

Impact of Globalization on MSME: Prospects, Challenges and Policy Implementation on Economic Growth

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ABSTRACT

Globalisation is bound to impact every economic activity –the small-scale sector is no exception. Along with that World Trade Organisation (W.T.O) agreements and negotiations have thrown up a variety of challenges. The disturbing factor is that most of the small units are unaware of these agreements and negotiations and have no idea as to how they are going to affect them. With a view to build the capacity of the Indian micro, small and medium manufacturing enterprises for overcoming competition in the global markets and facing challenges being posed by the entry of the multi-nationals in the domestic markets Government of India (GoI) has taken various policy measures. The current paper focuses on the contribution of MSMEs, prospects and problems for MSMEs in this highly competitive global era.

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth, the process of globalization is an inevitable phenomenon in human history which has been bringing the world closer since the time of early trader and exploration through the exchange of goods, products, information, jobs, knowledge and culture.

KEYWORDS: Globalization, Economic growth, GDP, Integration, equal distribution etc

I. INTRODUCTION

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 Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions.

After attaining independence in 1947 India adopted mixed economic planning as a method to achieve economic development. Along with the Large Scale sector the thrust was on Small Scale sector because of its small size, indigenous technology, employment intensity and its suitability for rural area with limited techno-economic structure. Industrial policies are focused to promote SSIs through various incentives related to financial, fiscal and infrastructure measure; along with a heavy industrial base. The competition has become intense in every field. Nations

fight with game plan to sustain their economy, by introducing new policies and announcing incentives to support mainly their economic-indicators.

➤ **Back ground:** The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating largest employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. An overview of the growth and performance of MSME Sector

➤ Ministry of Micro, Small & Medium Enterprises (M/o MSME) envisions a progressive MSME sector by promoting growth and development of the Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises, adopting

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- cutting edge technologies and encouraging creation of new enterprises
- A number of statutory and non-statutory bodies work under the aegis of the Ministry of MSME. These include the Khadi Village Industries Commission (KVIC) and the Coir Board besides National Small Industries Corporation (NSIC), National Institute for Micro, Small and Medium Enterprises (NIMSME) and Mahatma Gandhi Institute for Rural Industrialisation (MGIRI).
- the Ministry of MSME runs various schemes aimed at financial assistance, technology assistance and up gradation, infrastructure development, skill development and training, enhancing competitiveness and market assistance of MSMEs
- Establishment of a National Board for Micro Small and Medium Enterprises headed by the Minister for MSME. The role of the Board is to examine the factors affecting the promotion and development of MSMEs, review the policies and programmes of the Central Government and make recommendations in regard to facilitating the promotion and development and enhancing 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
- It empowers the Central Government to undertake programmes and issue guidelines and instructions to develop and enhance the competitiveness of MSMEs

Mandate of the Ministry of MSME:

The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address different issues affecting MSMEs inter-alia the coverage and investment ceiling of the sector. The MSMED Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. The MSMED Act has the following key provisions:

Definition: In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below:

Manufacturing Sector

Enterprise Category	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five core rupees
Medium Enterprises	More than five core rupees but does not exceed ten core rupees

Service Sector

Enterprise Category	Investment in equipment
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two core rupees
Medium Enterprises	More than two core rupees but does not exceed five core rupees

The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements efforts of the State Governments through various initiatives. The role of the Ministry of MSME and its organisations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario

1. **Registered Sector:** Enterprises registered with District Industries Centres in the State/UTs., KVIC/ Khadi and Village Industries Board, Coir Board as on 31.03.2007 and factories under the coverage of section 2m(i) and 2m(ii) of the Factories Act 1948 used for Annual Survey of Industry having investment in plant and machinery upto Rs 10 core were considered to belong to registered sector.
2. **Unregistered Sector:** All enterprises engaged in the activities of manufacturing or in providing/rendering of services, not registered permanently or not filed EM with State Directorates of Industries/District Industries Centres on or before 31-3-2007 are called unregistered enterprises.
3. **Small Scale Industrial Unit:** An industrial undertaking in which the investment in fixed assets in plant & machinery, whether held on ownership terms, or on lease, or by hire purchase, does not exceed Rs. 100 lakhs as on 31-03-2001 is to be treated as a Small Scale Industrial Unit.(iv) **Micro Small Medium Enterprises (MSME):** MSME Sector consists of any enterprises, whether proprietorship, Hindu undivided family, association of persons, co-operative society, partnership or undertaking or any other legal entity, by whatever name called, engaged in production of goods pertaining to any industry specified in the first schedule of Industries Development and Regulation Act, 1951 & other enterprises engaged in production and rendering services, subject to limiting factor of investment in plant and machinery and equipment respectively as noted below:
 - A. **Micro enterprise**, if investment in plant and machinery does not exceed twenty five lakh rupees;
 - B. **Small enterprise**, if investment in plant and machinery is more than twenty five lakh rupees but does not exceed five core rupees;
 - C. **Medium enterprise**, if investment in plant and machinery is more than five core rupees but does not exceed ten core rupees

RECENT POLICY INITIATIVE:**Ease of Registration Process of MSMEs- Udyog Aadhaar Memorandum**

- Based on the Hon'ble Prime Minister's suggestion in his 'Mann Ki Baat' on 3.10.2014, to simplify forms to enable ease of registration of MSME's, Ministry of MSME has notified a simple one-page registration form 'Udyog Aadhaar Memorandum' (UAM) on 18th September 2015. The simplified one-page registration form UAM was made after consultations with the states and stakeholders, on the basis of recommendations made by the Kamath Committee on Financial Architecture and observations/approvals by Department Related Parliamentary Standing Committee, National Board for MSME and Advisory Committee for MSME etc.
- This is a path breaking step to promote ease-of-doing-business for MSMEs in India as the UAM replaces the filing of Entrepreneurs' Memorandum (EM part-I & II) with the respective States/UTs. The entrepreneurs in the MSME sector just need to file online, a simple one-page UAM on <http://udyogaadhaar.gov.in> to instantly get a unique Udyog Aadhaar Number (UAN). The information sought is on self-certification basis and no supporting documents are required at the time of online filing of UAM. Revised notifications were also issued on 10.01.2017 and 30.06.2017 for inclusion of new features including amendment provisions.
- More than 38.95 lakh UAMs have been filed since September 2015 upto December 2017. The filing of the UAMs has also significantly increased the information available with the Ministry of MSME regarding the trends in the sector and enhanced its capability to monitor trends within sub-categories within the MSME sector, such as manufacturing, services, enterprises, employment trends, and investment details

Schemes Provided By MSME:

The schemes have been categorized based on the benefit type to the beneficiary's i.e., Cash, Kind or Composite (i.e. Cash and Kind). Below is the table showing the DBT schemes of the Ministry with the benefit type, number of beneficiaries and total funds transferred / expenditure incurred

Name of The Scheme	Total Expenditure & Total No. of beneficiaries (2017. December)	
ATI Scheme (Training Component)	296' Lacks	1671
Marketing Assistance Scheme:	81.36	334
Coir Udyami Yojana	811	319
MPDA Grant to Khadi Institutions:	6085	342981
Coir Vikas Yojana	32.11	1199
Credit Guarantee Scheme	8200	2916910
Zero Effect Zero Defect ZED	58	50
Credit Linked Capital Subsidy Scheme CLCSS	283444.16	4081
Performance and Credit Rating Scheme	25836.7	11424
International Co-operation(IC) Schemes	2993.7	567

*The DBT applicable component for the scheme is very minimal and thus the fund transfer is NIL

II. OBJECTIVES OF THE STUDY

- To define how Globalization Impact on Small and Medium Industries
- To Identifying Major Factors Impact on MSMEs
- To understand main Prospects and challenges related to MSME
- To suggest policy implementations for growth of GDP

III. REVIEW OF LITERATURE

Willam Stoever -The author states that, India has always strategized foreign investment policies with the motive of being self-reliant. India has always targeted to import only those items and goods that are not available in the domestic market.

India Juris-The International Law Firm This firm has published an e-book on the foreign investment in india talks about the transition of the foreign policy from FERA to FEMA. The FERA was the law to control the foreign investments while FEMA is the one to regulate them. FEMA has been liberal on the laws and helped to reduce the rigors of the foreign exchange by removing the stringent provisions

Krishna Kumar He views that In India foreign collaborations have generally been to have the technological transfer which involves high cost. It is important to understand the MSME's single handily cannot afford this cost, however if a group of MSME's of similar nature of work

come together the burden of the foreign collaborations can be shared effectively

C. B. Bhave In is opinion the MSME's are a catalyst in most of the economies and constitute a major part of the industrial activity. MSME's generally face financial crisis. He foresees that the SME Stock Exchange will be a great boon to this sector as it will provide a wide pool of capital, increased status and credibility and other benefits.

Y. Srinivas (2005) MSMEs play a very significant role in the economy in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. However, despite their importance to the economy, most SMEs are not able to stand up to the challenges of globalisation, mainly because of difficulties in the area of financing

Bhatendra Kumar Gupta (2008) In India, the MSME sector is the second largest employer after agriculture. With the growth in the Indian Economy it is of need for the MSME to raise capital is becoming increasingly critical. He says that there is a need for the dedicated STOCK Exchange for the MSME sector to cater to their needs better which are different from the large industries.

Kristin Hallberg, (2000) Governments in both industrialized and developing countries provide a wide

variety of programs to assist small-and medium-scale enterprises (SMEs). Despite the success of SME strategies in a few countries, the majority of developing countries have found that the impact of their SME development programs on enterprise performance has been less than satisfactory? This paper investigates the economic rationale for intervention in support of small-and medium-scale enterprises, on both theoretical and empirical Grounds. It also suggests a framework for SME intervention to help the Bank Group's client countries design SME strategies, gauge the effectiveness of assistance programs, and achieve the objective of raising SME competitiveness.

Report of the Task Force on MSME (2010) The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. While one end of the MSME spectrum contains highly innovative and high growth enterprises, more than 94 per cent of MSMEs are unregistered, with a large number established in the informal or unorganized sector. Besides the growth potential of the sector and its critical role in the manufacturing and value chains, the heterogeneity and the unorganised nature of the Indian MSMEs are important aspects that need to be factored into policy making and programme implementation.

Vijay Kumar (2011) Talking about a few basic issues being faced by the MSMEs sector is lack of awareness, investment and resource, "Zero wastage and continuous design improvement hold the key to survival and growth of MSMEs.

IV. IMPACT OF GLOBALIZATION ON MSMEs

Prospects MSME:

- **Technology Centre Systems Programme (TCSP):** establishment of Physical Infrastructure: This includes establishment of 15 New Technology Centres and up-gradation/modernization of existing Technology Centres.
- Engaging the services of world class Technology Cluster Manager (TCM) to help enhance the technical capabilities of sector specific TCs and thereby helping them in linkages with the MSMEs and institutions
- Establish a Web Portal for creating a technology platform to meet various needs of MSMEs in addition to implementation of ERP in Technology Centres
- Construction work started for 10 new Technology Centres (TCs), Rohtak, Bhiwadi, Baddi, Bengaluru, Durg Puducherry, Vishakhapatnam, Sitarganj, Bhopal and Kanpur. Construction work also started for up gradation of 3 existing TCs, Bhubaneswar, Mumbai and Aurangabad. The estimated cost of construction of these TCs is Rs 600 crore. For Modernization of CTTC Bhubaneswar, IGTR, Aurangabad and IDEMI Mumbai, 44 high end machines and equipment have been procured. These machines are state of the art machines providing world class services to the industry.

International MOUs:

- Ministry of MSME has not signed any MoU during 2017-18 at Government to Government level with foreign countries for cooperation in MSME sector.
- Shri Giriraj Singh, Hon'ble Minister of State (Independent Charge), Ministry of MSME, Government of India and Dr. Mustapa Mohamed, Minister of

International Trade & Industry, Government of Malaysia, witnessed the MoU Signing Ceremony of National Small Industries Corporation of India and SME Corp. Malaysia on 25-01-2018 for Cooperation in MSME sector. The National Small Industries Corporation (NSIC) signed Memorandum of Understanding

- (MoU) for the year 2017-18 with the Ministry of Micro, Small and medium Enterprises, Government of India on 08.06.2017. The MoU envisages provision of enhanced services by NSIC under its various schemes for MSMEs in the country with the growth in the operational performance of the Corporation during the year 2017-18. NSIC has been graded as very good for FY 2016-17

Challenges of MSME:

- Special Single Point Registration Scheme (SPRS)-SC/ST enterprises registered under Special Single Point Registration Scheme can be eligible for upfront 100% subsidy on the fee of NSIC for fresh registration/renewal/amendments/competency certificate and also the inspection fees of the empaneled Inspection Agencies/ NSIC including Service Tax applicable. Registered SC/ST owned enterprises would also be eligible for getting benefits of issue of tender sets free of cost, exemption from payment of Earnest Money Deposit (EMD) etc. under Public Procurement Policy.
- Special Marketing Assistance Scheme (SMAS)- SC/ST entrepreneurs shall be allowed reimbursement under SMAS for maximum of 2 (two) international events and 4 (four) domestic events in a financial year.
- Subsidy for Performance & Credit Rating Scheme (SPCRS) - Under this scheme, 90% subsidy shall be provided on rating fee of all rating agencies for fresh rating under the scheme of NSSH, subject to the specified ceilings. For renewal of ratings for units having a rating of up to 5 will get a subsidy of 50% of the rating fee payable in the first year.
- Special Credit Linked Capital Subsidy Scheme-Under this scheme, 25% capital subsidy are given to SC/ST MSEs for technology up gradation (limited to maximum Rs. 1 crore)
- During 2016-17, assistance provided for 58 domestic exhibitions and 14 foreign visit/ participation in exhibitions benefitting 671 SC/ST MSMEs and 96 SC/ST MSMEs respectively. 38 Special Vendor Development Programmes were also organized participating 1561 MSMEs. In addition, 395 units were rated under Special Performance & Credit Rating Scheme and 80 units were registered/renewed under Single Point Registration Scheme

Role of MSME in Indian Economy:

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA) 1 and Gross Domestic Product (GDP)2, at current prices for the last five years is as below:

Contribution of MSMEs in Country's Economy at Current Price:**(Figures in Rs. Crores adjusted for FISIM³ at current prices)**

Year	MSME GVA	Growth %	Total GVA	Share of MSME in GVA%	Total GDP	Share of MSME in GDP (in %)
2011-12	2583263	-	8106946	31.86	8736329	29.57
2012-13	2977623	15.27	9202692	32.36	9944013	29.94
2013-14	3343009	12.27	10363153	32.26	11233522	29.76
2014-15	3658196	9.43	11481794	31.86	12445128	29.39
2015-16	3936788	7.62	12458642	31.60	13682035	28.77

Source: Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation**Policy Constructed By Government**

- Analysing the findings of the NSS (National Sample Survey), 73rd Round on Unincorporated Non-Agricultural Enterprises in Manufacturing, Trade and Other Services Sectors (Excluding Constructions). This also gives the latest and most comprehensive account of the performance of the MSME Sector as of the estimated number of 633.92 lakh enterprises, only 4000 enterprises were large and thereby out of the MSME Sector
- Studying the report of the Economic Census conducted by the Central Statistics Office (Report of 6th Economic Census, 2013) available at www.mospi.gov.in and also at www.msme.gov.in. CSO started Economic Censuses for preparing frame of establishments, particularly the 'area frame' which could be used for various surveys for collection of detailed data, mainly on non-agricultural sector of the economy.
- Collecting information on new registration of Enterprises, previously done through Entrepreneur Memorandum Part-II (EM-II) filed at DICs till September, 2015. This has subsequently been replaced by self-declared online filing system under Udyog Aadhaar Memorandum at udyogaadhaar.gov.in
- Analysing the information available in MSME Data Bank at <http://www.msmedatabank.in> for which, detail data has been provided by the enterprises on receipt of benefit under various schemes. The objective of the databank is to have one-stop source of information of MSMEs of India, including their, requirement in terms of credit, technology, raw material and marketing, etc. The MIS dashboard of the databank provides real time information on various types of the MSMEs registered on the databank, which is used for public procurement purposes by PSUs for procuring from MSMEs

Estimated Number of MSMEs (Activity Wise):

Activity Category	Estimated Number of Enterprises (in lakh)			Share%
	Rural	Urban	Total	
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Others	102.00	104.85	206.85	33
Electricity*	0.03	0.01	0.03	0
ALL	324.88	309.00	633.88	100

*Non-captive electricity generation and transmission and distribution by units not registered with the Central Electricity Authority (CE)

V. NOVELTY (NEW INFORMATION)

- MSME Support in Providing term Loans, Working Capital and delayed payments from customers are the major hindrances in the growth of MSME in India,
- In adding to that around 60 pc of MSMEs Shut down the units within 2-3 years of their establishment only around 20 pc are Successful. Actual base of Micro, Small and Medium enterprises (MSME) in India is fairly large in the World after China
- The Sector provides a wide range of services in Manufacturing with 6,000 products –ranging from Traditional to hitch products with make in India push and a significance jump in the FDI flows the Indian MSME Sector is poised for rapid growth and integration with major global value chains.
- As per official estimates there are about 63.05 million micro industries 0.33 million Uttar Pradesh has the largest number of MSME in the country
- west Bengal comes close Second with a share of 14% followed by Tamil Nadu and Maharashtra with around 8% Globalization has its own impact on MSMEs largely due to import of raw material at cheaper rates Managing

Director of Cefel Herbal Private Limited Gudur A.P said that one core investment in MSMEs can bring employment for 24 aged youth but it is not the case in large scale industries which can only provide employment to four people the company provide bigger support to urban area.

Innovation:

Today's Indian economy is characterized by great complexity and its growth mainly depends on the innovation. It is the one which increases the comfort level of a common man by offering value added products/services. These innovative firms create employment, generate revenue and also change the people's life style by offering quality products or services

1. However, more innovation happens only if there exists an ecosystem which nurtures the ideas resulting in the creation of good number of technological innovations Innovation is a process rather than an event and it is on continuous basis, having taking care of technology, manufacturing and other related activities.
2. The innovation in a firm is an interactive process which happens across the different departments and results in breakthrough products which are ready to be

commercialized. Innovation also happens as a result of organization's learning capabilities in order to deal the unexpected situations. So firms should try to give due importance for its learning ability, in order to improve innovations.

3. As result, the employee starts accumulating knowledge and consistently starts using the intellect quickly for producing new products/services. The innovation also depends on the firm's ability to respond the ever changing market demands. Proposed that the firm's innovation ability is defined as a set of characteristics that promotes the organization innovation. The productivity, profitability, customer satisfaction,
4. Overall improvement of an organization is happening in the Indian firms adopting innovations. This is a fact realized after a thorough research done to find how innovations are affecting Indian firms. As a result of this, the firms are able to achieve the competitive advantage. Innovations acts like a catalyst which enhances the performance of a company as compared with the company's not adopting innovations.

CONCLUSION

We hope that SMEs will increase their abilities to compete with global competition, because the research will introduce appropriate strategies that SMEs can follow to sustain growth. This research has implications for policy makers, managers and owners of MSMEs.

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