

## Impact of Global Economic and Financial Crisis on Micro, Small and Medium Enterprises in Tamil Nadu - A longitudinal analysis

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### Abstract

Global Financial Meltdown (GFM) has become a global phenomenon. It is causing hollowness in the economies around the world. The GFC (Global Financial Crisis) has led to financial crunch all over the developed economies by thereby lowered down the purchasing power of people. This has resulted the developed economies has been slipped into economic recession. The global financial crisis has been affecting the prospects of developing economies, especially the SME sector. The SME units are facing multiple challenges, viz., demand shock, price volatility, high cost of credit, general credit tightening, shortage of trade finance, and protectionist measures in their export markets. In India too, a number of steps have been taken to counter the impact of economic slowdown on the SME sector. MSMEs are the best vehicle to create local demand and consumption and also to fight the global meltdown. Micro, Small, and Medium enterprises are playing a vital role in providing additional employment opportunities and removing regional imbalance in the country. An attempt has been made to analyse the impact of the global financial crisis on the Micro, Small and Medium Enterprises (MSMEs) in Tamil Nadu, state, India. The present study has analysed secondary data during the period from 1990-91 to 2010-11. The study has found that total MSME, investment, production and employment opportunities are affected with negative trend line by the GFC.

**Keywords:** Crisis; MSME

### Introduction

Global Financial Meltdown (GFM) has become a global phenomenon. It is causing hollowness in the economies around the world. Worldwide, people are talking about GFM. The industries are badly hit by GFM as demand has fallen down which is putting pressure on their bottom – line. Majority of the corporate houses are putting their new projects on hold. The problem of fiscal deficit is increasing due to various fiscal measures adopted by government, which may result in severe short fall of funds for implementing various infrastructure projects announced by Government of India. Investors are losing their money as the stock market is falling like a pack of cards. Eighteen months after the sub-prime loan crisis broke through the surface in the US, 12 months after the investment banking firm Bear Stearns was rescued and six months after Lehman Brothers collapsed, there is no sign that the people of the world have seen the worst of the crisis that now envelops the global economy.

The Global Financial Crisis (GFC) in October 2008 had started from the fall of the Lehman Brother of USA. The GFC has led to financial crunch all over the developed economies by thereby lowered down the purchasing power of people. This has resulted the developed economies has been slipped into economic recession. The International Monetary Fund (IMF) had declared that USA and the other world countries would be suffering from the recession in 2007. It predicted that global growth would be at the negative rate of 1.3 percent. The World Bank forecasted that the growth of the world economy would be in the negative rate of 2.9 percent and announced that the world is experiencing a rare recession with global trade expected to fall for the first time since 1982.

The following causes are highly involved for the economic crisis in the mid of the 2007 in the world. The main causes are Weak and Fraudulent Underwriting Practice, Sub-Prime Lending, Predatory Lending, Deregulation, Increased Debt Burden or Over-Leveraging, Financial Innovation and Complexity.

### Micro, small and medium enterprises

The global financial crisis has been affecting the prospects of developing economies, especially the SME sector. The SME units are facing multiple challenges, viz., demand shock, price volatility, high cost of credit, general credit tightening, shortage of trade finance, and protectionist measures in their export markets. In particular, the global financial crisis and the ensuing risk aversion have affected credit flows towards the SME sector, due to their high dependence on bank credit and limited recourse to financial markets. OECD organized a Round Table on the 'Impact of the Global Crisis on SME and Entrepreneurship Financing' in Turin, in which almost all participants have acknowledged that there is an increased problem of insufficient working capital, which is threatening the survival of SMEs.

In India too, a number of steps have been taken to counter the impact of economic slowdown on the SME sector. As a temporary measure, interest subvention has been introduced on export credit extended to some of the export oriented, and labour intensive sectors, as also to support the SME sector that are badly affected. A Rs. 7000 crore refinance fund has been provided to SIDBI to enable the Indian SME sector to overcome the credit associated challenges. Another Rs. 5000 crore credit line has been extended to Export-Import Bank of India, to support export endeavour, of Indian industry including SMEs. SIDBI has also enhanced the credit limit under the credit guarantee scheme from Rs. 50 lakhs to Rs. 1 crore, which would increase the flow of collateral-free funds for MSMEs.

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The MSME sector in India has witnessed significant changes in the post liberalization period since 1991. This sector has been growing steadily throughout this period in 1991, there were 67.07 lakhs MSMEs in the country. Their number climbed to 113.95 lakhs by 2003. The Micro, Small and Medium Enterprises (MSMEs) has acquired a prominent place in the socioeconomic development of the country during the past five decades, contributing the overall growth of the gross domestic product, towards employment generation and exports. During the year 2006-07, MSME contribution to the Gross Domestic product was 7.20 percent. Having emerged as the engine of growth for Indian Industry, performance of MSME sector has had a direct impact on the growth of the national economy.

There has been a steady increase in number of MSME units, their production, employment and exports over the years. On the production front also, there has been a steady increase over the previous years. The increase was 8.43 percent in 1997-98, 7.70 percent in 1998-99, 8.16 percent in 1999-2000 and 8.23 percent in 2000-01 respectively. In the year 2001-02 the increase over the previous year was registered 6.08 percent at constant prices i.e., 1993-94 prices. Similarly the production has been increased in during the year 2002-03, 2003-04, 2004-05 and 2005-06, 2006-07, were 8.68 percent, 9.64 percent, 10.88 percent, 12.32 percent, and 12.60 percent respectively. As per Quick Results of 4th All India Census of MSMEs, the production for registered part was found to be Rs. 709468 crore for the year 2006-07.

The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address policy issues affecting MSMEs as well as the coverage and investment ceiling of the sector. The Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium.

The present Global Economic Slowdown has its impact in the state economy also. The manufacturing sub – sectors of the state economy viz. Textiles, wearing apparels, leather, wood products, chemicals, non – metallic minerals, basic metals software and hardware of IT industries, transport equipments, automobiles have experienced lower production compared to the previous year's level due to lower demand and power shortages.

### Statement of the problem

MSMEs are the best vehicle to create local demand and consumption and also to fight the global meltdown. The problem of access to finance for the MSME sector is intrinsically linked to the problem of financial exclusion in the country. The ability of banks to rapidly increase their coverage of MSMEs through credit facilities would depend on their ability to expand their reach to the hitherto unbanked segments of the country.

Micro, Small, and Medium enterprises are playing a vital role in providing additional employment opportunities and removing regional imbalance in the country. Governments at the central level and state level have given much importance to the development of Micro, Small, and Medium enterprises. More and more entrepreneurial development programmes were conducted by District Industries Centres (DIC), banks and Non-governmental agencies to promote entrepreneurial spirit among educated unemployed men and women. Though more and more people are inspired to start a venture, the success rate is very low. Some people drop out at the implementation stage itself when the units are facing rough weather.

The government has given sufficient incentives and subsidies to the development of Micro, Small, and Medium enterprises. Especially among Micro, Small, and Medium enterprises, the growth levels are varies significantly due to nature and size of business. Therefore the studies pertaining to level of growth are important. The growth levels among micro, small and medium enterprises, varies significantly and this may be due to many factors. The demographics factors, social factors and environmental factors are generally responsible for the sustainable growth and development of MSME. In this context an attempt is made to investigate the extent of the MSMEs developed after the global economic and financial crisis in Tamil Nadu state.

According to the World of Work report, 2008, despite strong economic growth that has provided millions of new jobs since the early 1990's, income inequality has grown dramatically in most regions of the world and is expected to increase due to the current global financial crisis. The recession in the US economy is now considered to have begun in the last quarter of 2007, while the financial crisis burst forth in September, 2008. The financial crisis represents one of the most significant threats to the world economy in the modern history. The credit crunch and collapse of stock markets are starting to affect firms investment decision as well as worker's incomes and jobs. Several major developed economies have practically entered into recession and unemployment is on the rise. Economic growth in emerging economies and developing countries has showed down in some cases significantly.

The Indian government's official survey of the unemployment impact of the global crisis was conducted by the Labour Bureau, with a focus on eight sectors, namely, mining metals and metal products, Textiles and garments, automobiles, gems and jewellery, construction, transport and information technology/business process outsourcing. The survey estimated a total job loss of 50,000 over the quarter September – December, 2008. Extrapolating this trend in conformation with the official growth projections in the Economic Advisory Council (EAC) (2009) to the Prime Minister, the estimated job losses (on a rough calculation) would be about 1.5 million over the entire recessionary phase (September 2008 to December 2009).

Indeed, the slowdown in industries during 2007-08 was much more pronounced than that in GDP growth, while the latter registered a 0.5 percentage fall (to 9.2 percent) from the earlier year, the decline in industrial GDP amounted to as much as 3.1 percentage points. Despite a significant increase in agricultural (GDP) growth, from 3.8 percent in 2006-07 to 5.1 percent 2007-08. In sharp contrast, the growth of secondary and tertiary sectors declined from 10.6 percent to 11.2 percent in 20-06-07 to 7.5 percent and 11.1 percent respectively in 2007-08.

The global economy is declined during 2009. Global output was lower by 2.9 percent, and the world trade by as much as 10 percent. Private capital flows dropped sharply from \$ 707 billion in 2009. There has been a sharp fall in the production of manufactured goods, and in global, and in global trade in manufactures. After providing various concessions under MSME Act, 2006, the global financial crisis retards the growth of MSME sectors in India. Under these circumstances, the present study attempts to get the answers for the following questions.

- Whether global economic crisis affects or improves the performance of Industrial sectors?
- Are there any significant changes in the production, employment,

earnings, investment and export of MSME sectors due to the global financial crisis?

An attempt has been made to analyse the impact of the global financial crisis on the Micro, Small and Medium Enterprises (MSMEs) in Tamil Nadu, state, India.

### Objectives of the study

The specific objectives of the study are

- To find out the level of growth of the Micro, Small and Medium Enterprises (MSMEs) after globalisation in Tamil Nadu;
- To compare the changes in the performances of MSM Enterprises during pre and post financial crisis period in Tamil Nadu state;

### Concepts

“While the widespread contraction of credit described above also inhibited consumption by restricting business investment and consumer borrowing, the wealth effect highlights an additional, and more direct, channel through which a bursting bubble led to the Great Recession [1]”.

“The massive loss of speculative financial wealth on Wall Street prompted widespread loss of real wealth on Main Street, turning the financial crisis into a broad-based economic crisis”. The financial crisis of 2007 to the presents is a crisis like the Great Depression triggered by a liquidity shortfall in the United States banking system. It has resulted in the collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets around the world.

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is shown in Table 1.

### Methodology

The present study has covered the secondary data used for analysis. Secondary data were collected from the Government reports, working papers, occasional papers of IMF and EXIM Bank, World Bank, Planning Commission, Ministry of Statistics and Programme Implementations, Ministry of Trade and Commerce, Ministry of Commerce and Industry, Books, Journals, Websites etc.

In order to analyse the impact of the global financial crisis on the MSM Enterprises, Tamil Nadu state (a developed state in India) has been purposively selected for the study. Based on the secondary data regarding the number of units and investment level, the study districts have been selected. The collected secondary data are analysed by using the simple percentage, using trend value analysis, linear function and AAGR analysis.

$$AAGR = \frac{C - B}{B} \times 100$$

AAGR – Annual Average Growth Rate

C – Current Year

B – Base Year

$$Y = \left\{ 1 - \frac{\sum e^2}{\sum Y} \right\}$$

E = error Y = variable

Linear function = mx + b

M = variable B = constant

The study period was 20 years from 1990 – 91 to 2010 – 11. It shows the before and after global financial crisis in India.

### Review of literature

According to Robert E. Wright [2] in US, financial system collapsed in the middle of 2007, that waves are reflected to the many global companies. The various financial crises have entered in the world historical economy. This crisis passed that its own way in various dimensions, like real estate commodities, imports and exports etc. The most of the crises covered by real estate business and it starts from 1764. The study found that the present scenario has affected by crisis on real economy and it has been sparked to world economy especially the developing countries and developed country has affected and dramatically decline their economic growth.

Another article had pointed out from the lessons, preventing crises in developing countries requires not only regulation of domestic financial systems, but also a consistent set of macroeconomic policies. In particularly the developing countries stress the need for consistency between the exchange rate rule, the capital account regime and the domestic financial market regulations. The financial crises in developing countries tend to worsen both the balance of payments and the fiscal balance [3].

Stijn claessens et al. [4] examined the corporate performance of the East Asian financial crisis. A little microeconomic evidence that corporate growth was weakening but some support for the arguments that many firms had a weak financial structure that left them vulnerable to an economic downturn. The researchers suggested that countries and the international financial community need to pay most attention to the status of the corporate sector and its links with the financial sector and the rest of the economy.

Manmohan singh [5] empirically analysed Asian economies growth, stability and financial crisis role of Asian development bank. The role of international financial institutions becomes even more relevant in the content of growing global imbalances. The current global imbalance is reflected in the huge disparities in the current account positions of different countries viz., in 2005 the current account deficit of US stood at US \$805 billion. In that way ADB have some challenges in the region of South East Asia including India, regional stability and security, and the challenge of ensuring equity, social justice and regional imbalances in the growth process.

Indian capital market, it is being relatively integrated with open to the global economy and it has affected very closely by the crisis.

| Enterprises | Investment on plant & Machinery (Manufacturing) Rs. in lakhs | Investment on plant and Machinery (Service) Rs. in lakhs |
|-------------|--|--|
| Micro       | Up to 25 lakhs   | Up to 10 lakhs   |
| Small       | Rs. 25 lakhs to Rs. 5 crores                                 | Rs. 10 lakhs to Rs.2 crores                              |
| Medium      | Rs. 5 crores to Rs. 10 crores                                | Rs. 2 crores to Rs. 5 crores                             |

Table 1: Micro, small and medium enterprises development (MSMED) act.

Currently national economic passing through phase of high inflation exchange rate crisis volatile capital market, decreasing investment and increase the fiscal deficits. Finally, witnessed in India massive withdrawal of FII investments from capital market. It has been suggested to the planner's policy makers and regulatory should devise prudential norms and implement fair market practices to make the national economy more resilient to cross border contagions [6].

The SME sector which ideally suited to build on the strengths of our traditional skills and knowledge by infusion of technologies, capital and innovative marketing practices is SMEs. When the performance of this sector is viewed against the growth in the manufacturing and the industry sector as a whole, it stills confidence in the resilience of small scale sector. Process off liberalisation in association with government support will consider all possible ways to overcome the bugbears of the sector in the days to come [7].

MSMEs are providing immediate large-scale employment, with lower investments and prove to be a second largest manpower employer, after agriculture and occupy a position of prominence in Indian economy. Keeping in above backdrop, the present article attempted to highlight the growth and contribution of MSME sector in post reform India. The significant growth of MSMEs have been taken place over a period of time and this sector is the major donor to gross domestic product (GDP), employment and exports in Indian economy. Therefore, we should encourage MSMEs to take proper care of Indian economy with concrete plan of action and its honest implementation [8].

Semsa Ozar et al. [9] had analysed the impacts of selected factors on the growth of micro and small enterprises (MSE) in Turkey. The analysis has conducted the unique national field survey data on urban MSE that engage 1 – 49 persons and it present the determinants of MSE growth for the period between the start –up of enterprises and the year 2000. Impact of the financial crisis experienced in Turkey in 2001 on MSE. Detrimental effects of the crisis on MSE are clearly detected in

our estimations [10]. Some of the factors contributing to the growth of MSE lose their influence almost immediately during the crisis: indeed, the impact of some factors is reversed. Overall results reveal that there is much scope to design supportive policies for MSE to enable them to withstand the negative impacts of future crises, especially in emerging economies.

## Results and Discussion

Secondary data have been used for analysing the performance of MSMEs. Tamil Nadu, one of the developed state, in the country possessing the traditional industries of MSMEs sector had been purposively selected.

Table 2 shows the growth of MSME units in Tamil Nadu, in chronological order. In 1991-92, the total number of registered MSMEs was only 1, 38, 404 lakhs and 2001-02 the number increased to 4, 20, 321 lakhs units. After 2001-02 the registered MSMEs units recorded irregular trend line. Regarding investment criteria, after the new economic policy in Tamil Nadu, a number of large and medium sized industries have been started with huge investment. In 1991-92, the investment was Rs. 3, 210.20 crores and it increased to Rs. 11, 567.22 crores in 2000-01. During the period 2001-02 to 2002-03, the investment was very high. In 2006-07, the investment was only Rs.714.41 crores and it increased in the following years. The growth of production is also the same as above, in 2001-02 to 2002-03 the production is very high, Rs. 8, 339, 048.00 crores and Rs. 8, 97, 898.00 crores respectively. In 2005-06 to 2010-11 the production has recorded an uneven trend with high fluctuations (Figure 1).

In 1991-92, MSMEs provided 11767.00 lakh employment opportunities and in 2001-02 the employment generation was declined. During the period 2006-07 to 2010-11, the employment generation has gradually increased from 1100.26 lakh persons to 4052.33 lakh persons.

| Year   | No. of units (lakhs in numbers) | AAGR   | Investment (Rs. crores) | AAGR   | Production (Rs in crores) | AAGR   | Employment (lakhs person) | AAGR   |
|--|---------------------------------|--------|-------------------------|--------|---------------------------|--------|---------------------------|--------|
| 1991-92  | 138404                          | -      | 3210.2                  | -      | 167470                    | -      | 11767                     | -      |
| 1992-93  | 157892                          | 14.08  | 3757                    | 17.03  | 20219                     | -87.93 | 13105                     | 11.4   |
| 1993-94  | 178114                          | 122.81 | 4332                    | 15.3   | 24048                     | 18.94  | 14253                     | 8.8    |
| 1994-95  | 207357                          | 16.42  | 5184                    | 19.67  | 29436                     | 22.41  | 16382                     | 14.94  |
| 1995-96  | 234409                          | 13.05  | 5977                    | 15.3   | 35161                     | 19.45  | 18286                     | 11.62  |
| 1996-97  | 263845                          | 12.56  | 6912                    | 15.64  | 41687                     | 18.56  | 20330                     | 11.2   |
| 1997-98  | 295004                          | 11.81  | 7966                    | 15.25  | 48675                     | 16.76  | 22509                     | 10.72  |
| 1998-99  | 324627                          | 10.04  | 9350                    | 17.4   | 58482                     | 20.15  | 24510                     | 8.9    |
| 1999-00  | 354939                          | 9.34   | 10623                   | 13.61  | 70987                     | 21.4   | 26672                     | 8.82   |
| <b>Before the Global Economic and Financial Crisis</b> |                                 |        |                         |        |                           |        |                           |        |
| 2000-01  | 387597                          | 9.2    | 11567.22                | 8.9    | 78261.66                  | 10.25  | 29021.22                  | 8.81   |
| 2001-02  | 420321                          | 8.44   | 31040                   | 168.34 | 839048                    | 972.11 | 12166.2                   | -58.1  |
| 2002-03  | 449021                          | 6.83   | 31423.04                | 1.23   | 897898                    | 7.01   | 12569.3                   | 3.31   |
| 2003-04  | 25794                           | -94.26 | 722.16                  | -97.7  | 5158.8                    | -99.43 | 3229.67                   | -74.31 |
| 2004-05  | 16253                           | -36.99 | 1105.81                 | 53.13  | 4556.97                   | 11.67  | 6028                      | 86.64  |
| <b>After the Global Economic and Financial Crisis</b>  |                                 |        |                         |        |                           |        |                           |        |
| 2005-06  | 20399                           | 25.51  | 1705.2                  | 54.2   | 4414.87                   | -3.12  | 678                       | -88.75 |
| 2006-07  | 19201                           | -5.87  | 714.41                  | -58.1  | 2067.87                   | -53.16 | 1100.26                   | 62.3   |
| 2007-08  | 27209                           | 41.71  | 2547.14                 | 256.54 | 8739.95                   | 322.65 | 2428.55                   | 120.73 |
| 2008-09  | 32049                           | 17.8   | 3557.89                 | 39.68  | 13354.86                  | 52.8   | 2942.55                   | 21.2   |
| 2009-10  | 41799                           | 30.42  | 3214.22                 | -9.65  | 10880.01                  | 18.53  | 1517.43                   | -48.43 |
| 2010-11  | 57902                           | 38.52  | 5872.37                 | 282.69 | 12500.86                  | 14.89  | 4052.33                   | 167.1  |
| <b>Total</b>   | <b>3952136</b>                  |        | <b>150781</b>           |        | <b>2373047</b>            |        | <b>617041</b>             |        |

Source: Commissioner and Director of Industries and Commerce, Chennai-5.

**Table 2:** Growth and performances of MSME units in Tamil Nadu.

Table 3 reflects the enterprise wise performance of MSMEs in terms of number of units, investment, production and employment in Tamil Nadu. The data clearly shows that the Hosiery and Readymade Garments MSMEs has the highest performance when compared with the other industrial segments. Hosiery and readymade industry has shown very high percentage not only the growth in terms of number of units but also in terms of investment, production and employment generation during the period 2009-10 to 2010-11.

The production of Hosiery and Readymade Garments in Tamil Nadu is comparatively higher than other states in India and Tirupur is very famous for Hosiery and Readymade units in Tamil Nadu. The production of the industry has increased during the year from Rs. 30, 39, 128 in 2009-2010 to Rs. 31, 00, 771 in 2010-2011. The employment generation was increased from 12,50,011 lakhs of persons in 2009-10 to 12,66,723 lakhs of people in 2010-11.

Table 4 presents the export performance of MSMEs in Tamil Nadu

for two different sets of period, 2000-01 to 2004-05 (before Global Economic and financial crisis) and 2005-06 to 2010-2011 (after Global Economic and Financial crisis). The export growth of MSMEs in 2000-01 was 44.6 percent and in the consecutive years the growth rate declined and stood as 35.9 in the year 2004-2005. The export growth rate increased to 53.9 percent in the year 2005-06, it gradually decreased in the successive year followed by an increase in the year 2008-09 and then witnessed steep fall in the period from 2009-10 to 2010-2011.

Tamil Nadu is one of the developed states in India in terms of infrastructure facilities and industrially performance. Table 5 presents the GSDP of Tamil Nadu, its growth rate and its share in India. The figures show an increasing trend with the increasing percentage of GSDP in the study period 2000-01 to 2010-11. The GSDP of Tamil Nadu in 2000-01 is only 5.3 percent and it gradually increased, after ten years of time the GSDP has recorded nearly a three-fold increase of 14.5 percent in the year 2010-11.

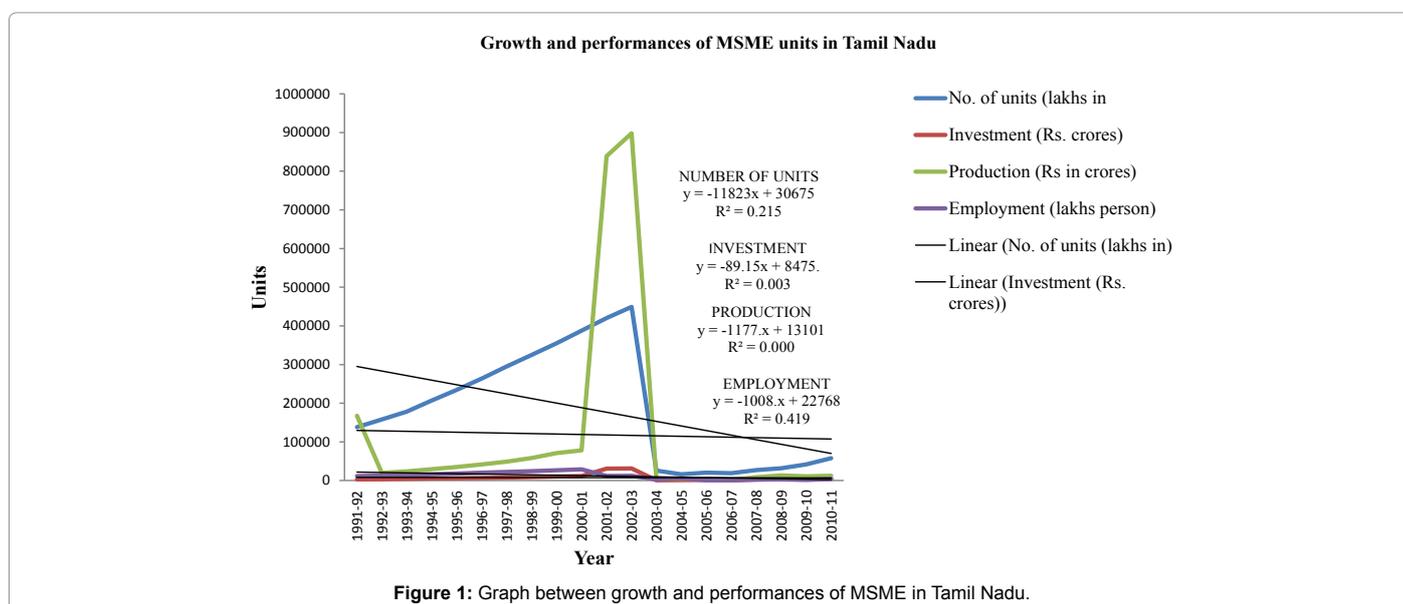


Figure 1: Graph between growth and performances of MSME in Tamil Nadu.

| Type of MSME                        | No. of units (lakhs in number) |                     | Investment (Rs in Crores) |                      | Production (Rs In Crores) |                        | Employment (lakhs in person) |                      |
|-------------------------------------|--------------------------------|---------------------|---------------------------|----------------------|---------------------------|------------------------|------------------------------|----------------------|
|                                     | 2009-10                        | 2010-11             | 2009-10                   | 2010-11              | 2009-10                   | 2010-11                | 2009-10                      | 2010-11              |
| Food products                       | 49406 (9.70)                   | 52149 (9.74)        | 144424 (9.55)             | 179287 (8.60)        | 345862 (3.27)             | 135598 (1.31)          | 261406 (7.38)                | 276616 (7.94)        |
| Beverages and Tobacco products      | 3043 (0.60)                    | 3043 (0.60)         | 5201 (0.34)               | 5201 (0.25)          | 155897 (1.48)             | 163243 (1.58)          | 80281 (2.26)                 | 83054 (2.40)         |
| Cotton textiles                     | 34153 (6.71)                   | 36966 (6.90)        | 157338 (10.40)            | 194760 (9.35)        | 1199272 (11.35)           | 1261342 (12.19)        | 310556 (8.77)                | 330938 (9.49)        |
| Hosiery and readymade garments      | 147853 (29.03)                 | 152238 (28.43)      | 334365 (22.12)            | 366759 (17.61)       | 3039128 (28.77)           | 3100771 (29.96)        | 1250011 (35.31)              | 1266723 (36.36)      |
| Wood and wood products              | 23783 (4.67)                   | 24604 (4.59)        | 63116 (4.20)              | 68928 (3.31)         | 337947 (3.20)             | 346947 (3.35)          | 117169 (3.31)                | 121732 (3.60)        |
| Paper and paper products            | 33156 (6.51)                   | 35781 (6.68)        | 121578 (8.04)             | 140103 (6.72)        | 709374 (6.72)             | 783517 (7.57)          | 149580 (4.22)                | 157452 (4.52)        |
| Leather furniture industries        | 14287 (2.81)                   | 14889 (2.78)        | 68057 (4.50)              | 73742 (3.54)         | 474853 (4.50)             | 496138 (4.80)          | 177393 (5.01)                | 180403 (5.17)        |
| Rubber and Plastic products         | 19543 (3.84)                   | 21223 (3.96)        | 76193 (5.04)              | 92139 (4.42)         | 267268 (2.53)             | 299487 (2.89)          | 117231 (3.31)                | 124771 (3.60)        |
| Non-metallic Mineral products       | 23063 (4.53)                   | 18333 (3.42)        | 68987 (4.56)              | 72748 (3.50)         | 577488 (5.46)             | 318247 (3.10)          | 310560 (8.80)                | 188929 (5.42)        |
| Machinery                           | 17027 (3.34)                   | 37670 (7.03)        | 57544 (3.81)              | 137221 (6.60)        | 288247 (2.72)             | 707596 (6.83)          | 180950 (5.11)                | 165277 (4.74)        |
| Electrical and electronic apparatus | 35594 (6.98)                   | 15673 (2.92)        | 111965 (7.40)             | 87389 (4.20)         | 654843 (6.20)             | 397456 (3.84)          | 154535 (4.36)                | 126283 (3.62)        |
| Other manufacturing industries      | 108351 (21.28)                 | 122894 (22.95)      | 302949 (20.04)            | 664378 (31.90)       | 2513217 (23.80)           | 2336202 (22.50)        | 430780 (12.16)               | 461501 (13.24)       |
| <b>Total</b>                        | <b>509259 (100)</b>            | <b>535463 (100)</b> | <b>1511717 (100)</b>      | <b>2082655 (100)</b> | <b>2593719 (100)</b>      | <b>103465544 (100)</b> | <b>3540452 (100)</b>         | <b>3483679 (100)</b> |

Source: Commissioner and Director of Commerce and Industries, Chennai-5.

Table 3: Performance of various MSME in Tamil Nadu 2010-11.

| Year               | Exports Growth |
|--------------------|----------------|
| <b>Before GEFC</b> |                |
| 2000-01            | 44.6           |
| 2001-02            | 13.1           |
| 2002-03            | 20.8           |
| 2003-04            | 14.9           |
| 2004-05            | 35.9           |
| <b>After GEFC</b>  |                |
| 2005-06            | 53.9           |
| 2006-07            | 36.6           |
| 2007-08            | 14.4           |
| 2008-09            | 21.2           |
| 2009-10            | 17.3           |
| 2010-11            | 16.8           |

Source: Ministry of commerce and Industries, DIC Central MSME, Chennai.

**Table 4:** Trend of exports growth in Tamil Nadu.

| Year   | GSDP          | Growth Rate (%) | Share in India (%) |
|--|---------------|-----------------|--------------------|
| <b>Before the Global Economic and Financial Crisis</b> |               |                 |                    |
| 2000-01  | 142065 (5.3)  | 5.87            | 7.62               |
| 2001-02  | 139842 (5.2)  | 1.56            | 7.09               |
| 2002-03  | 142295 (5.3)  | 1.75            | 6.96               |
| 2003-04  | 150815 (6)    | 5.99            | 6.79               |
| 2004-05  | 219003 (8.1)  | 11.45           | 7.37               |
| <b>After the Global Economic and Financial Crisis</b>  |               |                 |                    |
| 2005-06  | 249567 (9.3)  | 13.96           | 7.67               |
| 2006-07  | 287530 (10.7) | 15.21           | 8.07               |
| 2007-08  | 305157 (11.3) | 6.13            | 7.83               |
| 2008-09  | 320085 (11.8) | 4.89            | 7.70               |
| 2009-10  | 350258 (13.0) | 9.43            | 7.77               |
| 2010-11  | 391372 (14.5) | 11.74           | 8.01               |

Source: Commissioner and Director Industries of Commerce and Industries, Chennai-5.

**Table 5:** Gross state domestic products in Tamil Nadu.

Regarding the growth rate, Tamil Nadu has achieved 5.87 percent in 2000-01 and the rate has decreased in the subsequent years. However, in the period from 2004-05 to 2006-07, the growth rate has hiked from 11.45 percent to 15.21 percent. In the next two years the growth rate has shown a deep decline of 4.89 percent in the year 2008-09, due to the internal problem of power shortage and external changes experienced in the world economy, it slowly increased to 11.74 percent in 2010-11. However, in the period from 2000-01 to 2010-11, the contribution of Tamil Nadu towards GSDP of India remained almost stable as it was 7.62 percent in 2000-01 and it increased to 8.01 percent in 2010-11.

## Findings and Suggestions

- In 1991-92, the total number of registered MSMEs was only 1, 38, 404 lakhs and 2001-02 the number increased to 4, 20, 321 lakhs units. After 2001-02 the registered MSMEs units recorded irregular trend line.
- During the period 2001-02 to 2002-03, the investment was very high. In 2006-07, the investment was only Rs.714.41 crores and it increased in the following years. The growth of production is also the same as above, in 2001-02 to 2002-03 the production is very high, Rs. 8, 339, 048.00 crores and Rs. 8, 97, 898.00 crores respectively. In 2005-06 to 2010-11 the production has recorded an uneven trend with high fluctuations.
- In 1991-92, MSMEs provided 11767.00 lakh employment

opportunities and in 2001-02 the employment generation was declined. During the period 2006-07 to 2010-11, the employment generation has gradually increased from 1100.26 lakh persons to 4052.33 lakh persons.

- The production of Hosiery and Readymade Garments in Tamil Nadu is comparatively higher than other states in India and Tirupur is very famous for Hosiery and Readymade units in Tamil Nadu. The production of the industry has increased from Rs. 30, 39, 128 in 2009-2010 to Rs. 31, 00, 771 in 2010-2011. The employment generation was increased from 12,50,011 lakhs of persons in 2009-10 to 12,66,723 lakhs of person in 2010-11.
- The export growth of MSMEs in 2000-01 was 44.6 percent and in the consecutive years the growth rate declined and stood as 35.9 in the year 2004-2005. The export growth rate increased to 53.9 percent in the year 2005-06, it gradually decreased in the successive year followed by an increase in the year 2008-09 and then witnessed steep fall in the period from 2009-10 to 2010-2011.
- Tamil Nadu is one of the developed states in India in terms of infrastructure facilities and industrially performance. The figures show an increasing trend with the increasing percentage of GSDP in the study period 2000-01 to 2010-11. The GSDP of Tamil Nadu in 2000-01 is only 5.3 percent and it gradually increased, after ten years of time the GSDP has recorded nearly a three-fold increase of 14.5 percent in the year 2010-11.
- Tamil Nadu has achieved 5.87 percent in 2000-01 and the rate has decreased in the subsequent years. However, in the period from 2000-01 to 2010-11, the contribution of Tamil Nadu towards GSDP of India remained almost stable as it was 7.62 percent in 2000-01 and it increased to 8.01 percent in 2010-11 (Figure 2).
- There must be Co-ordination within Government and entrepreneur for developing the MSME activity and its processing.
- The government should implement the appropriate policy to the industries for rise its production capacity, expanding their marketing, and expanding their exports and increase the employment opportunity also.
- MSME-DO should sanction the incentives for growth of Micro and Small enterprises in Tamil Nadu.
- The incentives and subsidies are not properly sanctioned for the growth of MSME; it should sanction without partiality and reduce more documents formalities and others to get the incentives and subsidies (Figure 3).

## Conclusion

While concluding after 2010 the international money value has been declined. So the MSME units could not be run their units with adequate financial support. The industrial units mostly depend on the financial support to start or run the unit and the financial assistance like, incentives and subsidies. The government should take necessary action against the crisis and monetary policy for growth of Indian economy. Before crisis in India, consumption pattern, normal and saving pattern is high, after the globalization, the consumption pattern increased within the people and savings declined. The MSME entrepreneurs should avoid unnecessary expenditure and save their

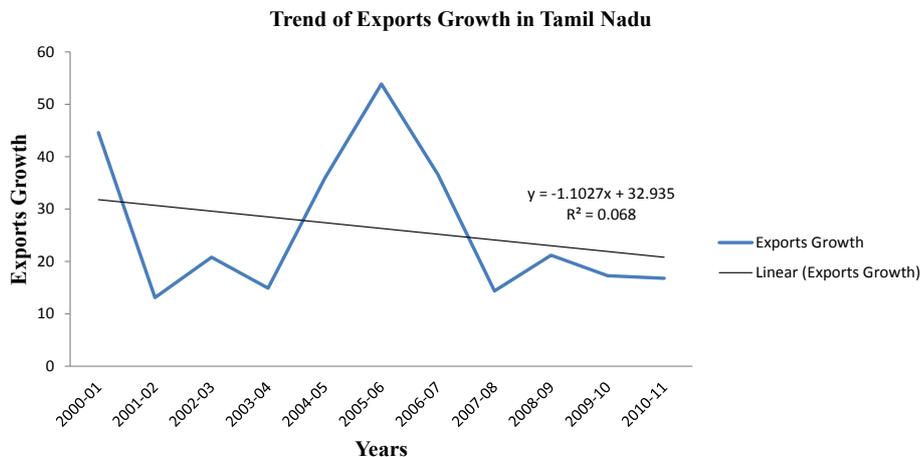


Figure 2: Graph fortrend of exports growth in Tamil Nadu.

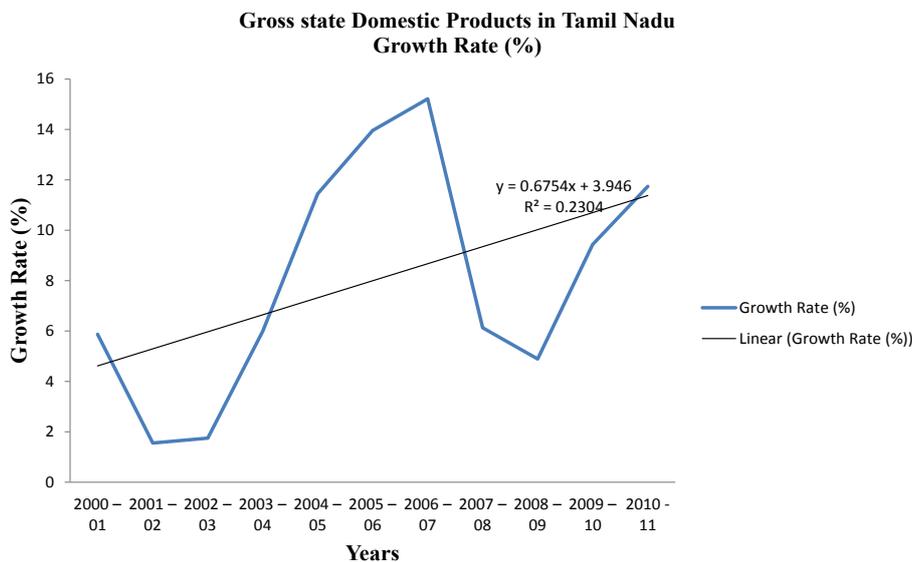


Figure 3: Gross state domestic products in Tamil Nadu growth rate (%).

money for unexpected expenditure. The government may change the foreign affair policy for economic development in India, and then only we could shine and attain the sustainable growth in the world.

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