Chapter II

**WTO AND SURVIVAL OF SSIs**

*(Small Industrial Sector in a Global Perspective)*

A global perspective of business is emerging fast not only in India, but also all over the world including the communist countries. Every nation is now poised to integrate its economy with the world economy so as to remain as a part of the global economy and every business or industry now supposed to act as a part of the global business. Rich and large economies now draw lessons from countries like Japan, Korea and Taiwan. India has realised the need for integrating our economy and business with the global economic activity in a little later. Consequent to this policy, every industrial and business organisation has to take up the responsibility to meet the challenges posed by globalisation.

Both the big business and even a small business which enterprise in India has to take up the responsibility to meet a global demand. Though it does not go itself to a market abroad, it has to meet the standards, qualities, technological upgradation, skills and technical knowledge that the global market wanted. It means that even a small-scale unit operating anywhere in India has to fulfill the standards that is set by the global giants which operate in India. This is not only in respect of a unit that produces final products but even the one, which functions as ancillary or artisan.

**The Indian policy in globalisation**

The SSI sector is estimated to be contributing to a growth rate of 4 per cent per annum in employment. The employment position in the Indian economy should not suffer owing to mechanisation and modernisation
undertaken for facilitating the global agreement. Alternative employment opportunities or additional avenues are to be carefully worked out. The SSI sector contributes to 40 per cent of value addition in the manufacturing sector. This position must improve owing to foreign collaboration among industries. The SSI sector provides 35 per cent of the exported goods. This sector produces 8,000 products. The export position may improve further and strengthen the SSI sector.

It is estimated that 70 million unemployed persons are to be employed only in small or tiny sector industries. They cannot be employed in Government offices, as there is already a surplus labour force. Two thirds of the business enterprises all over the world are small and medium enterprises and they are traditional in nature. All over the world, there is a major contribution by tiny, small and medium enterprises.

The small sector has a lean organisational structure and hence, they may not be able to respond quickly in the changing scenario. This position must be kept in mind while framing the policy for a world trade. The globalisation move envisages cheaper and smoother alternatives for easy accessibility of small-scale industries to market in progressive countries. In the Indian condition, it can be a challenging to the small industries as they have to compete with the world market with high production cost, incompetent traditional technology, highly lethargic officials, slow moving nationalised commercial banks in providing credit, very old traditional management practices and unplanned market strategies.

The recent new policy initiatives for the Small Scale Sectors announced by the Government of India in 1999-2000, with emphasises to coordinate the latest development with regard to the WTO. A cell has been
set up in office of D.C. (SSI) to disseminate information to SSI and prepare policies for SSI in tune with the WTO agreement.

Globalisation has opened up opportunities, which the SSI sector must seize, to be globally competitive both in-terms of price and quality. It is undeniable that global economy is currently going through significant changes. The new trading regime under WTO has reduced the scope for using measures which call for trade related subsidies and strategic conditions, reservation and protection.

The large number of thirty one lakh SSI units is not prepared for the sudden exposure to competition and liberalisation. This meant the competition both in the domestic market and international market is going to be heated up.

The basic weakness of SSI lies in very small size by global standards, vulnerability due to lack of financial strength, inadequate and costly finances, difficulties in the matter of raw materials, managerial deficiencies, inadequate marketing facilities, internal competition from large scale industrial units, highly diversified products increased competition from imports, export difficulties, problem of technical know-how etc., eroding competitiveness and less complementary in the large organised sector. Therefore there is a need to analyse the problems and prospects of SSI units.

**NEED FOR AN APPROPRIATE STRATEGY**

There is no economic activity that will go unaffected by the WTO and the impact on the agreements signed under it. The biggest task of SSIs is to create an awareness of the implications in the new world trading order underlines by the WTO.
In the post-WTO era, India was obliged to remove all the restrictions and regulations, including Quantitative Restrictions (QRs) on its imports, leading to unrestricted access to the Indian market by the rest of the world. With the collapse of tariff barriers, it will take the form of anti-dumping rules of origin and anti-subsidy measure. This chapter envisages a brief enumeration of the sectoral analysis on the challenges of the WTO in the Indian SSI sector.

The umbrella of the WTO is likely to create some far-reaching implications for the sector in India, specifically with regard to the international trading norms, their competitive ability and integration with global markets. The globalisation of the world economy will make Indian SSIs largely dependent on international trade.

Efforts have been made in this chapter to introduce the reader to the basic agreements and legal instruments in the WTO affecting SSIs. It contains information about the principles of the world trading order under the WTO and a specific mention of the changes in the Indian trading environment in the post-WTO era with regard to the SSIs. At the end of the chapter there is a brief discussion on the appropriate strategies for the future.

ORIGIN OF WTO

The Bretton Woods Conference (1944), established the International Bank for Reconstruction and Development (The World Bank), the International Monetary Fund (IMF), the Food and Agriculture Organisation (FAO) and the General Agreement on Tariffs and Trade (GATT) to restore economic activity disrupted by the World War II. A proposal to establish an International Trade Organisation (ITO) under an agency of the United Nations was also mooted and an ITO Charter was also agreed at the UN Conference on Trade and Employment in Havana in March 1948. Since
many countries could not ratify this proposal in their domestic legislatures, it received a quiet burial.

General Agreements on Tariffs an Trade (GATT) was established in Geneva in 1948, to give impetus for free trade and thereby enhance economic growth and development of all its members. GATT is a multilateral treaty and 80 per cent of world trade is governed by the GATT rules. In addition to providing a code of rules, it also provided the basis for contracting parties to discuss and overcome their trade problems and negotiate to enlarge their trading opportunities. It essentially set out world trade rules to ensure competition in commodity trade by lowering tariff levels.\textsuperscript{62}

**Uruguay Rounds of GATT Negotiations:** The Eighth Round of GATT Negotiations, also called the Uruguay Round (UR), was launched in Punta-Del-Este, Uruguay, on 20\textsuperscript{th} September 1986 and was concluded in April 1994 at the Ministerial Meeting held at Marrakesh, Morocco. The final Uruguay Round Agreement includes an agreement establishing the World Trade Organisation. The crucial Uruguay Round Negotiations went beyond all the areas covered under the previous rounds and for the first time including new issues such as intellectual property rights, agriculture, investments, services, etc.

World Trade Organisation began on 1\textsuperscript{st} January 1995. It was entrusted with the task of administering the Uruguay Round agreements on trade in goods (General Agreement on Trade in Services) and Agreement on Trade-Related Intellectual Property Rights.

The five functions of the WTO are

- The WTO shall facilitate the implementation, administration and operation and further the objectives of this agreement and the multilateral trade agreements, and shall also provide the framework for the implementation, administration and operation of the pluri-lateral trade agreements.
- The WTO shall administer the understanding on rules and procedures governing the settlement of disputes.
- The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the agreements in annexes to this agreement.
- The WTO shall administer the trade policy review mechanism.
- The WTO shall cooperate as appropriate with the International Monetary Fund and with the International Bank for Reconstruction and Development and its affiliated agencies.\textsuperscript{63}

Unlike GATT, the WTO is a permanent body created by the GATT Treaty, which was ratified by the government in Marrakech in April 1994. The WTO is headed by a Director General and it is assisted by four deputies. The General Council is the ruling body of the WTO, which comprises each member country’s permanent envoy. This body meets once a month in Geneva. The Supreme authority of WTO is the Ministerial Conference, which is held once in two years. The other wings of WTO include the Trade Policy Review Body (TPRB) the council for Trade-Related Aspects of Intellectual Property Rights, the Council for Trade in Services and Council for Trade in Goods.

The decision of the Decision Settlement Body (DSB) is final and binding on the member-states. It is hoped that a strong multi-lateral organisation like the WTO with its Decision Settlement Body (DSB) will curb unilateral trade actions by developed countries.

Globalisation is making in-roads into every nook and corner. The process which had once started with the coming of giants like the American Multinationals has now been extended to even small entrepreneurs from China. All these are making things more difficult for our entrepreneurs. Today the question which one needs to answer is how to identify the gravity of this situation and how serious this situation will be for Indian entrepreneurs. The phenomenon is happening in the market while the rules of the game have remained more or less the same. It is race to win and everyone is trying hard to score. In such a situation, options that lie before the entrepreneurs are

- Changes the boat and the gear too.
- Upgrade the boat as well as the gear.

It is well known that both the opinions have their own strengths as well as weaknesses.

It is current scenario of reservation for the SSI, the total removal of QRs, especially in the consumer goods sectors, will make the survival of SSI units difficult. The government must, in this regard, make necessary changes in the policy for SSI.

When the domestic market is fully open to competition from foreign goods, the competitive advantages (e.g., cheaper labour) that domestic SSIs enjoy may not suffice to compete. Even on the cost level, there is likely to be stiffer competition coming from the neighbouring countries such as Nepal, Bangladesh and especially China.
Tariff protection

The protection level by way of tariff is also required to come down. The SMEs have to note that India is committed to a ceiling tariff binding of 40 per cent on finished goods and 25 per cent on intermediate goods, machinery and equipment.

The policy of reservation for the small industry

The policy was launched in 1967 with 67 items which is manufactured only by the SSI sector. Any non-SSI unit which manufactured a reserved item has to undertake 75 per cent export obligation.

- 836 items in the reserved category as on 30th March 1994.
- 821 items in the reserved category as on 3rd April 1997.
- 812 items in the reserved category as on 3rd February 1999.

Any non-SSI unit which wants to manufacture a reserved item, has to undertake 50 per cent export obligation and sell the remaining 50 per cent production in the domestic market.

Anti-dumping practices

While the domestic market is going to be fully exposed to external competition, SSIs may have to be cautious against the possible dumping by their competitors from abroad.

If a company exports the products at a price lower than the price which is normally charges in its domestic market, that is considered anti-dumping. The agreement on anti-dumping measures (ADP) allows the countries to take measures against imported goods benefiting from unfair trade practices.
Subsidies and countervailing measures

All major subsidies such as Duty Entitled Pass Book (DEPB) scheme, Expose Promotion Capital Good (EPCG) scheme, Income Tax Act, etc., are considered as ‘actionable’ subsidies. These are not prohibited subsidies and therefore it can be continued by the government. However, the importing country can take action (by way of imposing countervailing duty) if it feels that subsidised goods cause injury to the domestic industry.

Indian industry should learn to be competitive without the present set of subsidies. This is extremely difficult for SSIs and perhaps the most serious challenge.

Technical Barriers to Trade

Small industries must take a note of growing Technical Barriers to Trade (TBT) in view of high technical standards set by the developed countries. These are emerging as major barriers for developing nations to access markets in developed countries.

The agreement on TBT provides for a differential and more favourable treatment for developing country members, though it is not really respected by developed countries. One of the basic problems of Indian SSIs is their technological weakness.

India’s definition of SSI units run counter to the objective of technology upgradation and/or setting up of units with minimum technological standards. The SSIs in developing countries like India are likely to be deprived of market access not only in the case of technology intensive items but also for many labour intensive items.
government procurement

While the support of the government is very important for SSIs, it is also true that the government procurement often works against free trade. Hence it is felt that this should be subjected to multilateral rules within the WTO framework to ensure a level playing field.

In India, the government is a substantially large buyer as well as a large investor. In addition, the government is a big support to SSIs as far as the market is concerned. There are reservation policies and also price support mechanisms to purchase the products from the small scale sector. In the event of a multilateral agreement, the market constituted by the government may have to be opened up to foreign competition.

trade and environment

Any agreement on trade and environment is likely to have a major impact on the production process and on the packaging of products, which in turn, would impact price competitiveness. The major question here is whether SSIs are technologically and financially capable of meeting such challenges or not.

Do's and Don’t for SSIs

Do's

* Exploit competitive opportunities.
* Analyse the impact of WTO provisions in your sector vis-à-vis trade policies of the major countries of your trading partners.
* Work in a cluster mode with other units in your business sectors.
* Ensure a good web presence that is less about selling and more about improving relationships with supplier, distributors and customers.
Exploit an e-commerce through your website by providing online catalogues (updated regularly) for your customers. This will help to order, produce or avail of services online.

Achieving Compatibility with WTO provisions.

Redefining the SSI in terms of employment size/turnover, rather than investment limit.

Gradual phase out of the reservation policy for SSIs, compatible with the Exim policy.

Small industry to reposition itself in certain strategic sectors where India has proven comparative advantages that also call for mergers and amalgamations.

Develop India as a sourcing point and a subcontracting base which is essential to introduce competition in small industry.

State-of-the-art technological upgradation to achieve low cost of production, better quality and economics of scale.

Don’t

Do not exist in isolation.

Do not think that the WTO provisions shall not affect your business, even if you are not involved in the international trade.

Do not overlook your competitors.

Do not withhold capital investments in technology upgradation.

Do not be in awe of the size of international SSIs.

Opportunities for SSIs under the WTO System

The WTO legal system benefits SSIs both as exporters and importers. As exporters, the major advantages that the system provides are,
Security of access

In trade, almost all tariffs of developed countries and a high proportion of those of the developing and transition economics have been bound against further increases by the Uruguay Round.

Stability of access

All countries require to apply for the uniformity in the set of rules which is elaborated by the various agreements. The WTO system provides the stability of access to export markets. SSIs benefit from the rules of the system, as importers of raw materials, intermediate products and services used in productions.

The trading opportunities that likely to be unfold for India due to Tariff reduction by all the countries. In addition, the industrialised countries, which are likely to provide, increased market access for industrial products of developing countries from 20 to 40 per cent.

Reduction in subsidies and supports would open up large markets for Indian agri-products. A new opportunity has already emerged as a result of recent reduction in tariff and removal of duty on brown basmati rice by the EU with effect from July 1995.

The phasing out of MFA will be benefit especially country like India;

As evolved by the WTO, the rule-based multilateral trading system, the lowering of restriction on imports, on the ground of dumping, and the dispute settlement mechanism, are expected to strengthen the world trading system and therefore open up new trade opportunities.

The WTO Legal system has also created certain rights in favour of SSIs.
To restrict imports in the face of increased competition resulting from liberalisation measures, rights are to be exercised on request of the governments to take action. Right must be given to enterprises on request for the levy of anti-dumping duties on imports that are being dumped and for the imposition of countervailing duties on products that are entering the country at extremely low prices because of the subsidies that they are receiving.

The invocation of these rights is subject to certain conditions. The request for such actions can be made if it is supported by enterprises that account for a substantial proportion of domestic production and it is possible for them to demonstrate that the increased imports are injuring the industry by bringing about a decline in production, in profits or in employment.

**CHALLENGES OF KEY INDUSTRIES**

**Agro industries**

It is a well known fact that Indian industry has been overprotected in the past. However, the fact that is now known to the government policy over the past years that it has discriminated against the agricultural sector. This is reflected in the Nominal Protection Co-efficient (NPC), which has remained excessively low in the agricultural sector. But even today, it is the most important sector of the Indian economy. It contributes about 33 per cent of GDP and accounts for 18 per cent of the export basket though it continues to be stifled by export controls and regulations like export quotas and minimum export prices.

Since liberalisation, several policy measures have been taken up with regard to the food processing and agro industries. These policy measures have been accorded high priority with fiscal incentives. Custom duty rate has been substantially reduced on plant and equipment, as well as raw materials and intermediate goods which are exempt from excise duty.
In addition, various export promotion measures have been introduced. All profits from export sales are free from Corporate Taxes. Profits from such exports are also exempt from the Minimum Alternative Tax (MAT). Several EZPs and Free Trade Zones (FTZs) have also been established.

**WTO Scenario**

The provisions for the food processing industry in the WTO are discussed under the agreement of agriculture. The agreement seeks to liberalize world trade and it is free from Government controls that distort world trade.

**The objectives of the agreements are**

- Subsidies on agriculture are to be removed and converted into tariffs
- Reduction in tariffs
- Minimum market access in closed economics
- Commitment to reduce export subsidisation of value about 36 per cent and of quality by 21 per cent over a period of six years
- Elimination of all non-tariff barriers
- On domestic support, India has no reduction commitments because its AMS is below the 10 per cent benchmark.

**The following export subsidies are to be reduced**

- Provision of the Government to give direct subsidies including payment in kind to a firm contingent on its export performance.
- Sale or disposal for export by the government of non-commercial stocks of agricultural products at a lower price than the comparable price charged for the like product to buyers in the domestic market.
- Provision’s subsidies to be reduced at the costs of marketing exporters of agricultural products.
The provision of WTO will not phase out the Indian Public Distribution Scheme (PDS). However, it will reform the PDS and make it more transparent. It will have to be directed to the urban and rural poor on the basis of clear defined nutritional criteria. Food purchases by the government will have to be made at the current market prices.

**Implications**

Since agricultural protection is greater in developed countries, the prime beneficiaries of the Uruguay Round agreements are expected to be developed in countries like India.

World trade with respect to exports is expected to increase to US$300 billion by the year 2005, due to the removal of domestic subsidies mainly in developed countries.

Agricultural prices are calculated to decrease by an average of 10 per cent. This will enhance Indian price competitiveness in comparison to the USA and Western Europe in terms of agricultural exports.

**Recommendation for the Government**

A study has been made on various laws existing in India to see whether imported products are meeting the criteria stipulated by the Indian companies.

Sanitary measures for Indian and foreign companies to be stipulated.

Carry forward, at a more rapid pace, the reform process initiated in 1991 in the agricultural sector.

- Gradual re-reservation items reserved for the SSI sector.
- Gradual removal of direct subsidies such as government procurement.
- Incentives in the form of indirect subsidies.
- Equitable dispersal of credit.
- Recommendations for the industry.
• Encouragement of export.
• Greater awareness by the implications of the WTO provisions.

Textile industries

Current situation

The garment and textile sector is one of the most regulated sectors in India today. Under the existing reservation policy for the textile sector, hosiery, knitwear and clothing items are reserved for exclusive production by the small scale industries.

WTO Scenario

According to the Agreement of Textiles and Clothing (ATC) on 1st January 2005, the textile and garment sector will emerge into the GATT. This will result in the phase out of the Multi Fiber Agreement (MFA), bilateral quota restrictions and lead to a two-way access to textile products in the markets of both developing and developed countries. All member countries are obliged to remove all sorts of trade barriers, including export subsidies.

Under the WTO, certain privileges have been accorded to developing countries, including India. Under such relief measures, India needs to prohibit its export subsidies only after its per capita income has reached US$1,000. Even while the per capita income is below $1,000, the export subsidy on the product that attains export competitiveness will have to be phased out. Export competitiveness is determined by the product’s share in world trade (if it exceeds 3.25 per cent for two successive years). It is to be noted that the members affected due to the import of such export subsidised goods are allowed to levy a countervailing duty on such products at the time of entry into their commercial territories. This is allowed to eliminate the unfair advantage that the imported product will take over the domestically
produced similar product. However, the Agreement on Subsidies and Countervailing Measures (ASCM) prohibits the use of subsidies that have trade distorting effects.

In India, duty drawback schemes such as DEPB, EPCG, EOU, EPZ and 80 HHC are considered as export promotion schemes. Whether these schemes are subsidies and, if so, how to categorize them will remain as a matter of interpretation under the WTO framework.

**Implications**

There is likely to be an adverse impact on the legal instruments of the WTO in relation to the SMEs in this sector. This is primarily because of the insularity in which the Indian garment and textile industry has existed.

According to this sector all kinds of protection going to be abolished in the forthcoming years. The current policy of reservation will have no relevance.

Liberalisation, especially in the context of globalisation, will have strident implications in the factors like quality, price, productivity and competitiveness.

**Recommendations for the Government**

- Adoption of Value Added Tax (VAT) which avoids cascading effects on duties, ultimately lowering the incidence of duty.
- Provide a level playing field by strengthening the infrastructure.
- Quota fixation for SMEs to access the Rs.250 billion fund that the government has setup for technology upgradation.
- Negotiate with the USA flexibility in quotas upto 30 per cent on certain items till 2005.
Recommendations for the Industry

Provide stimulus for new investments to upgrade technology and hence improve quality to face competition from the international trade.

Polymer industries

Current situation

Today the leather sector in India is the fourth largest foreign exchange earner as 44 per cent of the total production is exported. Exports of leather and polymer products have increased manifold over the past four decades, touching Rs.70 billion during 1998-99.

The finished leather manufacturing units are predominantly SMEs. The technology status in the large majority of these units is obsolete. Household or small units employing outdated technology mainly to undertake tanning and other processing facilities.

The government has accorded a number of priorities for the development of this sector which include the policy of reservation. Several polymer products are reserved for exclusive production by SSI units. The strength of the industry is a strong raw material base, abundance of traditional skills and competitive wage levels.

WTO Scenario

The post-WTO era is bound to bring out the drastic changes in the leather sector in India. The removal of QRs will lead to the flooding of the market with cheap foreign goods.

A major drawback in the removal of tariff barriers is the export of cheap raw material from India and in turn dumping of cheap furnished goods in the Indian market. This will lead to the misuse of Indian raw material.
The reason cited for this is the better tanning and other processing facilities available in other countries.

Implications

The implication of the WTO provisions for this sector is varied. The reduction in the tariff barriers will lead to the export of cheap raw material and dumping of cheap furnished goods into the Indian market. This will have an adverse impact on the local industry.

However, it must be noted that leather is a labour intensive sector. The comparative advantage of India lays in the availability of a cheap labour force. If the domestic industry can improve its tanning and other processing facilities, it should be able to capture a larger market share.

Recommendation for the Government

- Gradual removal of the reservation policy vis-à-vis SSIs.
- A rational and simplified taxation structure.
- Equitable distribution of credit facilities.

The impact of WTO on Small Scale Industries

The end results of the Uruguay round, being an assortment of compromises, contained many lacunae. But even then they represented advancement towards more transparency in trade policies, more precise definition of rights and obligations, and more stress on mutual consultations and multilateral supervision. The trend is generally towards free trade and open markets. It is preposterous to imagine that the global community of trading nations would agree to a reversal, once they have obtained the same after such long drawn out acrimonious negotiations. The difficulties that Indian entrepreneurs have to face cannot be attributed to the terms and conditions negotiated in the Uruguay round. Many of these difficulties are
our own creations that arise out of national policies. The Indian domestic market was insulated from competition though producers were happy as they had the opportunity to exploit the vast captive market. Shielded from competitive forces, they became inefficient. They ignored the basics, like economy of scale. Some of them received incentives under some schemes. The government had created public enterprises. However, they too got converted into huge employment exchanges and were used to satisfy the patronisers of power. In no time, they too became inefficient entities.

The public sector became a centre that used massive endeavours of capital from the public exchequer to remain alive. The practices adopted only made things more difficult. Labourers were pampered, protected and assured of rising wages and perquisites without linkage to their productivity. There was not a single sector, which was denied public subsidy. In short, all processes were undertaken to weaken the entire system.

Protection of the domestic market, fragmentation of production bases and unrestrained flow of public subsidies created a huge complex of vested interests. Today their groups are active in resisting introducing of forces and the influx of competitions. Small-scale producers want the continuation of the freedom to produce non-standard goods. Quested interests have come together. It was at the behest of the IMF and the GATT and the considerable pressure it exerted upon the government to undertake economic reforms that made things move towards a more liberal order. Vested interests only made the process of reforms a difficult one.

In the present scenario, it is difficult to resist the process of opening up. Having become a leading player in IT, space technology, nuclear energy, etc., India cannot remain away from competition and economic
liberalisation. It will be welcome competition if it wants to survive. Turning one’s back on the WTO is not the answer.

Since 1991, The New Economic Policy pursued based on liberalisation, privatisation and Globalisation of Indian economy in general and New EXIM policy 2000, under the WTO Regime on SSIs in particular have resulted in an adverse impact on the SSI sector. The SSI are already reeling under the acute crisis since 1991, with about 2.21 lakhs of units becoming sick leading to loss of Jobs for 7 lakhs of workers.64

Under the New EXIM policy 2000 pronounced by the Govt. of India, 6.24 items out of 812 items of production resumed so far to the SSI sector are now opened up for liberal imports under Open General Licensee (OGL). Consequently, the mightily MNC’s numbering over 4000, operating in India having substantial resources, technical know how and skilled professional high wage managerial expertise are having a free play in the Indian consumer market adversely affecting the growth of the SSI sector.65

One of the consequences of Globalisation will be the opening of the flood gates for better quality goods into the country. The Small Scale Industrial Units, while are already weak in marketing, function even in the domestic market are incapable of withstanding the competition from foreign goods.

All of a Sudden Globalisation has created a situation in which foreign firms may benefit by entry into the Indian markets while a call to SSI units to

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come up to global standards of technology, productivity and marketing to compete with the rest of the world. The multinationals of Japan, USA, Germany and Frames are pouring into India every conceivable product segment from processed goods to steel and from readymade garments to petroleum and hence the problems of small scale Industries has arises. Here the question arises. Will our small-scale sectors survive in this era of Globalisation and World Trade Regime? The answer is yes definitely, which can be understood by studying the history of SSI sector and its importance to national economy.

From time immemorial, India is well known for its cottage and Small Scale Industries and has participated in the world trade. Since ancient times only, India's prosperous wealth of natural resources has attracted foreign traders and investors. Amidst these, India developed and remained its Small Scale Sector. If faced the constraints and challenges bravely.

Even after centuries of reign by foreign countries, India did not lose its culture and heritage and it is trying its level best to maximize its wealth by extracting and exploiting its natural resources which has caused for the existence and development of thousands of Small Scale Industries spread throughout the country.

The Indian Small Scale Industry has emerged as a very vibrant and dynamic sector in the national economy by contributing a lion's share to the same. Over the years, it has evolved, changed and adopted itself to the changing economic and political circumstances. The small Scale Industry has satisfied all criteria and yet met the challenges in growth and development. It is not only occupies a pride place in the economic map of India but also participates to a major extent in the world trade. It has enough potential to
generate more employment opportunities with lower investment than any other sector in the country.

The continuous growth and development of this sector is very important for the economy and particularly in the era of global trade and WTO regime. It becomes necessary for all of us to analyze the future trends and prospects for small-scale industries sector.

Positive Impact of WTO

There is continuous restructuring of Indian economy and the contribution (both the secondary and tertiary sectors) to Gross Domestic products (GDP) rising as compared to the primary sector. The faster global linkage of Indian industries is also witnessed in 1990s as compared to 1980s and more during the second half of 1990s. Structural change has also occurred in India’s trade moving towards the increasing share of manufacturing goods during the post WTO era. The GDP growth rate under WTO is also not disappointing. From this it appears that the Indian economy has been benefited much from WTO. The true picture may be discerned from the annual percentage change, which shows pessimistic developments after the 1995 scenario.

On external fronts, it is marked that decline is not only total imports but also in the exports of agricultural and industrial products. The export of agro products shows negative growth, which related to the level of 15.48 per cent in the year 1990 to 2000. In the next year, it increases to 7.5 per cent, a positive growth. But in the year 2001 and 2002 there was a decline in the export of agro products, it decreases to 2.2 per cent. India’s export performance is expected to be deteriorated during the current fiscal year because of recession in U.S.A., Western Europe and Japan. Moreover,
India's share in global trade increased to 0.7 per cent in 2001 and 2002 from the 0.64 per cent in 2000-01.

The most depressing effect of WTO is on the displacement of out workers engaged in small and medium industries. The employment has declined both in the rural and urban sectors. According to 1998 economic census data, employment in rural India has declined at the rate of 1.6 per cent during 1990s.

**Negative impact of WTO**

The implementation of WTO agreements has placed the countries like India in perplexed situation. The opening of market under free trade pretext has enabled the developed countries to have free access in the market of developing countries while the latter continue to face several problems in the name of environment and labour standard. There are evidences of preventing India's export under false arguments like child labour and fish caught while harming the sea turtle.

While India maintained zero or low tariff on most of the imported products except beverages as compared to the negotiated tariff rate, the developed countries not only imposed to the negotiated tariff rates but also adopted other methods. These are tariff rate quota (TRQ) i.e., importing certain amount at relatively low rate and the successive amount of the product at the increasing tariff rate. They did not reduce the export subsidy also as required. In particular, the European Union extends large amount of subsidies to their farmers in order to enable them to export farm products at competitive rate in the world market. These steps have discriminated exports from developing countries.
The TRIPS, TRIMS and GATs all have carried out injurious effects on Indian Industries because of the insistence on their one sided implementation. TRIPS did not take into account of India’s desire for disclosing the sources of materials used in the innovations of products. There are several plants and products such as Neem and Basmati rice, which have an Indian origin and are being patented by the West without even referring to the usage of traditional knowledge.

The developed countries are also making equal treatment to all the companies irrespective of their origin under TRIMS. It is a well known fact that the Indian companies face tough competition from the multinational enjoying worldwide network. The provisions of TRIMS treating multinationals on equal terms and exempting them from using local raw materials and export obligations means the developing countries. Similarly, the GATS have placed the Indian Service sector in a disadvantageous position.

The free trade in services like banking, insurance and shipping, transport and telecommunication etc., is promoting growth in the developed countries by providing larger market in developing countries. The technology transfer clause under GATS has not been benefited by India much.

The labour movement is restricted only to perform the particular service normally performed by the professionals of developed countries. The mobility of unskilled labour has been excluded from WTO agreements.

The Indian industry has been worried that the lifting of the quantitative restrictions will lead to sudden increase in imports. However, statistics prove that these apprehensions are unfounded. Data released by the
Department of Commerce in New Delhi in June 2005 shows that the imports of over 300 sensitive items into the country has actually declined proving that import flood gates do not mean that Indian can relax. The anti-dumping directorate in India will have to ensure that no unfair imports flood the country and wreck the domestic industry.

Three hundred sensitive items have shown a negative growth rate of 11 per cent for April and May 2001. The total import of 300 sensitive tariff lines for Rs. 1411 crore as against Rs. 1589 crore for the corresponding period of last year thereby showing a negative growth rate of 11 per cent.\textsuperscript{66}

Imports of tea, coffee, spices, cotton, silk, marble and granite have shown a decline in import, according to the Department of Commerce.

On the basis of the country of origin the data reveals increase in imports from Egypt, Ethiopia, Indonesia, Japan, Malaysia, Myanmar, Nepal, Philippines, Tanzania and Vietnam. The imports of the 300 sensitive tariff lines from China have registered a decline of 28 per cent. Imports of dry fruit from Pakistan have gone up from Rs.1.67 crores to Rs.3.38 crores.

According to the department of commerce, the over-all picture that emerges from these quick estimates is one of normal trading activity in responses to demand and supply factors.

**Prospects of small scale units in global era**

However, it is assumed that small-scale units will survive yet amidst the above said threats and challenges in the world economy. They would survive due to product and geographical market segmentation and the

Government policy protection. The facts are shown earlier in this chapter, tell us how this sector is playing a dominant role in the Indian economic policy 1991 was employment generated by this sector. The profitability of SSI is greater as they use capital more efficiently and as they will be widely spread, there will be regional dispersion which helps for balanced economic growth and equitable distribution of wealth.

The latest researches and surveys tell us that the products produced by our SSI sector are attracting people all over the world due to their quality design, patterns, and low cost and cheap price. Thus our Indians are competing with self-confidence all over the world. The central budget 2003-2004 also shows that the slow down in the past two years. The government has also taken so many steps to increase the growth rate in SSI sector in the global era.

**Problems of SSI units in global era**

However, there is a threat to the small scale industries sector that in the wake of recent developments in the global business environment, it leads to the dismantling of regimented economic system in favour of market driven economy, increasing economic interdependence and the policy followed by the Indian government by opening the flood gates of the domestic market to the multinationals.

As India has tariffs and duties on import and export trade as per the WTO rules, the small scale industries units face severe competition in both the domeastic and world market, which causes for the closure of sickness in many small-scale industries.

As the majority of the items reserved for SSI sector has been withdrawn and kept open, multinationals have arrived in these fields too and
pose a great threat to the small-scale industries by supplying of goods in good quality at a cheaper price.

Already there are many sick units on a large scale which may be closed due to huge competition units and cause for major problem of unemployment.

The free trade demands supply of goods quantity products at a cheaper rate which is difficult for the small scale sector due to its high cost of production and ineffective marketing system. The SSI units have already weak in marketing function which can hardly face the international competition. They also face the problems in getting patent rights as per TRIPS of world trade organisation. Other problems of SSI units such as lack of availability of cheaper and timely credit and financial assistance of old technology, scarcity of power supply, raw materials etc. also discourage the new investors to this global era.

**FUTURE PLAN OF ACTION**

Small scale units are to be clubbed together for policy purpose and may be called SSIs as it is followed in many other countries.

- SSIs should concentrate more on eternal and firm specific environment rather than external business environment. This means finding attention to improve accounting procedures, technology upgradation, product improvement, work culture etc.,
- Cost of capital should be brought down on par with developed countries to improve the competitiveness of Indian products in the global market. Credit delivery mechanism should be improved.
- Credit guarantee system, which is prevalent in most countries should be implemented in our country and banks should convene meeting with SSI representatives to improve the credit disbursement to the sector.
Government should buy a minimum of 15 per cent of its requirement to form SSI sector.

Technology support for SSI should be strengthened and Government assistance for export marketing should be stripped up.

Existing labour laws should be amended to the realities of SSI sector.

In order to disseminate information on technology markets, products etc., a technology information forecasting council has been set up. Efforts should be channelised to leverage maximum benefit out of this exercise.

Packaging of products being exported is one problem area generating a lot of grievances for exporters. This problem should be addressed by returning our packaging industry.

Sticking to the delivery schedules seem to be another problem area. This problem can be solved efficiently, by adopting cluster approach. This will also increase the volume of exports from these segments.

The preventive strategy adopted by countries like China before entering into WTO by educating their masses. By circulating the implications of WTO in their economy in the form of pamphlets is astonishing. The fact that even China has recruited WTO experts to promote the message in the entire country – should be a lesson for India.

Concluding remarks

Thus, if SSI units become brave to face tough competition, undertake managerial skill and develop, improve productivity, quality and methods of techniques in production, can supply goods at reasonable price and flourish not only in India but also catch the world market and contribute much to the Indian exports.
So for the Government policies on small-scale units have been supply driven and partnership in nature leading to dependency. It is now necessary for the Government to frame such policies like encourage the growth of small units through time bond promotional concessions, providing basic infrastructure, market for such products and the required finance at a marginal rate of interest and also to educate the small units about the changes in the business environment and the necessity of going in for technological upgradation.

It is the need of the hour to give some importance to the small scale sector well in advance and it continues to be the backbone in the era of globalisation too.