

MICRO, SMALL AND MEDIUM ENTERPRISES IN THE 21st CENTURY

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ABSTRACT

The aim of the article is to evaluate the presentation of MSMEs, before and after liberalization contrast them with average annual growth rates, and know the impact of globalization on the performance of MSMEs and the development of MSMEs new opportunities for Employment in a country. The period of the study is 1999-2010 and based on secondary information. The MSMEs form a leading part of Indian industry and causal to a momentous proportion of production, exports and employments. The present study analyzes the collision of globalization on Indian MSMEs. Government's programmes are unstructured and indistinct, and fall short of delivering the intended outputs. This necessitates the enterprises to think strategically by focusing on major issues. The prime intent of the study of policy recommendations to ensure the sustenance and competitive growth of MSMEs in India. This article focuses on the ongoing changes in the business environment and the analysis of their suggestion for MSMEs. It further focuses on the implication of globalization and domestic economic liberalization for MSMEs and analyses its intensification performance. The MSMEs has emerged as the most dynamic sector of Indian industrial economy.

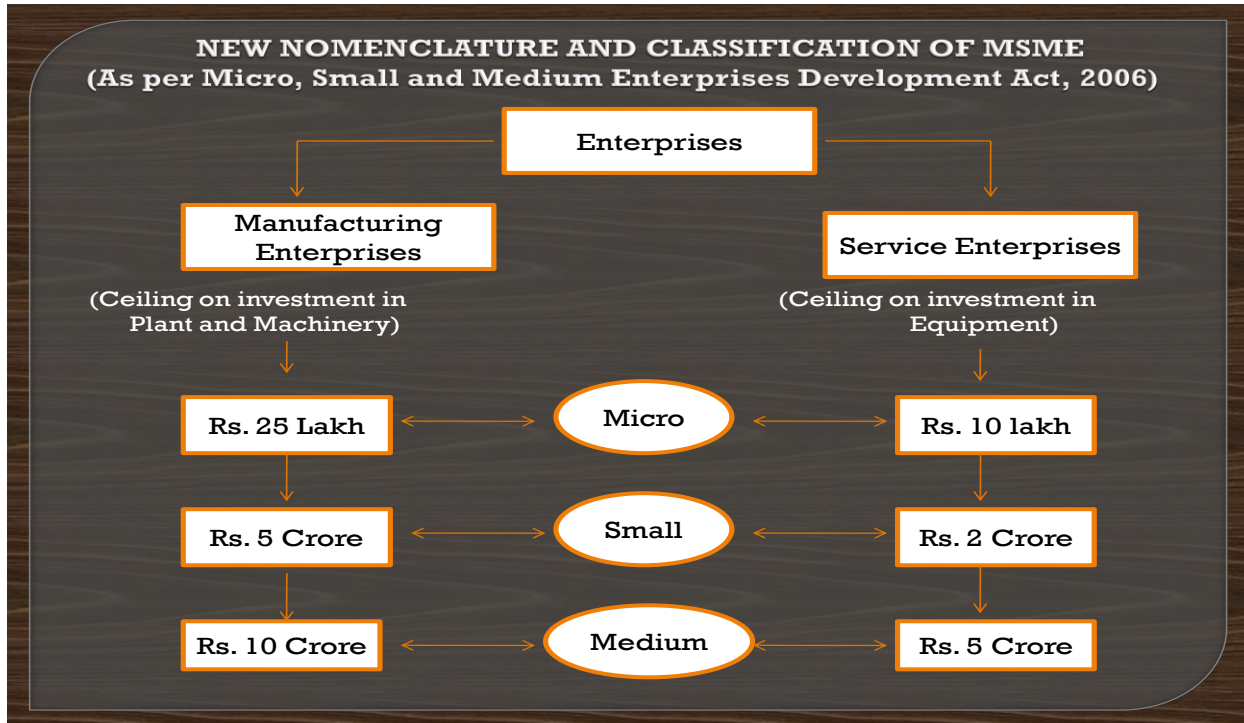
KEYWORDS: Development, Globalization, Liberalization, Micro, Small and Medium Enterprises (MSMEs), Policy Schemes.

INTRODUCTION

Indian small scale industries play an imperative role in the economic expansion of the country and have vast approaching for employment generation. Increasing small scale sector also results in decentralized industrial development, better distribution of wealth and investment and entrepreneurial talent. The government has initiated several policies for the growth and development of small scale industries. Post liberalization economic conditions have created immense growth prospect for the small scale industries. The MSMEs in India are acting as power and spirit of economic growth in the 21st century. The Ministry of Agro and Land Rural industries and Ministry of SSI have been merged into a single, Ministry namely, Ministry of Micro, Small and Medium enterprises. The small scale sector has played an extremely essential role in the socio economic development of the country during the past 50 years. It has significantly contributed to the overall growth in terms of Gross Domestic Product (GDP), employment generation and exports. According to MSMEs Act 2006 the enterprises are broadly classified in terms of activity such as enterprises engaged in manufacturing, production and enterprises engaged in services. The below chart shows New Nomenclature of MSMEs.

CHART- I

CLASSIFICATIONS OF MSME



Source: (As per Micro, Small and Medium Enterprises Development Act, 2006)

POLICY INITIATIVES IN MICRO SMALL AND MEDIUM ENTERPRISES

India has a long history of conceiving policies of protecting the small industrial units. Since Independence, several policy initiative and measures have accordingly been taken by the Government during the year to enable the micro; small and medium enterprises enhance their competitive strength, address the challenges of competition and avail themselves of the benefits of the global market. The main objective of Industrial Policy Resolutions was to promote industrial growth and also determine the pattern of state assistance to small industrial units for fulfilling socio-economic objectives. Industrial development plays a crucial role in India's development strategy. The progress of industrialization over the last fifty years has been a striking feature of the Indian economic development. Industrial policies lay stress on the strategy of development. In increasing industrial production, diversifying the base of industrial production as well as increasing employment opportunities, industries have been playing important role in India. The promotion of industries has been regarded as an important element of the development strategy underlying Five Year plans. The industrial policy indicates the respective roles of the public, private, joint and cooperative sectors and also of the large, medium and small scale sector and underlines the national priorities. The advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both government and planners earmarked a particular position of Micro, Small and Medium Enterprises in the Indian economy. Government's objectives and intentions towards industry

including small scale industry were announced through Industrial Policy Resolutions (IPRs). There resolution was announced in 1948, 1956,1977,1980,1990 and 1991 respectively.

INDUSTRIAL POLICY RESOLUTION – 1991

The Government of India, for the first time, tabled the new small enterprise policy titled policy measures for promoting and strengthening and supplementing small, tiny and village enterprises in the Parliament on August 6, 1991. In 1991, the Indian Government announced a separate policy for the small and tiny sectors. This policy statement widened the investment limit for the tiny sector, removed the vocational restrictions and recognized business and industry related services as small industrial units on par with the tiny units. The manufacture of items earlier banned in the small industrial units was removed. The small industrial units which employ less than 50 workers with power and 100 workers without power were exempted from licensing. The Small and Ancillary Industries were exempted from licensing for all articles of manufacture, which were not covered by the public sector. The investment of 0.5 million and other location conditions were withdrawn. All industry related services and business enterprises with an investment limit as those of tiny enterprises, irrespective of location, were recognized as small industrial units. A new scheme of integrated infrastructural development for small industrial units was provided with the participation of State Government and Financial Institutions.

THE NEW INDUSTRIAL POLICY – 1999

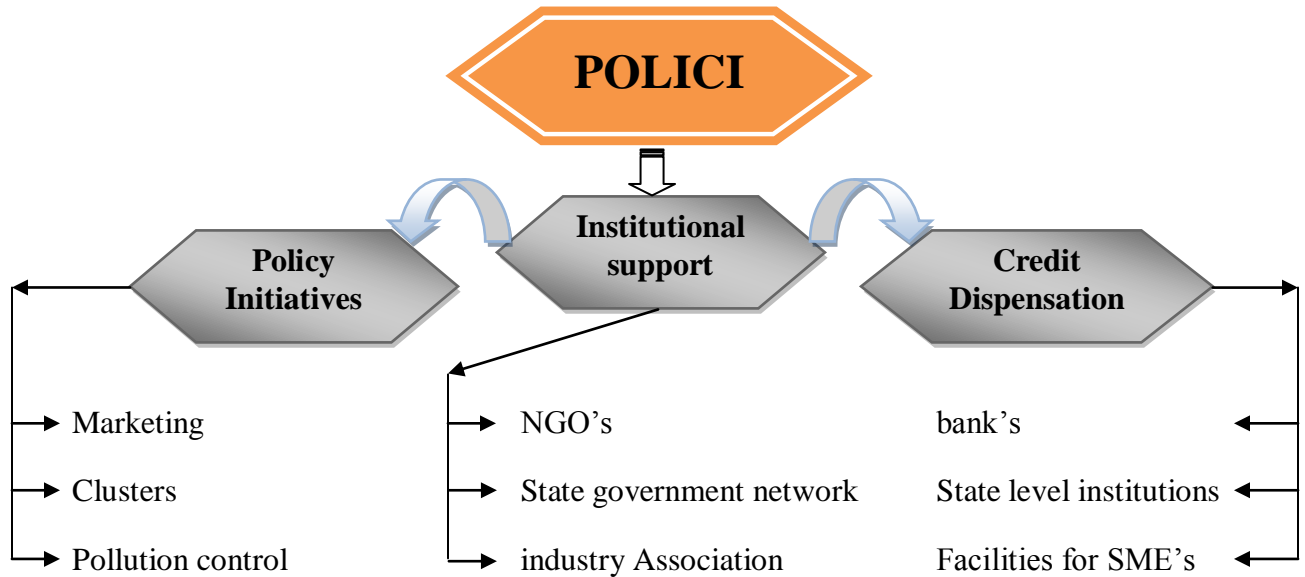
The emerging economic scenario in the changed liberalized and competitive economic environment necessitated structural and fundamental changes in the policy framework put in place for the development of SSI. The main objective of the Industrial Policy, 1999 was to create congenial environment for the small industrial units to cope with the emerging challenges of globalization. To focus fully on the promotion and development of small industrial units, a separate Ministry of Small Industrial Units and Agro and Rural Industries was created. The policy initiatives were.

1. The annual turnover limit for calculation of working capital limit for small industrial units was raised to Rs. 5 crores from Rs. 4 Crores.
2. The maximum ceiling limit for Composite Loan Scheme was increased to Rs. 5 lakhs.
3. To increase flow of credit to small industrial units, a new credit insurance scheme was launched.
4. Small Industrial units producing goods in rural areas are allowed excise exemption on third party branded goods.
5. The definition of small and ancillary industrial units was revised by reducing investment limit in plant and machinery to Rs. 1 crore from Rs. 3 crores.

6. Special package for the development of small and village industries in North Eastern regions were announced. The industrial units in the North Eastern Region were given exemption from excise duty for 10 years from the date of commencement of production; and
7. Special emphasis was given for the units which have high export potential.

Through the ministry, Government has brought about changes in policies and development support that have enable rapid and substantial development of MSMEs in India and given them a competitive edge over their global countries. Some programmes and policies have been outlined here. The facilities can be categorized into three: Policy initiatives, Institutional support and credit dispensation. The following chart shows three categorized policies.

CHART-II: POLICIES OF MSME



DATA BASE AND METHODOLOGY

In the present study an attempt has been made to analyze the impact of globalization on the development of MSMEs. The reference period for the analysis of data from 1992-93 to 2009-10, was taken the study period is divided into two parts: pre liberalization (1992-93 to 2000-01) and post liberalization (2001-02 to 2009-10). A comparative analysis of growth rates for pre and post liberalization periods and parameters like number of units, investment, production, employment and export, was undertaken the present study is based on both secondary data. The secondary data were collected from the relevant publications of government and nongovernmental organizations like Development Commissioner, Small scale industries, New Delhi, Commissioner of industries. This research is based on the survey and analysis of secondary data.

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REVIEW OF LITERATURE

A comprehensive review of literature has become an essential part of any investigation as it not only gives an idea about the work done in the past and assists in delineation of the problem area but also provides a basis for interpretation of findings. The available relevant literature on MSME is reviewed with reference to their financial as well as other related aspects. An attempt is made along the following lines to review some of such studies.

Jaya Krishna (2004) in his study on “World Trade Organisation and its Implications on Small Scale Industries in Karnataka” assesses the entrepreneurs’ awareness of both qualitative and quantitative information, from 30 randomly selected entrepreneurs during May-June 2002, in and around the rural and urban areas of Bangalore. His conclusions are: Perennial activity dominates over seasonal activity, Young generation entrepreneurs employ more managerial staff than the old generation entrepreneurs, Small scale industries are facing competition from large and medium scale industries outside the State rather than within the State, Entrepreneurs are experiencing the impact of WTO and its agreements across the year of establishment and generations. However, their awareness of the WTO agreements and their implications is poor. Valsamma Antony (2002), in her study titled “Prospects and Growth of SSIs in India: An Overview”, observes that adequate and timely availability of working capital and marketing avenues for the SSI products should be ensured for improving their competitive strength in the domestic and global markets. There is the need for providing better information and efficiency networking for the SSIs besides development of quality infrastructural facilities. Subrahmanyabala, M.H. (2004) highlighted the impact of globalization and domestic reforms on small-scale industries sector. The study stated that small industry had suffered in terms of growth of units, employment, output and exports. The Researcher highlighted that the policy changes had also thrown open new opportunities and markets for the small-scale industries sector. He suggested that the focus must be turned to technology development and strengthening of financial infrastructure in order to make Indian small industry internationally competitive and contribute to national income and employment.

Sudan, F. K. (2005) described the challenges in Micro and Small Scale Enterprises Development and policy issues by arising different questions related to Micro and Small Enterprises. The study explained the meaning, advantages, problems and policy options of MSE sector. The study concluded that all the policies which were opted by GOI were the efforts to form a dynamic MSE sector and a diversified economy providing expanded employment opportunities to absorb all new labour force and offer exciting career opportunities.

DEVELOPMENT OF MSMES: PRE AND POST LIBERALIZATION PERIODS

Since the advent of planning in 1950-51, as discussed above, considerable effective efforts have been made for the development of Micro, Small and Medium enterprises in view of their potential for creating employment. The following table 1 shows the development of MSMEs in India.

TABLE -I
DEVELOPMENT OF MSMES DURING THE 1990S
(PRE LIBERALIZATION STUDY PERIOD)

Year	Total MSMEs (lakh numbers)	Fixed Investment (Rs. Crore)	Production (Rs. crore)	Employment (lakh person)	Exports (Rs. crore)
1992-93	73.51 (4.07)	109623 (9.24)	84413 (4.71)	174.84 (5.33)	17784 (28.10)
1993-94	76.49 (4.07)	115795 (5.63)	98796 (17.04)	182.64 (4.46)	25307 (42.30)
1994-95	79.60 (4.07)	123790 (6.9)	122154 (23.64)	191.40 (4.79)	29068 (14.86)
1995-96	82.84 (4.07)	125750 (1.58)	147712 (20.92)	197.93 (3.42)	36470 (25.46)
1996-97	86.21 (4.07)	130560 (3.82)	167805 (13.60)	205.86 (4.00)	39248 (7.62)
1997-98	89.71 (4.07)	133242 (2.05)	187217 (11.57)	213.16 (3.55)	44442 (13.23)
1998-99	93.36 (4.07)	135482 (1.68)	210454 (12.41)	220.55 (3.46)	48979 (10.21)
1999-00	97.15 (4.07)	139982 (3.32)	233760 (11.07)	229.10 (3.88)	54200 (10.66)

2000-01	101.1 (4.07)	146845 (4.90)	261297 (11.78)	238.73 (4.21)	69797 (28.78)
Average growth rate	4.07	4.34	14.08	4.12	20.13

Source: Reserve Bank of India and Ministry of Micro, Small and Medium Enterprises, Govt. of India.

TABLE -II

DEVELOPMENT OF MSMEs DURING THE 2000s

(PRE LIBERALIZATION STUDY PERIOD)

Year	Total MSMEs (lakh number)	Fixed Investment (Rs. Crore)	Production (Rs. crore)	Employment (lakh person)	Exports (Rs.crore)
2001-02	105.21 (4.07)	154349 (5.11)	282270 (8.03)	249.33 (4.44)	71244 (2.07)
2002-03	109.49 (4.07)	162317 (5.16)	314850 (11.54)	260.21 (4.36)	86013 (20.73)
2003-04	113.95 (4.07)	170219 (4.87)	364547 (15.78)	271.42 (4.31)	97644 (13.52)
2004-05	118.59 (4.07)	178699 (4.98)	429796 (17.90)	282.57 (4.11)	124417 (27.42)
2005-06	123.42 (4.07)	188113 (5.27)	497842 (15.83)	294.91 (4.37)	150242 (20.76)

2006-07	261.01 (111.48)	500758 (166.20)	709398 (42.49)	594.61 (101.62)	182538 (21.50)
2007-08	272.79 (4.51)	558190 (11.47)	790759 (11.47)	626.34 (5.34)	202017 (10.67)
2008-09	285.16 (4.53)	621753 (11.39)	880805 (11.39)	659.35 (5.35)	N. A.
2009-10	298.08 (4.53)	693835 (11.59)	982919 (11.59)	695.38 (5.47)	N. A.
Average growth rate	16.1	25.1	16.2	15.4	16.6

Source: Annual report, 2009-2010, Ministry of Micro, Small and Medium Enterprises.
(The above table in brackets shows the percentage growth over the previous years.)

Note: The data for the period up to 2005-06 is of small scale industries (SSI). Subsequent to 2005-06, data with reference to micro, small and medium enterprises (MSMEs) are being compiled.

COM ARISON OF THE MSME SECTOR WITH THE OVERALL INDUSTRIAL SECTOR

The MSME sector has maintained a higher rate of growth vis-à-vis the overall industrial sector as would be clear from the compound growth rates of production for both the sectors during last five years as incorporated in the Table given below.

TABLE –III: COMPOUND GROWTH RATES

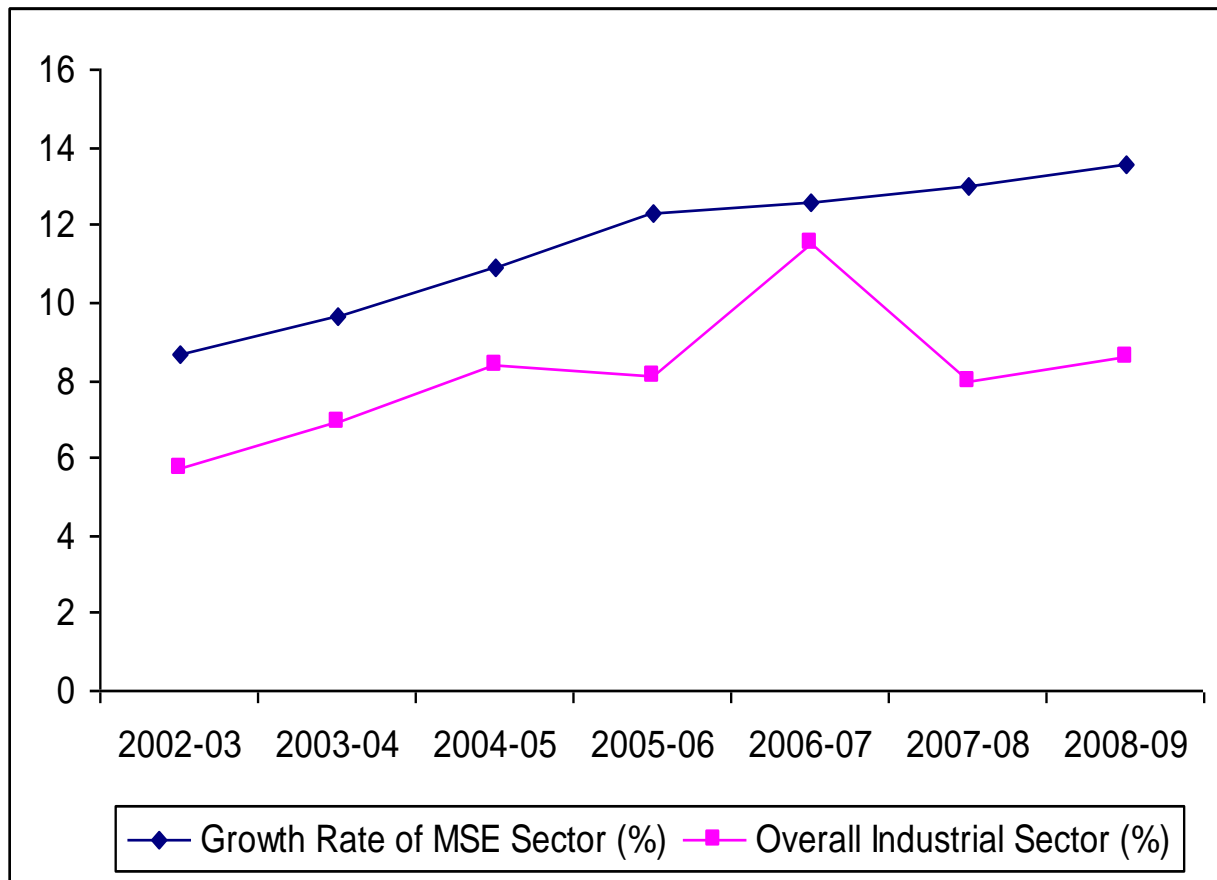
Year	Growth Rate of MSME Sector (%)	Overall Industrial Sector (%)
2002-03	8.68	5.70
2003-04	9.64	6.90
2004-05	10.88	8.40
2005-06	12.32	8.10
2006-07	12.60	11.5

2007-08	13.00	8.00
2008-09	13.56	8.56

Source: Centre for Industrial and Economic Research (CIER).

From the Table III, it is observed that the growth rate of MSMEs was 8.68 during 2003-04 and it reached 13.56 during 2008-09, whereas the overall industrial sector growth rate was 8.56 in 2008-09.

GRAPH-I: COMPOUND GROWTH RATES



Source: - www.msme.gov.in

SIZE OF THE REGISTERED MSMEs

The size of the registered MSMEs is provisionally estimated to be 15, 52,491. Of the total working enterprises, the proportions of Micro, Small and Medium Enterprises were 95.05%, 4.74% and 0.21% respectively. This comprises 66.67% manufacturing enterprises and 33.33% service enterprises. Particulars in respect of MSMEs are given in the table IV.

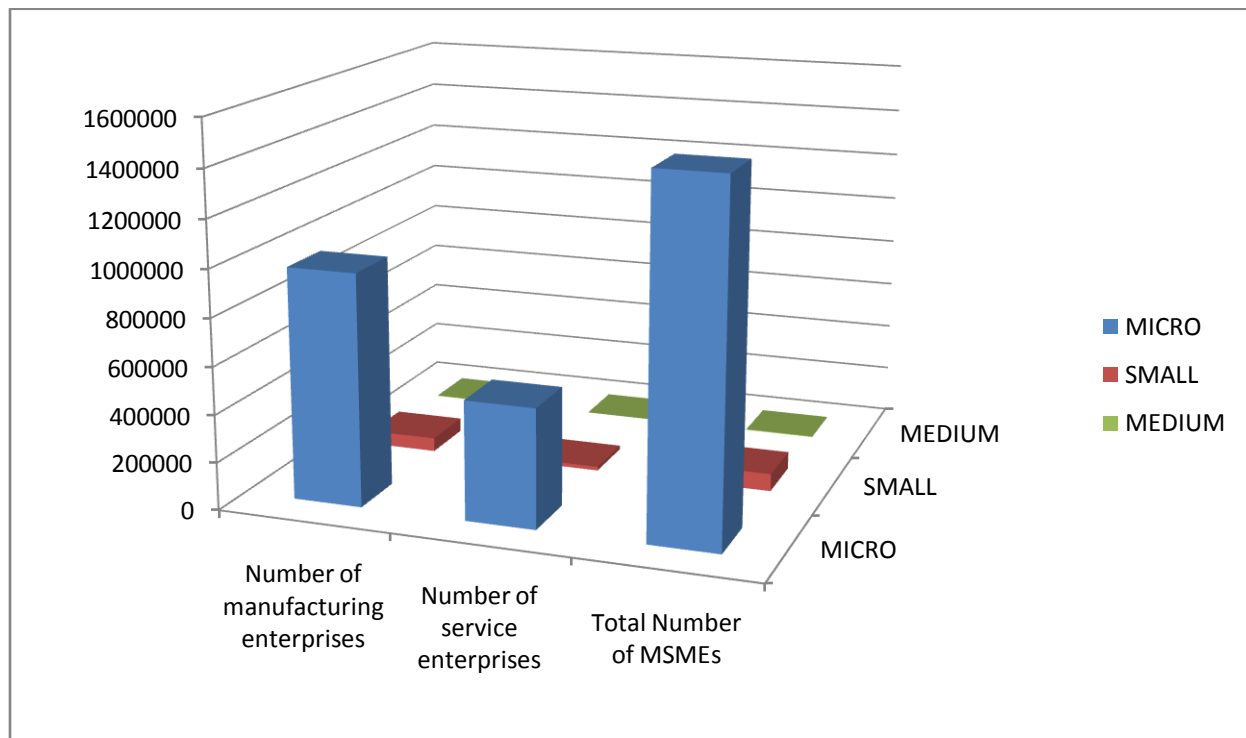
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TABLE –IV: SIZE OF THE REGISTERED MSME SECTOR

PARTICULARS OF WORKING ENTERPRISES	MICRO	SMALL	MEDIUM	TOTAL
Number of manufacturing enterprises	974609	57666	2828	1035103
Number of service enterprises	501072	15915	402	517389
Total Number of MSMEs	1475681	73581	3230	1552492
% age distribution of total units	95.05	4.74	0.21	100.00
%age share of manufacturing units	94.16	5.57	0.27	66.67
%age share of service units	96.85	3.08	0.08	33.33

Source: - Government of India, Ministry of Micro, Small and Medium Enterprises, Annual Report 2009–2010.

GRAPH-II: SIZE OF THE REGISTERED MSME SECTOR

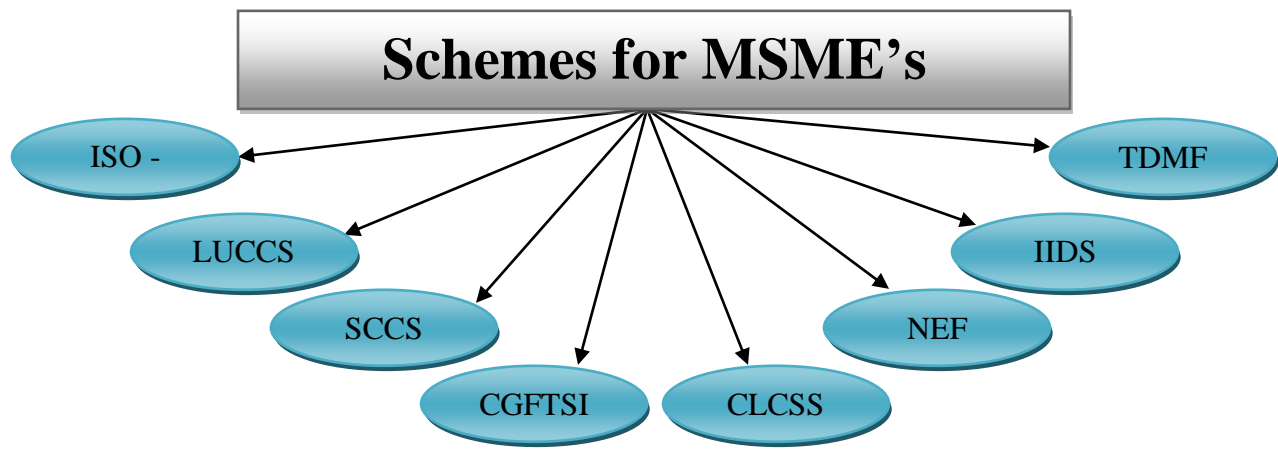


Graph –II represents the diagrammatic presentation of MSMEs, it reveals that of the total number of MSMEs the share of manufacturing enterprises, dominates over the service enterprises. The percentage of share is 66.67 as against 33.33 percent.

SCHEMES FOR FINANCING MICRO, SMALL AND MEDIUM ENTERPRISES

In the post World Trade Organization (WTO) environment, it has become very clear that small industrial units have to be cost competitive and produce quality goods to remain in business. The ministry of SSI proposed to help small industrial units by giving incentives for taking ISO-9000 certification, introduce a Credit Linked Capital Subsidy Scheme (CLCSS), Technology up gradation Scheme and Credit Guarantee Fund Trust (TGSCGPT) for Small Industries. Schemes for Financing MSMEs Presented in the Chart-III.

CHART-III: SCHEMES OF MSMEs



A. REIMBURSEMENT FOR ISO-9000 CERTIFICATION SCHEME

The scheme was started in March 1994 and it provides up to Rs. 75,000 per small industrial unit which acquired ISO-9000 Certification. Since the inception of the scheme of ISO-9000 reimbursement, 4101 small industrial units to the tune of Rs. 1944 crore have been benefited up to Nov -2006.

B. LAGHU UDYAMI CREDIT CARD SCHEME

Laghu Udyami Credit Card Scheme (LUCCS), introduced in November 2001, has been implemented by the banks for providing borrower friendly credit facilities to small business, retail traders, artisans, small entrepreneurs, professionals and other self employed persons including those in the tiny sector. Credit limit per enterprise under the scheme has been increased from Rs. 2 lack to Rs. 10 lack for borrowers with satisfactory record.

C. SWAROJGAR CREDIT CARD SCHEME

Swarojgar Credit Card Scheme (SCCS) has been launched since 15th August 2003 and banks are providing working capital to self employment persons to the extent of Rs. 25000 lakhs per card. Credit flow from the formal system to small borrowers, especially persons of small means, has not been satisfactory which has been 'confirmed by various studies. Various credit delivery innovations in the firm of SHG - Bank Linkage Programme for making financial services available to the poor, Kisan Credit Card Scheme (KCCS) for meeting the production credit needs

of the farmers for small industrial sector have been introduced. However, tiny and cottage village industries sectors and self employed persons were left out from credit card schemes.

D. CREDIT GUARANTEE FUND TRUST SCHEME FOR MICRO AND SMALL INDUSTRIES (CGFTSI)

The scheme covers collateral free credit facility extended by eligible lending institutions to new and existing Micro and Small Enterprises up to Rs. 50 lakh per borrowing unit. Under the Scheme, 73431 Proposals amounting to Rs. 197L33 crore have been approved. Credit Guarantee Fund Trust for Micro and Small Industries helps small entrepreneurs to realize their dreams of making it big and successful.

E. CREDIT LINKED CAPITAL SUBSIDY SCHEME (CLCSS)

The Scheme was started in October, 2000 for a period of 5 years for encouraging the small industrial units for technology upgradation by installing new machinery and equipment for increasing productivity, quality up gradation, and machinery for packaging or for environment protection. Initially 13 items were shortlisted under this scheme, providing 15 per cent upfront capital subsidy with effect from the 29.09.2005 to Micro, Small and Medium Enterprises. A provision for giving subsidy of Rs. 600 crores was made under this scheme. Recently the list of items has been enhanced to 30, so that more number of units can become technically advanced.

F. NATIONAL EQUITY FUND SCHEME (NEF)

The objective of NEF Scheme is to provide equity type support to entrepreneurs for setting up new projects in tiny / small industrial sector for undertaking expansion, modernization, technology up gradation and diversification of existing tiny, Small Industries and Service Enterprises and for rehabilitation of viable sick units. In this scheme the cost should not exceed Rs. 50 Lakhs for new projects²⁶.

G. INTEGRATED INFRASTRUCTURE DEVELOPMENT SCHEME (IIDS)

IIDS was launched in 1994 with the objective of providing basic infrastructural facilities like Power distribution network, Water, Roads, Telecommunication, Drainage and Pollution control facility, Banks, Storage and Marketing outlets, Common service facilities and Technological back up services etc. The estimated cost to set up an IID centre is Rs. 5.00 crore. Central Government provides up to 40 per cent or Rs. 2 crore in the case of general states and 80 per cent or Rs.4 crore – for North – east Region, Jammu & Kashmir, Himachal Pradesh and Uttarakhand.

H. TECHNOLOGY DEVELOPMENT AND MODERNIZATION FUND SCHEME (TDMF)

The main objective of the scheme is to encourage existing industrial and small industrial units to take up modernization of their production facilities and adoption of improved technology. The scheme was initiated in 1995 and extended up to 2003.

INDUSTRIAL DEVELOPMENT STRATEGY

Though much prominence is given to manufacturing activity because of the connotation of the term “industry,” the organized sector includes all the three levels of enterprise: primary (manufacturing), secondary (business/trade), and tertiary (services). The three levels of activity are connected by backward and forward linkages and cannot thrive in isolation. The five-year plans have the following long-term objectives:

1. To increase production and to achieve a high level of national and per capita incomes.
2. To achieve full employment.
3. To reduce inequalities of income and wealth.
4. To create a society based on equality, justice and absence of exploitation.

Thus economic planning is aimed at poverty reduction and social change through democratic Socialism, with a focus on a mixed economy. The Second Five-year Plan prioritized the development of rapid industrialization through public sector participation, highlighting consumer goods development and rationing and control through public distribution and price controls. Emphasis was also placed on generating employment. Though the Industrial Policy Resolutions of 1948 and 1956 focused on large-scale industries, the Industrial Policy Statement of 1977 emphasized the development of the small scale sector with a three-pronged categorization: cottage and household industries, tiny sector, and small-scale industries.

GLOBALIZATION

It is thus argued that ‘globalization’ was policy-induced through liberalization of the economy. A distinction is made in the Study between two globalization processes. For some economies ‘globalization’ has occurred because of the changes within the global economy into which they were already integrated. The process was not driven by increased openness, but was rather a consequence of external changes for an already open economy. This is called ‘intensive globalization’. For many other economies, it is increased openness, which has dominated the process. Principally the impact of globalization on Indian industry had been started with the emergence of industrial policy statement of 1973 when foreign investment allowed in specific industries. Globalization in India is generally taken to mean integrating the economy of the country with the world economy. The real thrust to the globalization process was provided by the new economic policy introduced by the Government of India in July 1991 at the behest of IMF and the World Bank. Momentum to the process of globalization occurred in the recent years as a consequence of speedily progress especially in communications, transport and computer technology. Impact of globalization on Indian industry started to appear apparently when the Government of India modified its economic policy in 1991, by which it allowed direct foreign investments in the country. The prime intention behind this initiation was that the government wanted to break down the chronic bottleneck that stopped efficiency and competitiveness, so that it would provide the impetus to economic growth. Globalization is the process of integrating various economies of the world without creating any hindrances in the free flow of goods and services, technology, capital and even labour or human capital. Small scale and cottage industrial

sector has emerged as an engine of growth in several developing and developed economies of the world. In India also they have emerged as a vibrant and dynamic sector of Indian economy by virtue of their significant contribution to GDP, industrial production and export. However, the most vital contribution of this sector is headed for employment generation which is next to agriculture.

MAJOR PROBLEMS AND CHALLENGES FOR MSMEs COMPETITIVENESS

The ongoing program of economic reform is based upon the principles of liberalization, globalization, and privatization. Changes in the international economic scene, including the emergence of the WTO, have brought certain challenges and several new opportunities to the SSI sector. The most important challenge is that of increasing competition, both globally and domestically. At the same time the sector has been facing problems. The problems of MSMEs are divided into two groups internal and external. As obvious, internal problems affecting the Micro, Small and Medium Enterprises related to Organization, Structure, Production channel, distribution channel, technical, training, industrial relation and inadequacy of management. While external problems are those which result factors beyond the control of the industries like availability of power and other and other infrastructure facilities required for the smooth running of Micro, Small and Medium Enterprises .

FINDINGS

- This sector contributes 8 % of the country GDP, 45 % of the manufactured output and 40 % of its total exports of the country.
- The sector provides employment nearly 60 million persons, in over 26 million units throughout the country.
- This sector has consistently registered a higher growth rate than the rest of the industrial sector.
- The number of MSMEs units has increased from 105.21 lakh units in 2001-02 to 298.08 lakh units in 2009-10.
- The investment and production increased from 154389 crore and 282270 crore in 2001-02 to 693835 crore and 982919 crore in 2009-10 respectively at current prices.
- The employment in MSMEs units increased from 249.33 lakh in 2001-02 to 695.38 lakh in 2009-10.
- During the same period the exports have increased from Rs.71244 crore to Rs.202017 crore.

CONCLUSION

In this study, an attempt has been made to analyze the impact of globalization on the growth of small scale industries. The comparative analysis of growth pattern of key parameters between pre and post globalization period has been studied. The overall performance and

contribution of small scale industries to Indian economy is generally described in terms of its absolute growth in units, employment, production and exports. The MSMEs Development Act of 2006 is perhaps the most crucial of these recent policy changes. The growth of small scale industries can be evaluated into two ways: To compare the growth rates of units. Employment, output and exports of Small scale industries in 2000 with that of 1990s. To ascertain the change in the relative contribution of Small Scale industries to GDP, Exports and Organized Sector employment in the 2000s with that of 1990s. The small scale sector has grown rapidly over the years. The period of liberalization and the development the MSMEs sector constituted an important segment of our economy. MSMEs are a very important segment in the Indian industrial sector and would continue to play a crucial role in the Indian Economy in the future. It also brought in huge amounts of foreign investments into the country and provided employment opportunities for many people in the country which in its turn helped reduce the level of poverty in the country. A rewarding feature of economic development in India has been impressive growth of modern MSMEs.

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