

Internationalisation of Indian MSMEs – The Key to Become a Developed Nation

Sangeeta Saha*

Chief Manager (Research), State Bank of India, Hyderabad, India

Abstract: Micro Small and Medium Enterprises (MSMEs) play one of the most important roles in any nation's economic and societal development, especially in developing countries. Around 6.34 crore MSMEs Micro Small and Medium Enterprises (MSMEs) in India are contributing to around 27% of the GDP and 40% of the country's exports and are generating more than 11 lakhs of employment. Various government initiatives and the Foreign Trade Policy of the country are being designed aiming at enabling the Indian MSME to have an important place in the Global Value Chain. There are also various bottlenecks in this ambitious process of the internationalization of the Indian MSMEs and those challenges are also being addressed regularly. In the era of financial globalization, internationalization is the way to increase the productivity, output, and income of the country.

Keywords: Digitalisation, Foreign trade policy, Global value chain, Internationalisation, Liberalisation, MSME.

1. Introduction

Micro Small and Medium Enterprises (MSMEs) play one of the most important roles in the economic and societal development of any nation, especially in developing countries. Worldwide more than 21 crore MSMEs are creating 50% of global employment. In India, the MSME sector contributes heavily to all the development parameters of the country. Around 6.34 crore MSMEs in the country are contributing to around 27% of the GDP and 40% of the country's exports and are generating more than 11 lakhs of employment.

The Government of India is of an ambitious vision of increasing the share of the country's MSMEs in exports to 60% in the next 5 years with an increased contribution of the sector to 40% of the nation's GDP. The Government of India (GOI) is taking a number of initiatives to accomplish the mission of making the country self-reliant. The Atmanirbhar Bharat Abhiyan or self-reliant India mission aims to place the goods and services produced in India in the global platform and make the country a net supplier to the world. The mission is aimed at gaining a dominant position in terms of value and volume in the global supply chain.

2. Internationalisation and Liberalisation

Internationalisation is the process of designing, producing, and modifying goods and services acceptable to many countries across the globe. Today the products and services that originated in India can see the light of the overseas markets due

to the adoption of the open market economy by the policymakers of our country. This process of opening the economy to the world started with liberalization during the year 1991.

The economic liberalisation since the year 1991 ushered in a new era of simplified procedures, removal of quantitative restrictions, structural rigidities, and reduction in tariffs. The economic reforms of 1991 were brought in to solve the balance of payment crisis at that time. To improve liquidity, the government devalued the rupee and transferred 46.91 tonnes of gold reserve of the country to the Bank of England to borrow USD 400 million.

During the year, the government announced a new industrial policy to speed up the economic growth. The policy was aimed at boosting production, productivity, and increasing employment opportunities. Opening the economy was directed toward making Indian products more competitive in the global market. The new economic policy welcomed foreign investments in the country. It deregulated the industries and prepared the public sector units to upgrade their capacities to compete in the global market.

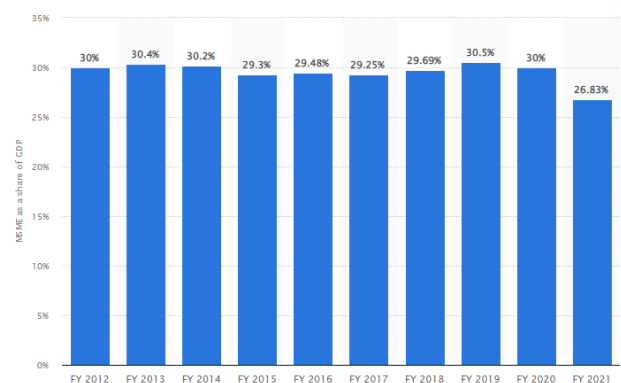


Fig. 1. Share of MSMEs in India's GDP from Financial Year 2012 to 2021
Source: <https://www.statista.com/>

The share of Indian MSMEs in the country's GDP has been significant over the years. Since the financial year 2012, the contribution of the MSME units to the country's GDP is hovering around 30%. During FY 2021, the same has decreased by a few tads. A number of government initiatives have been launched to accelerate the growth of Indian MSMEs, with a

*Corresponding author: shongita@gmail.com

special focus on export-oriented units.

3. GOI Initiatives

To align the Indian MSMEs with the global market, the GOI announces many initiatives to materialize export growth. These initiatives are directed toward creating a stable and sustainable policy environment for foreign trade. The initiatives such as 'Make in India', Digital India, Skill India, etc., have been taken towards export promotion in the country. Digitalisation is one of the most important enablers of export growth at present.

Diversification of the export basket helps several export-oriented sectors in the country to grow. The current focus is on manufacturing high-value products including engineering goods, drugs, and pharmaceuticals. Leather, textiles, gems and jewelry, iron ore, agriculture-based products, plantation crops, and marine products are other important sectors, mainly from the point of view of employment generation. Hence product strategies for the MSMEs involved in these sectors are also an important part of the export policies of the government. The steps taken by the government are aimed to integrate Indian exports with the global market, enhancing the quality of the products at a world-class standard to make a strong brand image for the exports of the country. Zero-defect products with quality and standards are imperative for a strong export-oriented Indian brand. Lower tariffs on inputs and raw materials reduce the cost of production which in turn make the products and services of the Indian MSMEs competitive in the world market. Besides, investment in agriculture overseas to produce raw material is an important strategy to boost the MSME exports of the domestic economy. The very aim of these initiatives is to enhance the country's economic capacity and not merely to sell the country's surplus goods and services to the world.

4. Foreign Trade Policies

Besides the various initiatives, the Foreign Trade Policies (FTP) is another tool of the GOI to regulate and boost international trade. The FTP is released at regular intervals of five years. The FTP 2015-20 emphasised heavily on India's foreign trade. The foreign trade of the country is regulated by the Foreign Trade (Development and Regulation) Act, of 1992. The Directorate General of Foreign Trade (DGFT) under the Ministry of Commerce issues guidelines and instructions on imports of exports in the country under the FTP.

The 2015-20 FTP mainly focused on developing exports of employment-intensive industries. This FTP gave thrusts on manufacturing inputs for the export industries to reduce the dependence on imports. It also emphasized the technological upgradation of exports to make Indian exports more competitive in the global market. The FTP 2015-20 also aimed at providing incentives to the export-oriented manufacturers of green goods. Procedural simplification and automation were also recognized in this FTP to reduce the transaction costs of exports from the country. The FTP is also integrated with domestic economic policies to address both the front and backward linkages of exports. The 2015-20 policy is being extended from time to time on the backdrop of the current

economic and geo-political scenario. The Government promises to increase the country's exports of merchandise and services by designing suitable FTP.

5. Enabler of MSME Internationalisation

Besides, various government initiatives, the success of the internationalisation of MSMEs is the function of the variables of entrepreneurship skills, managerial skills, investment in research and development, innovations, access to capital and resources, government policies, both domestic and international business environments, and technological advancement, among others.

Over the last decade developments in Information and Communication Technology (ICT) are smoothening the path of internationalization for the MSMEs in India and around the world. The MSME units are able to showcase and sell their goods on e-commerce platforms with more ease than ever before. Businesses are growing with the expansion of the size of the internet every day.

The coronavirus pandemic has set a new trend in the business environment around the world. Businesses on the digital platform increased manifolds. Indian MSMEs are utilizing e-commerce platforms immensely to grow their global business. This platform is providing them with wider and easier access to foreign markets. Information asymmetry in the MSME sector is reducing due to technology integration at the global level. And competitive pricing due to global integration is improving the reputation of the Indian MSMEs on the global platform. The MSMEs are quickly adapting the new technologies to participate in the international market. They are designing technology-driven business models showing enormous future growth potential. The capacity to use cutting-edge technology improves the readiness for changes in the international arena.

A. *Placing Indian MSMEs in the Global Value Chain (GVC)*

MSMEs can be immensely benefitted if they can place themselves in the global value chain (GVC) successfully. Finding a place in the GVC optimizes the production capacity of any unit. Different stages of the production cycle such as designing, procurement of raw materials, manufacturing, assembling, marketing, and distribution take place in different locations across the world. The process minimizes costs, optimizes production capacity, and maximises revenues and profits. The advancement in telecommunications, the advent of high-speed internet, and technological innovations have brought revolutions in the global value chains. Now Indian MSMEs are networking faster and stronger with all the stakeholders in the international arena.

Now-a-days, one finished good can involve the participation of many countries, and economic development happens globally through employment generations and the forward and backward linkages of the entire production cycle. Participation of MSMEs on the GVC creates a broader tax base, increases income, and uplifts the socio-economy of any country. New policies are being developed by the governments and several clusters of nations like BRICS, OECD, etc., with common interests coming together to help the entrepreneurs, especially

the small and marginal units to grow global from local. These groups of countries are helping the MSMEs in partnering with big corporations as well as with local firms abroad in obtaining the MSMEs key positions in the global value chain.

To integrate with GVC, the MSMEs need to achieve very high industry standards on productivity, human rights, and environmental sustainability among others. The MSMEs need to be brought into the formal sector from the informal sector, especially with the help of enlisting with the government. The GOI's initiatives of Make in India, Product linked Incentives (PLI), zero effect zero defect (ZED) certification, etc. are steps towards excelling the Indian MSMEs in export-oriented businesses.

Among the international organisations, the United Nations Industrial Development Organization (UNIDO), United Nations Development Programme (UNDP), International Labour Organization (ILO), UN Women, and others are working with the MSMEs in the country in their large-scale transitions to become global-standard units by assisting them in greening, digitalisation, and reorganising them with the GVC in the post-pandemic business environments.

Fast adopting new and advanced technologies, such as artificial intelligence, machine learning, big data, virtual reality, blockchain, etc. will evolve into smart operations by the MSMEs to integrate them with the market outside the domestic border more effectively. The Atmanirbhar Skilled Employee-Employer Mapping (ASEEM) portals, Digital Saksham, interlinking of the Udyam, e-Shram, show the promises towards making the Indian MSMEs digitally enabled.

Climate-friendly products and production processes are influencing global businesses to save the world from the horrific effects of global warming. To increase international businesses, MSMEs will have to be at par with many global environmental standards. The UNIDO and Bureau of Energy Efficiency (BEE), provided energy efficiency advisory services to 695 MSMEs in 23 clusters of ceramic, brass, foundry, dairy, and hand tool sectors. Under the advisory, MSMEs invested ₹157 crores during the tough period of the pandemic and managed to save ₹81 crores in annual operating costs, 13,105 tonnes of oil equivalent, and prevented 83,000 tonnes of greenhouse gas emissions.

B. Matters to be Addressed in the Internationalization Process

There are many enablers and favourable policies to facilitate the internationalisation process of MSMEs. But the process is complex is fraught with many challenges.

1) International trade agreements

The major challenge for the MSMEs on their way towards internationalization is the conditions of the trade agreements among countries. Foreign trade policies have to be aligned with the commitments and obligations under the agreements with the World Trade Organisation (WTO) as well. Various agreements, such as property rights, and tariff agreements impact international trade relations directly. Trade wars give rise to the imposition of tariffs which brings barriers to international trade. The culture and rules of sharing knowledge and technology are different in different countries. MSMEs are affected the most

as they are equipped with comparatively fewer resources to deal with these restrictions.

2) High costs involved:

The cost of engaging with international markets is often very high. Therefore, the share of international trade by the MSMEs is often lower compared to its share in global income and employment generation. Due to their small size, the MSME units lack enough resources to integrate with the global market. Market expansion is often constrained by limited means of the MSMEs.

Because of the high costs often associated with engaging in international markets, they usually account for a small proportion of exports relative to their share of overall activity and employment. Smaller and newer firms also face greater challenges than larger firms in navigating foreign markets, with less capacity to address complex regulatory requirements.

3) Knowledge gap

International trade requires knowledge of the overseas market. As the MSMEs are not exceptionally big in size, they are often faced with the challenge of lack of experience and lack of knowledge in international businesses. Risks are involved in conducting business without having adequate knowledge of unfamiliar foreign territories. Choosing the wrong target market and overseas supplier can cause losses to the units. This gap can be fulfilled with investments in research on international market scenarios to understand customer insights and industry insights at a global level and explore potential markets. MSMEs need exposure to research on global trade to enable themselves to take informed decisions on their journey of internationalisation.

4) Exogenous factors

In the globalised market environment, the growth in trade is heavily dependent on exogenous factors. The exports are subject to the trend in international trade. International price changes and cross-currency exchange rates impact the movements in the countries' overseas trades. Global price movements of internationally traded commodities such as gold, metals, etc., deployed as raw materials affect the top and bottom line of the Indian MSME exports. Global market conditions set the direction of trade done abroad. Businesses must be in tune with the global demand and supply of commodities and services. Any changes in the market forces call for redesigning of business strategies for the enterprises.

5) Inadequate finance

MSMEs face a dearth of capital to keep them floated in the international market. During the pandemic and the pandemic-induced lockdown, many firms suffered severe financial losses both domestically as well as in international markets. Governments worldwide and in India launched various stimulus packages to revive the financial conditions of MSMEs. MSMEs need adequate trade finance to increase their access to the international market as accessing the same requires a considerable amount of resources. But as the MSMEs are smaller in size and capital, they are often denied enough credit facilities to enhance their businesses.

In India, most of the MSMEs are still not covered under the formal credit system. They still have to rely on informal credit

sources and bear the high costs of lending. The MSMEs need to be mentored by the formal credit sector on all fronts so that they can grow their businesses with more transparency and convenience. In recent times, the fintechs are coming forward to finance the MSMEs with a bigger amount and lesser documentation and on easier terms and conditions. Though these lenders need to be properly regulated, their penetration in the formal credit sector is playing an important role in bridging the credit gap in the Indian MSME sector.

6) *Political relations*

Diplomatic relations of the exporting country with other nations are often very volatile and tend to vary depending on international conditions and the individual nation's interests. In the present time, the Russia-Ukraine war has changed the commercial relations between many countries depending on the individual nation's political views. This type of sudden phenomenon creates uncertainty in the business relations of the MSMEs with the supplier and purchaser nations. Various trade sanctions are in place. The arrangements and agreements with the trade partners are affected due to political unrest. Unlike the big corporates that are equipped with adequate resources, the MSMEs find it difficult to cope with the changing situation. Hence, MSMEs need to calculate the country-specific risks and develop risk reduction strategies. The trade may be done with countries with a lower probability of political conflicts, and where their interests are aligned.

7) *Domestic bottlenecks*

Among the domestic challenges, infrastructure bottlenecks, complex procedures, and high transaction costs make the goods and services produced by the Indian MSMEs less competitive in the international markets. MSMEs in India still require better infrastructure to grow their businesses. To exploit their full potential, enterprises need raw materials and fixed assets at lower prices, with more ease, and on easier terms and conditions. Availability of workforce is another prerequisite for the MSMEs. Regulatory clearances for initiating exports need to be obtained with more ease. The procedures must be simplified and systematic. Then clearances need to be obtained in lesser time. MSMEs will flourish if setting up a greenfield project or expanding an existing unit becomes less challenging in any corner of the country.

6. Discussions and Conclusion

Internationalisation of domestic MSMEs and positioning

them in the global value chain is inevitable in the present time of financial globalization where the world is connected round the clock. No economy can thrive with protectionism in the modern globalized environment. Hence, placing Indian MSMEs on the Global Production Network through the process of internationalisation is the way forward to increase the nation's footprint in the global economy. A surplus nation is a developed nation. With enough conducive policies by the governments, the Indian MSMEs can be a supplier to Transnational or Multinational Corporations which invest and produce goods and services around the world. In the process, the MSMEs of today will aspire to evolve into large global corporates in the future.

The competition in the global market requires shorter technology and product life cycles. According to the dynamic market needs, MSMEs need to continuously reinvent their business models. Internationalisation forces MSMEs to increase their competencies to perform in the global market. In this entire process, emerging economies bloom to become developed nations and the entire global economy reaps the benefits of a prosperous world.

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