only registered units were considered while preparing data. CAGR for the period was 27.01.

The employment generated by small industrial units in India In the pre-reform period shows that the annual growth rate was nearly 10% in the initial years from 1975-76 to 1977-78. Following that, it fluctuated between 5.02 percent and 6.89 percent. The overall employment has increased from 39.70 lakhs to 158.30 lakh during the period 1974-75 to 1990-91. Employment CAGR was 8.47.

Table1 shows that the annual growth rate slowed from 19.57 percent to 10.49 percent from 1975-74 to 1978-79. It began fluctuating from 1980-1981 to 1983-1984, after which it shows an increasing trend, with the exception of 1990-1991, when the annual growth rate attains a negative trend. Overall production shows a fluctuating trend with a CAGR of 15.11%.

The performance of small-scale industries in terms of exports during the liberalisation period shows that the annual growth rate of exports ranged from 0% to 60%. Following that, the annual growth rate shows a positive trend before declining to a negative growth rate of - 4.76 percent in 1982-83. CAGR of exports was 20.60%.

Growth and performance of SSI post –reforms:

The performance of SSI during the post-reforms is shown in Table 2 given below. It should be noted that the performance of SSI in India increased dramatically in the first year. This is due to covering of unregistered SSI in Third All India census of SSI (2001-02). Another hike can be seen in the year 2006-07. This is due to two factors, the first of which is that data from 2006-07 includes wholesale/retail trade, legal, education & social services, hotel & restaurants, transportation, and storage & warehousing (except cold storage), all of which were extracted from the Economic Census 2005, Central Statistics Office, MOSPI. The second reason for improved industrial performance is the implementation of the MSME Act, 2006 in India, which promotes the growth of small-scale industries.

Table 2: Growth performance of SSI (post – reform period)

Year	No: of units (in lakhs)	AGR(%)	Employment (in lakhs)	AGR(%)	Production (in lakhs)	AGR (%)	Export (in lakhs)	AGR (%)
POST- REFORM PERIOD								
1991-92	70.60	3.98	166.0	4.86	80615	2.30	13883	43.66
1992-93	73.5	4.11	174.8	5.30	84413	4.71	17784	28.10
1993-94	76.5	4.08	182.6	4.46	98796	17.04	25307	42.30
1994-95	79.60	4.05	191.4	4.82	122154	23.64	29068	41.86
1995-96	82.8	4.02	197.9	3.40	147712	20.92	36470	25.46
1996-97	86.2	4.11	205.9	4.04	167805	13.60	39248	7.62
1997-98	89.7	4.06	213.2	3.55	184214	11.57	44442	13.21
1998-99	93.4	4.12	220.6	3.47	210454	12.41	48979	10.21
1999-00	97.2	4.07	229.1	3.85	233760	11.07	54200	10.66
2000-01	101.10	4.01	240.9	5.15	261297	11.78	69797	28.78
2001-02	105.2	4.06	249.3	4.73	282270	8.03	71244	2.07
2002-03	109.5	4.09	260.4	4.52	314850	11.54	86013	20.76
2003-04	114.0	4.11	271.4	4.40	364547	15.78	97644	13.52
2004-05	118.6	4.04	282.6	4.47	429796	17.90	124417	27.42
2005-06	123.4	4.05	294.5	4.35	497842	15.83	150242	20.76
2006-07	361.8	193.19	805.2	173.04	1351383	171.45	182538	21.0
2007-08	377.4	4.3	842.0	4.57	1435179	6.2	202017	10.7
2008-09	393.7	4.07	880.8	4.61	1524235	6.21	296588	46.1
2009-10	410.8	4.34	921.8	4.65	1619356	6.24	391159	31.9
2010-11	428.7	4.4	965.2	4.71	1721553	6.31	507739	29.8
2011-12	447.6	4.4	1011.7	4.82	1834332	6.55	630105	24.1
2012-13	467.5	4.4	1061.4	4.91	1896587	3.39	698166	10.8
2013-14	488.6	4.5	1114.3	4.98	1976567	4.22	806878	15.7
2014-15	510.6	4.5	1171.3	5.12	1998773	1.12	849248	5.25
2015-16	520.9	2.0	1182.3	0.94	2076489	3.89	855352	0.72
2016-17	537.6	3.20	1189.8	0.63	2187609	5.35	867589	1.43
CAGR:	8.45		CAGR: 8.19		CAGR: 14.11		CAGR: 17.98	

Source:

1. 'Ministry of Micro, Small and Medium Enterprises, Annual report.
2. Hand book of Statistics on Indian Economy, Reserve Bank of India

Table 2 shows that the growth rate was higher in the early years of the post-reform period, from 1991-92 to 2016-17. The growth rate remained constant from 2007-08 to 2009-10. The data show that, while there has been an increase in the number of units, the number of small scale units has shown a decelerating trend during the study period in terms of actual percentage growth. The number of units was dramatically high during 2006-07. This is due to two factors, the first of which is that data from 2006-07 includes wholesale/retail trade, legal, education & social services, hotel & restaurants, transportation, and storage & warehousing (except cold storage), all of which were extracted from the Economic Census 2005, Central Statistics Office, MOSPI. The second reason for improved industrial performance is the implementation of the MSME Act, 2006 in India, which promotes the growth of small-scale industries. The CAGR for the period was 8.45 which is less than pre-reform period.

The employment generated by small industrial units in India In the pre-reform period shows that the annual growth rate in the post-liberalization period was 32.36 percent in 1990-91. Following that, the annual growth rate begins to fluctuate from 1991-1992 to 2003-04. It has a very high growth rate of 111.62 percent in 2007-08. Furthermore, it falls to 5.47 percent in 2009-10. The data for employment of small-scale units in India increased during the period, but the pre-liberalization period had a higher CAGR of 8.47 percent than the liberalization period, which had a lower CAGR of 8.19 percent.

During the post-liberalization period, production increased from 4.71 percent to 20.92 percent from 1992-1993 to 1995-1996, reaching a high of 42.49 percent in 2006-07. Following that, the rate of production growth begins to slow till the end of the study period. This demonstrates that globalization has had a negative impact on small-scale industrial production through dumping in the domestic market. The pre-reform CAGR was 15.11 percent, but it fell to 14.11 percent during the liberalization period.

In the post-liberalization period of exports, it achieves a maximum growth rate of 43.66 percent in 1992-93 and a minimum growth rate of 2.07 percent in 2002-03. This could be due to an unfavorable economic situation. It shows an accelerating trend after 2004-06. In 2009-2010, the small scale industrial sector's export growth rate was 10.67%, which was lower than the previous year. The pre-liberalization period saw a significant CAGR of 20.60%, which fell to 17.98% during the liberalization period.

VIII. FINDINGS:

- Compound Annual Growth Rate for the pre- reform period was 27.01% which fell to 8.45% in the post-reform period.
- The data for employment of small-scale units increased during the period, but the pre-liberalization period had a higher CAGR of 8.47 percent than the liberalization period, which had a lower CAGR of 8.19 percent.
- The pre-reform CAGR of production was 15.11 percent, but it fell to 14.11 percent during the liberalization period.
- The pre-liberalization period in case of exports saw a significant CAGR of 20.60%, which fell to 17.98% during the liberalization period.
- The trend-line underwent significant changes in 1990-91. In this year, the number of units, increased by 273.08 percent to 67.9 lakhs, up from 18.2 lakhs in 1989-90. It was because the results of the third All India census of SSIs 2001-02 were officially published in 2003-04. Till second All India census only registered units were considered while preparing data. CAGR for the period was 27.01.
- Hike can be seen in the year 2006-07. This is due to the factor that data from 2006-07 includes wholesale/retail trade, legal, education & social services, hotel & restaurants, transportation, and storage & warehousing (except cold storage), all of which were extracted from the Economic Census 2005, Central Statistics Office, MOSPI.
- Improved industrial performance was identified due to the implementation of the MSME Act, 2006 in India, which promotes the growth of small-scale industries.
- When the post-liberalization period is compared to the pre-liberalization period, the growth rate in Number of Units has decreased from 17.93 percent to 4.07 percent, which is approximately 4.5 times less than the growth rate in the pre-liberalization period. This could be due to increased competition for domestic players as a result of the introduction of MNCs.
- It has been discovered that there are hidden sick units. The units are ill, but the illness is not being reported. The main reason is that small-scale entrepreneurs are afraid that if the SSI unit is declared sick, the bank will be unable to extend any type of financing.

IX. SUGGESTIONS:

- Ensures Small Scale industries are free from international competition.
- The process of globalisation should be gradual and linked to the goals of the country's industry. It should be useful in overcoming roadblocks in the marketing of small business entrepreneurs' products in the tumultuous global business environment.
- There is a continuing need for linkage between the small, entrepreneur sector and the large sector so that the transition from small to big is easy and even automatic.
- Small-scale entrepreneurs are multi-dimensional in marketing their products, and the collaborative efforts of entrepreneurs, as well as the operation of promotional agencies and government financial support without red-tape or bureaucratic delays, can solve the problem.
- The government should increase the support to enhance competitiveness among MSMEs. Fairs and exhibitions should be improved. The products of MSMEs should be given due importance during festivals. Credit facilities should be made available to these enterprises for promotion activities such as advertisements.
- The price of land for starting MSMEs should be given at a lower rate in the initial stages and later the amount should be collected from them as profit increases i.e., land should be given at a subsidized rate.

X. CONCLUSION:

The above analysis leads to the conclusion that the economic reform period failed to improve the compound annual average growth rate in all four variables. According to the study, the number of unit's increases only in numbers after economic reforms, but the production level does not increase proportionately to the proportionate increase in number of units. Employment is also showing a slowing trend. In the post-liberalization period, the compound average growth rate of employment was slightly lower. Only the export variables show a general upward trend. So far, policy support has acted as a catalyst in promoting this sector. Small-scale industries have been unable to ensure their supplies at reasonable prices because the majority of them have been unable to upgrade their machinery and equipment due to the high cost of borrowing. Small-scale industries' competitiveness has suffered greatly as a result of this situation. At this point, the authorities should feel an urgent need to review policy measures not only to improve export growth but also to strengthen existing units to meet global competition.

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