

RULES FRAMED BY WTO IS PROTECTING SMALL SCALE INDUSTRIES IN INDIA

¹S.Thirumurugan

¹Student, Saveetha School of Law, Saveetha University,
Saveetha Institute of Medical and Technical Sciences, Chennai-77, Tamilnadu, India.

²Mr. Arul Kannappan

²Assistant Professor , Saveetha School of Law, Saveetha University,
Saveetha Institute of Medical and Technical Sciences, Chennai-77, Tamilnadu, India.

¹thirushankar23@gmail.com, ²arul Kannappan.ssl@saveetha.com

Abstract

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 liberalisation 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 globalised 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.

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.

The main aim of the research is to study the rules framed and implemented by WTO in the development of small scale industries in India.

Objectives

- 1) To examine the factors in which that influence the protection of small scale industries.
- 2) To investigate whether the rules for the protecting small scale industries are implemented.
- 3) To study the development of small scale industries in past decade.

Method of Study

Doctrinal type of method is used to do this research. Doctrinal research is a theoretical study where mostly secondary source of data are used. In particular Descriptive methods is used for this research paper. A comparative study is included for better understanding of the problem.

WTO And SSI Sector

- It has been realised 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 comparative advantage. having similar.
- The breeze of standardisation 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.

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.150242 crores 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.
- 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 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 1990-91 to 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.

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 nonmetallic 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 liberalisation 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 postindependence era.

The major export items of this sector embraces non-traditional items , readymade garments , sports –goods , finished leather , leather products , woollen –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.

Problems faced the SSI sector Despite occupying a strategic position in any country's industrialisation strategy and employment generation, the main obstacle in the progress path of SSI is the dearth of timely and adequate credit. During 1997 Abid Hussain Committee on SSIs analysed 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 modernisation 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 effects 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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