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## Global Recession and Its impact on Aurangabad Industrial area

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### THE PROBLEM TO BE INVESTIGATED

The world is experiencing an unprecedented economic slowdown. There seems to be no end to the US financial crisis. It deflationary effects are not spreading to other economy.

Though it is true that we are in a global recession, the media hype is so high that there is panic virtually everywhere. There is a clear lack of understanding of the word "recession". Economic describe recession as reduction of country's GDP (Gross Domestic Production) for two consecutive quarters i.e. an increase in unemployment (1.5% in a period of 12 months).

A large population rising farm incomes and improvising infrastructure changes into increasing opportunities for companies at rural India, i.e. mainly 65% of population live in rural India, where business opportunities are more and at this global meltdown period, more people are employed in rural India and increase in their income and demand for more consumption and a gloomy picture and to cheer in this circle. The basic factor is that growth of population increase in per capita income (\$418 to over \$ 1000) (fy.1998-2000).

How long will this recession last, is the question every one asks. The IMF (International Monitoring Fund) Chief Economist says that "the worst is yet to come". India is one of the country relatively less effected by global economic crisis, but millions of families affected. However the agri sector is very less affected. Today, various countries central banks are adopting preventive measures to stop the recession and rebuild the economy.

The National Bureau of economic research in USA defines a recession more broadly as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP growth, real personal, income employment, industrial production and whole sale retail sales. Some economists suggest that a recession occurs when the natural growth rate in GDP is less than the average of 2%. A recession may be defined as a contraction phase of the business cycle or a period of reduced economic activity.

A recession has many attributes that can occur simultaneously and can include declines in coincident measures of economic activities such as employment, investment and corporate profits. Recession are the result of falling demand and may be Associated with falling prices (deflation), or sharply rising prices (inflation) or a combination of rising prices and stagnant

### SIGNIFICANCE OF THE STUDY

Recession has already arrived in US, UK, Major EU economies and Asian Economies. In Asia China, India and Japan are the dominant economies. The US economy has entered into recession and growth is projected to be 0.1% in 2009 as against 1.6% in 2008. Europe will grow by 0.2% in 2009 as against 1.3% in 2008. Japan will witness a growth of 0.5% as against 0.7% in 2008. These three countries account for about 40% of our exports and thus the slow down does not auger well for Indian exports. Economy has a much bigger impact today than earlier. Given the size of the US economy, a one percent reduction in its rate of growth would be bigger than 10 percent increase (to 20.5 and that is unlikely) in the rate of growth of the Indian economy.

### Causes of Economic Recession

- 1) Debt problem in the US is the major Cause of recession is almost beyond comprehension.
- 2) The economic slowdown with the decline in oil demand around the world is also one of the causes of recession.
- 3) Due to less demand for products and services because of less money availability in the hands of the consumer is also the cause of recession.

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### **Recession & Indian Market**

Government authorities in India have taken a view that as per the strict theoretical interpretation, global economic recession has not yet engulfed Indian economy. As per the economic theory, unless two successive quarter-periods record a negative growth in GDP, the economy is not supposed to be having economic recession. Indian economy, so far, it has not recorded negative GDP growth rate, in two successive quarters and hence, technically or theoretically speaking, it is not supposed to be under economic recession.

- Companies are closing
- Sales are not picking up
- Suddenly cash has evaporated from the market
- Profitability is severely hit

### **Impact of US Recession on India**

Over the period up to the year 2007 and also during the first quarter of the year 2008 India was engaged in following the anti-inflationary policy, to bring the situation of price rise under control after the unprecedented hike in the oil prices in the world market. However, in the aftermath of the sub-prime crisis in USA, foreign capital in the portfolio sector of the stock markets in India was suddenly withdrawn by the foreign investors. The resultant crash in the Indian stock-markets has resulted in gradual loss of market confidence. However, the sharp decline in the oil prices in the world market has softened the impact on Indian economy. Besides reduction in the trade deficit it has also brought about a reduction in the transport costs. All this has resulted in bringing down the general price index in the economy and the inflationary situation to a manageable level.

However, in India the impact of the global recession has been primarily seen in the export sector covering telecom and software, Auto parts and components, gems and Jewellery, textiles and garments. Tea, Rice, Jute Manufactures, carpets Handicrafts, Plastics and Linoleum and other export industries. Growth in exports in the currency has been estimated to have come down to 17.1% from 20-25% over last year. According to WTO, the growth rate in global trade in goods and services is expected to decline from 7.2 percent in 2007 to 4.6 percent in 2008 and further to 2.1 percent in 2009. Domestic industrial activity also slowed down because of some degree of flight of foreign capital and lack of market demand. Housing sector has also been significantly affected. Industrial lay-offs and unemployment are also showing a rising trend. It has been estimated that industrial production has gone down by 2% over the year 2008.

- A slowdown in the US economy is bad news for India.
- Indian companies have major outsourcing deals from the US. India's exports to the US have also grown substantially over the years. The India economy is likely to lose between 1 to 2 percentage points in GDP growth in the next fiscal year. Indian companies with big tickets deals in the US would see their profit margins shrinking.

### **The major objectives of the present study are as follows:-**

1. To know the historical background, progress and present scenario of Indian Industries in general and AURANGABAD District industries in particular.
2. To take the review of activities held in the industrial areas of Aurangabad industrial area
3. To study the impact of global Recession on large scale and small scale industrial units.
4. To know the F.D. Investment position in Indian industries in general and the Aurangabad District industries in particular.
5. To assess the impact of Global Recession on employment, production, import, export and foreign exchange.
6. To analyze the various factors of Global Recession affected on industrial development of Aurangabad Industrial area.
7. To identify and synchronies the problems of Industries and to suggest the suitable remedies to overcome the problems.

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### **HYPOTHESIS TESTED**

*Following are the hypotheses will have to be tested to complete this study.*

1. Due to global recession small-scale industries are more affected than large scale industries.
2. At what extent Global recession is affected on employment, import/Export, and Foreign exchange and on Foreign Direct Investment.

### **RESEARCH DESIGN AND METHODOLOGY**

*To complete this study following research methodology will have to be adopted*

**Collection of Data:** In order to achieve the above objectives both the types of data, i.e. primary as well as secondary data would be the appropriate used.

#### **PRIMARY DATA**

The study is based on primary as well as secondary data, the primary data related to the small scale and large scale industrial units from Aurangabad District industrial Area, will be collected. The industrial units located at Waluj, Chikalthana. Chitegaon. Railway station. Bhargaon and Shendra will be considered for the study purpose. The data will be collected through open ended questionnaire. More emphasis has been given on personal interviews with the workers, union leaders, Government office bearers and authorities of the industrial units.

#### **SECONDARY DATA**

To examine the impact of Global recession on small scale and large scale industrial units at Aurangabad industrial area the required data would be collected from secondary sources, Viz published reports on industries, The district industries centre (DIC) , Joint Director of industries, Deputy Commissioner of labor, Bureau of Economics and Statistics different districts planning officers, chamber of industries and Agriculture (CMIA) Office, national institute of personnel managers (NIPM), published literature by research scholars, executives of the companies, Reports of the Semi-Government and Non-Government organizations, Govt. published bulletins, well reputed national and International Journals, related books from libraries, Daily news papers, and concerned web sites.

### **SELECTION OF SAMPLES**

The reference period of the study is 2009-2012, for the study purpose overall 10% of the samples from industrial units and industrial employees would be selected from each of the industrial areas by Random sampling method from Aurangabad industrial Area.

### **SCOPE AND LIMITATIONS OF THE STUDY**

The present study has taken into account the industries affected or benefited by the global recession, which took place in large scale & small scale industries established at Aurangabad Industrial area. The present study is confined only to the industrial areas from Aurangabad District only.

### **TOOLS AND TECHNIQUES USED**

The data regarding the industry development and globalization is collected, scrutinized, tabulated, analyzed and final used for the study purpose. For the analysis purpose some tools and techniques will have to be used i.e. mean, mode, average, percentile, correlation and other related tolls and techniques

### **SIGNIFICANCE OF THE STUDY**

The present study is an attempt to examine the impact of global recession on industries from Aurangabad industrial area. The study will have to cover the real impact of Global recession and its impact on employment, production, import and export and foreign exchange at macro level. A review of literature indicating that in the past, a few studies have to be carried on specific industrial areas including industrial dispersal covering one or two aspects only, Here this study will provide comprehensive views on the industrial development of Aurangabad industrial area.

### **ITS RELEVANCE TO THE PRESENT DAY PROBLEMS AND NEEDS OF THE SOCIETY & THE COUNTRY**

Aurangabad, the leading industrial state in India occupies a prominent position as far as the manufacturing sector in the country. The major manufacturing industries located in Aurangabad include refined petroleum products, chemical and chemical products, machinery equipments, food products, basic metals, motor vehicles, fast moving consumer goods, Cosmetic and film products and textiles. The principal industrial zone in Aurangabad is Waluj, Chikalthana, and railway station, Chitegaon, Shendra and Bhalgaon.

### **IT'S LIKELY CONTRIBUTION TO KNOWLEDGE**

The study will be devoted for presenting the detail analysis of large scale and small scale industrial developments of Maharashtra & Aurangabad Industrial area. This study makes the critical examination of, impact of Global recession on Industrial Development in general and employment. Production, import, export and foreign exchange in particular.

The major findings of the study will be useful to the Industrial administrators and policy makers in framing appropriate policies regarding industrial establishments of the new industries in order to protect the interest of Government, wholesalers, retailers and all class of customers. This study will also be useful to the academicians, research scholars, and others who are related to the industries.

### **INDUSTRIAL GROWTH AND DEVELOPMENT OF MAHARASHTRA STATE INDUSTRIAL AREA**

There are near about 2000 large scale and small scale industrial units have been registered and working in Marathwada region. The Maharashtra state is industrially developed state with near about 30333 industrial units located at. Mumbai, Pune, Nagpur, Nasik, Aurangabad, Kolhapur, Jalna and other Industrial Areas. These industries are providing 584551 large employment opportunities to the peoples not only from Maharashtra state, but for India and Foreign peoples also. The major product of these units are Agriculture, mining manufacturing, food produce, construction equipments, Repair services, electricity product, construction and construction equipments, iron & steel, machineries, automobile products, cosmetic products, engineering spair parts and products and most of the fast moving consumer goods (FMCG).

*Some of these* large scale and SSI units providing job and job works, components and spares required for large and medium scale industrial units both within and outside the state, most of the industries are working as auxiliary industries for big industrial units.

### **RECESSION & INDUSTRIAL EMPLOYMENT**

It is seen that the industrial employment declined every month during this period. It was observed that the employment in all the sectors studied went up significantly over the period from March 2008 to September 2008, Beyond the September 2008, It had decelerated at all industries/sectors level at an average rate of 1.01% Per month. In January, 2009 the rate of decline had increased to 1.17%. The increase in rate of change was mainly due to the decline in employment in IT/BPO sector in January 2009 in contrast to the increase in employment during October-December 2008 and also higher rate of unemployment in Automobile sector.

**Table No.1.1 Trends in Average Employment**

Sr.No.	Period	Average employment (Million)	Percentage Change
1.	Sept.-2009	16.2	-
2.	Oct.-2009	16.0	-1.21
3.	Nov.-2009	15.9	-0.74
4.	Dec.-2009	15.7	-1.12
5.	Average Monthly Change Oct.-Dec.-2009	-	-1.01
6.	Jan.-2010	-	-1.17

Source:-Labour Bureau, Ministry of Labour and Employment, Govt. of India.

**Table No.1.2 Sector-wise Change Trend in Employment**

Sr. No.	Sectors	Average Monthly Change in Oct.-Dec.2008**	Monthly Change in Dec.-2008-Jan.-2009
1	Mining	-0.33	-
2	Textiles	-0.91	-0.35
3	Metals	-1.91	-8.44
4	Gems & Jewellery	-8.58	-8.44
5	Automobiles	-2.42	-3.10
6	Transport	-4.03	-2.62
7	IT/BPO	0.55	-1.66
	Overall	-1.01	-1.17

Source:-Labour bureau, Ministry of Labour and employment, Government of India.

It is observed from the table no 1.2 that during January 2009 the rate of decline in employment in textile, metals, gems, jewellery and transport sector was lower than earlier months. The average monthly decline in textile sector during October-December 2008 was 0.91 % which had come down to 0.35% in January 2009. Similarly for metals and transport sectors the decline in employment had come down from 1.91% to 1.31% and from 4.03% to 2.62% respectively.

In case of automobiles, the employment had declined more rapidly in January 2009. The average monthly Decline in Automobile sector during October-Dec 2008 was 2.42% which had increased to 3.10% in January 2009. In case of IT/BPO the employment during Oct.-Dec 2008 had increased by 0.55% per month where as in January 2009 it had declined by 1.66%. Passenger Car and two-wheeler manufactures were badly hit as consumers slowed down discretionary spending on automobiles. Sales volume of Maruty Suzuki India, the largest passenger car manufacturer, during Q3FX09 went down 14% year-on-year. Though the dip; in sales value was restricted to less than 3% due to better price realization, the fall in net profit was 54%. Sales volume of the largest two-wheeler manufacturer, Hero Honda Motors, too dipped-its net profit growth was 9.24% y-o-y as compared to 49.90% in the previous quarter. It was another bad quarter for Bajaj Auto as volumes declined by 30% and net profit by 23% y-o-y.

**Table No. 1.3**

**Trend in Employment of Export and Non-Export units**

Sr. No.	Period	Export Units	Non-Export Units	Overall
1	Oct.-2009	-1.30	-1.05	-1.21
2	Nov.-2009	-0.45	-1.24	-0.74
3	Dec.-2009	-1.66	-0.15	-1.12
4	Average Monthly Change Oct.-Dec.-2010	-1.13	-0.81	-1.01
5	Jan.-2010 over	-1.13	1.24	-1.17

Table no 1. 3 show that the rate of decline employment in export units had remained stationary at 1.13%. It had however increased from 0.81% per month during Oct.-Dec 2008 to 1.24% in January 2009 In case of non exports units. It is evident from the data in table no 1.4 is that the increase in rate of unemployment during Jan. 2009 was mainly contributed by the non-exporting units.

**Table No. 1.4**  
**Percentage change in Average Monthly Earnings**

Sr. No.	Period	Percentage Change
1	Oct.-2009	1.74
2	Nov.-2009	-11.43
3	Dec.-2009	-0.50
4	Average for Oct.-Dec.-2010	-3.45
5	Jan-2009	-0.26

It can be seen from table no 1.4 that the rate of declining in employment in export units had slowed in textiles and metals in Jan.2009. In case of Automobiles, the rate of decline had accelerated from 1.26% to 4.13% during the period. The trend in IT/BPO sector had reversed in Jan.-2009.

The employment trends showed higher rate of job loss in Non-export units (1.24%) as compare to export units (1.13%) during January 2009, the most affected sectors were IT/BPO, transport and metals where the employment in non-exporting units had decline by 4.07% to 6.2% and 1.71% respectively in January 2009. Though it is hazards to estimate the total loss of employment on the basis of a small sample, the survey

Estimated the total loss of employment during Oct.-2008 to Jan.- 2009. It needs to be noted that the total loss of employment estimated for the four month period was 5.89 lack workers.

**Table No. 1.5 Month wise Estimated Job Loss**

Sr. No.	Period	Estimated Job Loss	Cumulative Job Loss
1	Oct.-2008	1,96,092	1,96,092
2	Nov.-2008	1,17,550	3,13,642
3	Dec.-2008	1,77,222	4,90,864
4	Jan.-2009	98,156	5,89,020

Source:- Labor Bureau, Ministry of Labor and employment, govt. of India.

**EMPLOYMENT GENERATION DROPPED:**

The Indian financial sector a relatively new industry when it took off post economic reforms generated a substantial amount of wealth and employment within a short span of time. According to recent study by Associated Chambers of Commerce and Industry of India, employment generation in the top six sectors, which include finance, fell from 35 percent in the first quarter to 15.8 % in the second and 10.8 percent in the third. In the financial sector, the share of job creation dropped from 7% in the first quarter to 2 % in the third quarter, How ever the current crisis is different and we can not escape its impact. India is more dependent on the global economy now than ever before. Although our banks had a very small exposure to sub-prime loans, we have been affected by the sub-prime crisis. Global liquidity dried up and western markets started shrinking. This resulted in much lower capital flows to India's which is turn have knocked off more than 50% age points of the stock market index in less than a year. Indian companies suffered a double whammy with the shrinking of export markets and access to capital. The well-being of the financial services sector is directly linked to the stock markets and the health of domestic business. With both in some trouble, the short-term outlook of the sector is not very promising. The automotive sector in India, which in recent years was on the fast track, has been suddenly forced to apply the brakes. The steel fall in the sales of vehicle and components and the decline in exports have made major automobile players decide to put on hold new projects, downsize production and impose job cuts.

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## **THE MOST AFFECTED SECTORS BY GLOBAL RECESSION ARE AS**

Textile Industry, Real estate, Retailing, Hospitality, IT and Software, Automobile Industry, Aviation, Engineering, Pharma and Chemicals, transport, Power, Banking and financial services, Media and Entertainment.

### **Impact on Employee Attitude and Motivation**

- Employee are feeling more insecure about their jobs and Feeling less loyal towards the organization.
- Employees are realized organization can take any decision to secure the profitability
- The Incentives and Bonus will not be motivational criteria for the employees in the future.
- Employees will prefer to join socially responsible organizations in near future
- Employees realized the importance of self development, updating existing skills all the time and acquiring new skills
- Employees are also developing positive attitude towards self-employment and may fail to bring inner dedication at workplace.
- Employees will be conscious while selecting the job or changing the job.
- Increase in the frustration in the young and fresh talent as they need to struggle to get job in crises time

### **The roles of HRM at the time of recession**

- 1) *Save money and reduce the expenses.*
- 2) *To provide strategic policies and the procedures*
- 3) *Reducing the manpower*
- 4) *Redesign of the compensation scheme*
- 5) *Training and Development Programs*
- 6) *Identifying the real key employees*
- 7) *Protecting the top potentials of the organization.*
- 8) *Smart training management*
- 9) *Base Salaries Management.*
- 10) *The improve productivity and efficiency of the entire organization.*
- 11) *Headcount Freeze. .*
- 12) *To find some cost effective innovative ideas.*

### **MEASURES TAKEN BY THE GOVERNMENT**

Following different measures are taken by the government to control over the recession.

- 1) Interest subvention of 2% has been extended till 30-09-2009 to the following labor intensive sectors for exports: Textiles (including Handlooms), Handicrafts, Leather, Gems and Jewellery, Marine products and SMEs.
- 2) Additional funds of Rs. 350 Crore provided for export incentive schemes;
- 3) Handicraft items included in Vshesh Krishi and Gram Udyog Yojana (VKGUY).
- 4) Support under VKGUY Scheme announced for some additional commodities.
- 5) Market linked focus product scheme extended for bicycle parts, Motor Cars and Motor Cycles, Apparels and clothing accessories, auto components, etc.
- 6) Rs. 1100 Crore provided to ensure full refund of claims of CST/Terminal Excise duty/Duty drawback on deemed exports.
- 7) Continuation of Duty entitlement passbook (DEPB) scheme upto 31<sup>st</sup> December 2009.
- 8) Additional fund of Rs. 1400 Crores provided for textile sector to clear the backlog claims of TUF.
- 9) Export duty on iron ore fines eliminated for lumps, reduced to 5%.

### **MEASURES TAKEN BY RBI**

- 1) Increase in Liquidity to the banks for improving credit flow.
- 2) Reducing CRR, SLR, Repo rate and Reserve Repo rate ( from Oct 08 CRR reduced from 9% to 5%, SLR reduced from 25% to 24%, Repo rate reduced from 7.5% to 5.5% and Reverse Repo rate reduced from 6% to 4%.

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- 3) A special re-finance facility has been put in place for banks for the purpose of extending finance to exports, micro and small enterprises, mutual fund and NBFCs. Provisioning requirements.
- 4) Ceiling rates on export credit in foreign currency has been raised to LIBOR+350 basis points subject to the condition that the banks will not levy any other charges i.e. service charge, management charge, etc. except for recovery towards out of pocket expenses incurred.
- 5) Bhilwara in Rajasthan and Surat in Gujarat have been recognised towns of Export Excellence, for textiles and diamonds respectively.

#### **HOW TO CHALLENGE BEFORE RECESSION**

- Tap Indian market which is big.
- Lower the prices to increase the sales.
- Lower the wages of employees.
- There are chances of getting foreign market as foreigner producer will be doing for outsourcing to reduce their cost.
- Due to an un-employment wages will come down.

India is a developing country. Such a country needs a variety of national projects in social, economic and cultural spheres. The government could build up an army of unemployment people to implement such projects. Such kind of work would go on for along time providing ample employment opportunities to millions of people all over the nation.

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