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Impact of economic liberalisation on MSMES

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Abstract

MSMEs form a very integral part of the Indian Economy Indian rural economy was intended to contribute largely through the liberalization Economic reform. MSMEs have gained through liberalization. Co-existence of MSMEs alongside large companies has resulted in the increased production. As a major Indian economic reform, it was intended for the increased economic performance through investment inflow from foreigners. The present study accounts the Economic liberalization and the repercussion on the MSMEs in Indian Economy.

Keywords: Liberalization, economy, reforms

Introduction

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. (Ujjal Bhuyan, 2016) [14]. Micro, Small and Medium Enterprises (MSME) as classified in the MSME development Act 2006 to categorize erstwhile Small Scale Industries (SSI) in India has remained as a highly vibrant and dynamic sector of the Indian economy since Independence. MSMEs plays crucial role in providing large employment opportunities at comparatively lower capital expenditure. It helps in industrialization of rural and backward areas, MSMEs are complementary to large industries as ancillary units and contribution of this sector has been tremendous on social-economic development of the country as well. (R.Ranjan, 2014) [9]. MSMEs help in rural industrialization thereby reducing regional imbalances and assuring equal distribution of national income. In terms of value, the sector accounts for about 45 percent of the manufacturing output and 40 percent of the total exports of India. The MSME sector employs about 42 million persons in over 13 million units throughout the country. (Suman dahiya)

Definition of MSMES in India

Micro, Small and Medium Enterprises Development Act, 2006, notifies the following enterprises, whether proprietorship, Hindu Undivided Family, Association of Persons, Co-operative Society, Partnership or Undertaking or any other legal entity, by whatever name be called: In case of Enterprises engaged in manufacturing or production of goods pertaining to any industry specified in the first schedule of the Industries (Development and Regulation) Act, 1951, as:

- A micro enterprise, where the investment in plant and machinery does not exceed twenty five lakh rupees;
- A small enterprise where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupee
- A medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees.

World Bank Definition of MSME'S

By the definition of the World Bank, at least two of the following three requirements (employees, assets, annual sales) have to be met by an enterprise to be an SME.

Table 1: SME Definition

Firm Size	Employees	Assets	Annual Sales
Micro	<10	<\$100,000	<\$100,000
Small	<50	<\$3 million	<\$3 million
Medium	<300	<\$15 million	<\$15 million
Loan Size Proxies			
Micro	<\$10,000		
Small	<\$100,000		
Medium	<\$1 Million (<\$2 million in some developed countries)		

Source: S. L. Gupta & R. Ranjan. (2014) [9]. Impact of Liberalization on Contribution of Msms in Economic Development of India. International Journal of Business Management & Research (IJBMRISSN (P): 2249-6920; ISSN (E): 2249-8036 Vol. 4, Issue 4, 11-21.

The present ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows

Table 2: Manufacturing Sector

Enterprises	Investment in plant and machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

Source: Dr. S. Manikandan. (n.d.). A Study on Startup and Its Impact on Msme in India with Special Reference to Maharashtra State. Assistant Professor, the Institute of Company Secretaries of India, 1-23

Table 3: Service Sector

Enterprises	Investment in equipment's
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five rupees

Source: Dr. S. Manikandan. (n.d.). A study on startup and its impact on msme in India with special reference to maharashtra state. Assistant Professor, the Institute of Company Secretaries of India, 1-23

Objectives of Liberalization

Policies of liberalization are being pursued as part of economic reforms in India. The objectives of liberalization basically are:

1. To enhance budgetary receipts.
2. To minimize budgetary support towards loss making units.
3. To improve performance by bringing out changes in ownership and performance through disinvestment.
4. To ensure long term viability and sustainable levels of employment in public sector enterprises.

Three broad reasons why liberalization is being pursued are greater economic democracy through increased private initiatives in economic activities, achieving higher levels of economic growth and employment, and reducing budgetary deficits. In other words, liberalization, basically, refers to removal of administrative controls and regulations. (Rajesh Kumar Shastri, 2011)

Economic Liberalization in India

The economic liberalization in India means the process of

opening up of the million economy to trade and investment with the rest of the world. It refers to ongoing economic reforms in India that started on 24 July, 1991. The new neoliberal policies included opening for international trade and investment, deregulation, initiation of privatization, tax reforms, and inflation-controlling measures. The main objective of the government was to transform the economic system from socialism to capitalism so as to achieve high economic growth and industrialize. The fruits of liberalization reached their peak in 2007, when India recorded its highest GDP growth rate of 9%. With this India became the second fastest growing major economy in the world, next only to China. Today, India is mainly characterized as a market economy.

Many nations, particularly developing countries, have acknowledged the value of small and medium enterprises, which are seen as the engine of growth for any economy. The Micro, small and medium enterprises (MSMEs) sector plays a significant role in the total manufacturing sector of India, in particularly after the implementation of MSMED Act 2006 of Government of India. It is the nursery for entrepreneurship, often driven by individual creativity and innovation, with a significant contribution in the country's Gross Domestic Product (GDP) manufacturing output, export and employment generation. (Dr. Anju Sharma).

Evolution and performance of the MSME sector in India Pre-liberalization

- During the post-Independence period, small firms were expected to play an important role in the development process, especially in absorbing surplus labor and achieving an equitable income distribution. This is the traditional stylized role assigned to small industries.
- At the beginning of the industrialization process, flexibility in production and the ability to offer differentiated products allow smaller firms to grow rapidly.
- Later, large-scale firms come to dominate the size distribution, making up a greater share of output, employment, and value-added because of scale economies, managerial efficiency, better access to finance and infrastructure, and a favorable tariff structure.

Pre-liberalization

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Salient Features of SME Sectors

1. Instant decision making
 - No notes, no papers, no consultation

- Gut feeling
- 2. Personal Knowledge
- 3. Personal firsthand information
- 4. No time clock for work (0 HRS to 24 HRS)
- 5. Often times–more often than not–everyone in the family is a contributor to business
- 6. Negligible labour problems: interpersonal relationship between the owners and the employees is intimate.

Challenges of MSME in India

- Most of the unregistered MSMEs would predominantly comprise micro enterprises, particularly confined to rural India, operating with obsolete technology, limited access to institutional finance etc. And there is a need to transform the huge unregistered MSME into registered MSME.
- Need to improve the competitiveness of the overall MSME sector.
- Access to technology.
- IPR related issues.
- Design as a market driver.
- Wasteful usage of resources/manpower.
- Energy inefficiency and associated high cost.
- Low ICT usage.
- Low market penetration.
- Quality assurance/certification.
- Standardization of products and proper marketing channels to penetrate new markets.
- The definition for MSMEs must be updated – considering inflation and availability of better technologies since the last change in 2006. (Vijeta Rathi)

Review of Literature

Rajib Lahiri opines that with the introduction of reform measures in India since 1991, the Government has withdrawn many protective policies for the Micro, Small and Medium Enterprise (MSMEs) and introduced promotional policies to increase competitiveness of the sector. Though globalization process has expanded the market facilitating supply of superior technology, this has also forced the MSMEs to face ruthless competition from large domestic firms and the MNCs. The sector has undergone several changes regarding definition. The Small Scale Industries (SSI) has been renamed as Micro, Small and Medium Enterprises (MSMEs) with the introduction of MSMED Act, 2006.

Deveshwar (2014) [2] finds Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socioeconomic development of the country. Micro, Small and Medium Enterprises (MSME) contribute nearly 8 percent of the country's GDP, 45 percent of the manufacturing output and 40 percent of the exports.

Madhavi A Lokhande (2011) [7] contends there is a growing and worldwide appreciation that the Micro, Small and

Medium Enterprises play a catalytic role in the development process of most economies. This position gets reflected in the form of their increasing number and rising proportion in the overall product manufacturing, exports, manpower employment, technical innovations and promotion of entrepreneurial skills. The researcher attempts to look at the changing definition of the Micro, Small and Medium Enterprises and the role these enterprises are playing in the growth story of our economy. In India, the MSME sector is the second largest manpower employer, after agriculture and the output from this sector alone constitutes 40 percent share of the value added in the manufacturing sector and one third of national exports. The importance of Micro, Small and Medium enterprises (MSME) for its contribution in the Indian economy growth is a matter of record and needs no further elaboration. (Madhavi A Lokhande, 2011) [7].

R. Ranjan (2014) [9] finds the MSME sector accounts for around 45% of total manufacturing output and 43% of total exports of the country. However despite a sizeable proportion of workforce being engaged into this sector its contribution to GDP is meager 8.72%. Moreover, the protection availed during pro-business phase, which was drafted away with onset of pro-market phase from 1991 and enactment of MSMED Act 2006 has not contributed to surge of MSME sector's graph significantly. Through an empirical study the researcher highlight the growth in number of MSMEs after liberalization and its contribution to proportionate growth of various parameters namely Production, Employment and Exports.

Manoranjan Mishra (2018) [8] feels despite the fact that it contributes more to the development of economy; the part has been confronting different obstacles in India since long. The Government of India has found a way to defeat such imperatives. It has passed Micro, Small and Medium Enterprises Development (MSMED) Act 2006 which got enormous changes this part. In India, before the sanctioning of this Act, little businesses were done including tiny, cottage and traditional enterprises. This act segregated the medium enterprises three tiers namely micro, small and medium. It also develops legal framework mechanism at the national level as well with balanced representation of stake holders in three categories of enterprises with a wide range of all functions. Keeping in view the urgent role performed by the MSMEs in our economy, the current study explains the feature of MSMEs Act and also highlights the performance of MSMEs before and after the MSMED Act 2006.

Government policies and support measures for MSMEs: brief history

The evolution of the policy framework and support measures of the government can be broadly grouped into following three periods:

1948-1991 – In the policy resolutions from 1948 to 1991, recognition was given to the tiny and small enterprises. They were termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skill. The Small Industries Development Organization (SIDO) was setup in 1954 as an apex body for sustained and organized growth of small enterprises. This is now known as the Micro, Small and Medium Enterprises Development Organization. In 1956, the National Small Industries

Corporation, The Khadi and Village Industries Commission and the Coir Board were also setup. The era provided the supportive measures that were required to nurture the small enterprises in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the priority sector lending program of commercial banks, excise exemption, reservation under the government purchase program. The Small Industries Service Institute (SISI) now known as MSME Development Institute was setup all over India to train youth in skills, and the tool rooms were established with German and Danish assistance for providing technical services essential to small enterprises for skilled training. At the state level, District Industry Centers (DIC) are setup all over the country.

1991-1999 – The new policy for small, tiny and village enterprises of August 1991 laid the framework for government support in the context of liberalization which sought to replace the protection with competitiveness to infuse more vitality and growth to small enterprises in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing centers and new tool rooms were setup. The Small Industry Development Bank of India (SIDBI) and a technology development modernization fund were created to accelerate technical and financial services to the small scale sector.

1999 onwards – The ministry of MSME (earlier known as ministry of SSI and Agro and Rural Industries) came into being from 1999 to provide focused attention to the development and promotion of the sector. The new policy package announced in Aug 2000 sought to address the problems of credit, infrastructure, technology and marketing. A credit linked capital subsidy scheme was launched to encourage technology up gradation in the MSE sector and credit guarantee scheme was started to provide collateral free loans to micro and small entrepreneurs, particularly the first generation entrepreneurs. The exemption limit for relief from payment of Central Excise duty was raised to Rs 1crore (\$0.25 million) and a Market Development Assistance Scheme for MSEs was introduced. At the same time, consultations were held with stakeholders and the list of products reserved for production in the MSE sector was gradually reduced each year. In 2006, the long awaited enactment for this sector finally became a reality with the passage of the Micro, Small and Medium Enterprises Act. In March 2007, a third package for the promotion of Micro and Small Enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment. (Madhavi A Lokhande, 2011) [7].

Globalization Brought on Indian SMEs

Globalization has intensified interdependence and competition between economies in the world market. These economic reforms have led to significant benefits. Exposure to foreign markets Globalization has opened up the economy and integrated it with the world economy. The SMEs enjoy the benefits of selling their products and services to the world market rather than being confined into domestic market.

▪ **Flow of foreign investment and technology**

The SMEs in India suffer from outdated technology and sub-optimal scale of operation. Many foreign

companies have tied up with Indian SMEs and helped them to use better technology, managerial skill etc.

▪ **Emerging areas of business**

SMEs have been able to identify many uncommon but highly promising business areas like outsourcing, medical transcription, clinical research trials, sub-contracting, ancillarization and many new technologies like biotechnology, nanotechnology etc which are attractive for the new generation SME entrepreneurs.

▪ **Less Govt. Intervention**

As the economy is mainly market driven; there is less Govt. intervention, red tapes, less control on import and export etc. The SMEs would be allowed to work in a free environment.

▪ **Employment generation**

Being labour-intensive in nature, the SMEs make significant contribution in employment generation and expanding industrial network in rural areas. This sector nurtures the traditional skills and knowledge based small and cottage industries. The workers inherit and transfer skills from generation to generation.

▪ **Better performance by the SMEs**

Before globalization, the SME sector was a highly protected sector. Suddenly, after globalization they discover that many of such protective measures were withdrawn and they have to fight for their existence. This competitiveness in domestic and global market may bring out superior performance.

▪ **Better Customer Satisfaction**

As the domestic market gets competitive, small and medium firms try to satisfy the consumers in every possible way. They try to produce products as per the needs and preferences of the consumers and satisfy the customers in best possible way.

▪ **Short and long term capital**

In a liberalized economy, banks would try to find out new avenues of giving credits to increase their profitability. Thus, supply of funds may be easier. Development in money market would initiate development in capital

Strengths and weaknesses of MSMES in the era of liberalization

Globalisation has both opportunities and challenges for the MSMEs.

Strength

▪ **Exposure to foreign markets**

Globalization has opened up the economy and converts the economy into a free economy. It integrated the whole world into a single economy. Now rather than depending on domestic market MSMEs can business with all over the world. Thus it helps in accessibility to bigger markets, linkages with big corporations, getting help of technological innovations and improved manufacturing techniques and processes.

▪ **Flow of foreign investment and technology**

Micro and small enterprises suffer from outdated technology and lower scale of operation. Globalisation

helps a lot to overcome the problem by collaborating with foreign companies. Many Indian MSME's tied up with foreign multinational companies to get the help from them with better technology, managerial skill etc.

- **Employment generation**

MSME's are labour-intensive in nature and use traditional skills and knowledge. The workers inherit and transfer skills from generation to generation. The significance of the sector is attributed to its capacity of employment generation and expanding industrial network in rural areas. MSME's helps in rural area to reduce regional imbalances and over dependency on agriculture by generating sufficient employment opportunities. By the introduction of Globalisation employment generation capacity of MSME's are improved a lot.

- **Better performance by the MSMEs**

Before the globalization, the MSME was a highly protected sector. Suddenly, after globalization they discover that many of such protective measures were withdrawn and also the foreign firms are enter to business in India. Now they face a very tough competition with that global organisation and they have to fight for their existence. This competitiveness in domestic and global market may bring out superior performance.

- **Less Government Intervention**

As the economy is open up; the MSMEs are allowed to work in a free environment. There is less Govt. intervention, less control on import and export etc. That helps in growth and performance of MSME's.

- **Export contribution**

The products of MSME sector (like sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products, handicrafts etc) have an excellent foreign market. As per the Annual Report of the Ministry of Micro, Small and Medium Enterprises 2017-18, the value of exports of MSME related products is US\$147.39 with a 7.5% growth of export.

- **Lack of Institutional Credit**

Getting loan for MSME's a big challenge. several commercial banks, co-operative banks, State Financial Corporations (SFCs) are set up to ensure smooth supply of credit to the MSMEs. Small Industries Development Bank of India (SIDBI) was established in 1960 with the aim of helping the small industry business. But still now credit problem is exist there. MSME's are mostly depend on internal sources of finance with a (personal savings, loan from relatives, and loan from local money lenders) rather than institutional financing by banks and other financing institutions which ultimately increase their cost of capital.

- **Marketing and Distribution Problems**

Marketing is probably the most neglected and less explored problem for MSME's. They do not follow any well formulated marketing strategy, market research programmes, and innovative advertisement techniques

and they do not have adequate monetary support to develop marketing section and many are not aware of modern low-cost marketing techniques (blogging, sending mails, developing website for the company, using social media).

- **Lack of Skilled workers**

Though India has no shortage of human resources, then also availability of skilled labour is a big problem here. The MSMEs have to operate with unskilled or semi-skilled workers and suffer from low managerial capabilities which finally effects in productivity of quality goods. There are both Government and private training institutes, but the performances are not satisfactory.

- **Outflow of wealth**

Globalisation process seems to benefit mostly the multinational corporations. They use domestic wealth, infrastructure and local unskilled workers at a lower cost and repatriate huge profits to their own countries from foreign countries. Moreover, the firms operate with the prime objective of profit making. Thus, quality of services and social responsibility aspects are ignored.

- **Extreme competition**

With the introduction of Globalisation, the MSMEs face tough competition from the multinational corporation. The small firms find it difficult to sustain their existence as a result merger and acquisition are continuously increasing.

- **Poor access to modern Technology**

Majority of small firms use outdated technology. There exist significant variations in technical efficiency of the MSMEs in different states and even in different areas of the same state. They suffer from low productivity and poor product quality.

- **Inadequate infrastructural facilities**

Infrastructural inadequacy includes inadequate power supply, transportation, water supply etc. Small firms cannot bear the cost of setting up independent power supply unit and have to depend on the electricity boards with irregular power supply. (Debasish Naskar)

Prospects of MSMES in India

- **Absence of Banking Finance**

MSMES get very little percent of net bank credit. This sector mainly depends on personal savings, loan from relatives and loan from local money lenders.

- **Outdated Technology**

Most of the MSMES use poor technology base as a result of that they manufacture low quality products and face low productivity.

- **Infrastructural Problem**

MSMES are facing infrastructural problem which includes inadequate power supply, water supply and roads etc.

- **Storage Problem**

This sector does not have proper storage facility therefore quality of the products deteriorates and they have to bear a big amount of loss.

- **Inadequate Marketing**
MSMES do not have proper marketing strategy and market research programme, even most of MSMES are not having their own website which is the biggest tool of marketing.
- **Lack of Skilled Worker**
Most of the workers are unskilled who do not possess any diploma, degree and Growth & Performance of MSMES in India: experience. At the early stage new entrepreneurs are not able to pay enough to skilled worker therefore they have to depend on the unskilled workforce.
- **Withdrawal of Reservation Policy**
Earlier some items were reserved for the small scale industries but after liberalization such items has been opened for the domestic as well as for the MNCS.
- **Extreme Competition**
This sector is facing keen competition from the large domestic firms and MNCS with improved technology, skilled workforce, marketing skills, better quality and wide range of products. (Suman dahiya)

Conclusion

Liberalization policy was a major reform to bring about market changes and boost investments in India. The reform brought an increase in the number of small scale units but the reflection in terms of reflection in terms of productivity was missing. The impetus reflected in the number of units and employment generation. The export and the local production has seen wide variation. The marginal productivity and marginal revenue were not satisfying as the units lacked the capacity to afford innovation, better technology and competitiveness. The export avenues were less in comparison with the local market needs for those investing in Indian MSMES. Indian Economy fell short when compared to chinese economy which subsidized the investment proposals which were export oriented and provide overall value addition.

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