

# 1. The Global Economic Outlook and MSMEs

## 1.0. Introduction

The performance of SMEs in any economy is dependent on the performance of the economy itself. The performance of the economy, on the other hand, relates to the social system, as also, public policy which is a natural corollary of that system. For instance, the US system focuses on knowledge economy, where, the generation and dissemination of knowledge determines the prospects of the SMEs in the economic system. In the neo liberal policies prevailing in Europe, the relevance of SMEs are being increasingly called into question. In most of the developing countries, as also in the resurgent economies such as China, India and Brazil, SMEs play a role from both the growth and distribution angles. Such country-specifics make the world SME scene, what it is.

The economic linkages of the SME sector are, by no means, simple. Their forward linkages are dual in nature. On the one hand, they are directly linked with the large sector. Besides, they are directly, and often indirectly, linked with the larger enterprises and markets abroad. Such complexity makes an examination of the developments in the world economy, crucial and relevant for a discussion on the MSME sector in the Indian economy.

The attempt in this report is not just to make generalizations at a very macro level. It also does not confine largely to the micro-meso levels and ignore the global dimensions. By outlining a picture of the comparative scene, we propose to help the reader analyse and understand the situation independently. Before we go through the chapters of this report, it would be useful to have a brief digression on terminology. The term 'small and medium enterprises' (SMEs) is very much in currency both in academic circles and in the popular press. It generally connotes all enterprises below a cut-off level of employment/ investment (which varies from country to country). However, in many countries, including India, there are subcategories within, such as, micro, small, medium, unorganised/ organised etc, which are often overlapping. For analytical and policy purposes, it only means the lower layer of the enterprise system.

Given such a framework, it is important to have a discussion on two things: (a) a discussion on current developments in the global economy; and (2) developments in the enterprise scene with special focus on the SME sector.

## 2.0. World Economic Outlook

The state of the world economy in 2007 shows strengths, weaknesses, opportunities and threats. As for the strengths,

rather than stalling, global economic growth appears to be rebalancing. According to OECD forecast, the key developments are, projections such as, landing in the United States, a sustained recovery in Europe, a solid trajectory in Japan, and buoyant activity in China and India. In line with recent trends, sustained growth in OECD economies should be underpinned by strong job creation and falling unemployment. According to OECD estimates, growth for the OECD area as a whole is set to continue relatively strongly through 2007 and in 2008. As for world trade, it is expected to maintain momentum, driven by the major emerging market economies. (OECD, 2007)

Turning to the weaknesses, while the consequences of recent turmoil in financial markets are at present unclear, they do suggest that risks to growth are biased on the downside, particularly should turbulence in financial markets continue or deepen. In addition, some long-standing global imbalances remain a risk. With regard to the balance of payments, the current account deficit remains an underlying problem in the United States, while the surplus continues to soar in China and Japan, unmitigated by household demand. Housing markets may also have developed imbalances, with housing investment at or near ten-year highs in many OECD countries, while in the United States the downturn may be more protracted than previously expected. The debt burden of the developing countries, is a striking feature.

The Doha Round of trade negotiations are yet still, not quite within sufficiently easy reach in mid-2007. The benefits for world trade and development is debatable. What is needed is a closer understanding of the possible impacts, as also political pressure from parliaments to ensure meaningful discussions.

The failure to conclude the Doha Round poses several uncertainties; this would also be a wasted opportunity to rebalance the multilateral trading system, a failure of the first round of trade negotiations conducted under the auspices of the WTO. Even more important is the longer term threat represented by global warming. More radical measures need to be taken in a spirit of mutual responsibility for the future of the planet.

In mid-2007, worldwide economic weakness as a consequence of the slowdown of the United States economy was not expected to materialize. Instead, the OECD economies looked to be undergoing a smooth rebalancing with the OECD's central forecast at mid-2007 being characterized as benign. Amongst OECD members, real GDP growth - having exceeded forecasts by expanding 3.2% in 2006 - was expected to slow to 2.7% this year, and

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**Institute of Small Enterprises and Development**

ISED House, ISED Enclave, ISED Road,  
Vennala, Cochin- 682028, Kerala, India

Tel : 0484-2808171, 2808727, 2809884

Fax: 2809884

Mail: [info@isedonline.org](mailto:info@isedonline.org), [bds@isedonline.com](mailto:bds@isedonline.com)

**Institute of Small Enterprises and Development**

ISED House, ISED Enclave, ISED Road, Cochin - 682028

Tel: 0484 2808171, 2808727, 2809884

Email: [info@isedonline.org](mailto:info@isedonline.org) Web: [www.isedonline.org](http://www.isedonline.org)