

Small & Medium Enterprises: The Global Scene Today

ISED Discussion Paper

by
ISED Small Enterprise Observatory
jointly with
ISED Centre for Enterprise Development



Institute of Small Enterprises and Development

**Small & Medium Enterprises:
The Global Scene Today**

Small & Medium Enterprises: The Global Scene Today

by
ISED Small Enterprise Observatory
jointly with
ISED Centre for Enterprise Development

Institute of Small Enterprises & Development

© **Institute of Small Enterprises and Development 2017**

All rights reserved. No part of this document may be reproduced or utilised in any form or by any means, electronic or mechanical, including photocopying, recording, or by any information storage or retrieval system, without permission in writing from the publisher.

Institute of Small Enterprises and Development
ISED House, ISED Enclave, ISED Road,
Cochin-682 028, India
URL: www.isedonline.org
Email: info@isedonline.org



ISED Small Enterprise Observatory
ISED House, ISED Enclave,
ISED Road, Cochin - 682 028
URL: www.isedonline.org
Email: seo@isedonline.org

Published by P.M.Mathew, for Institute of Small Enterprises and Development. Printed and bound in India by Vivanta Printers, Cochin - 682 024

Series: ISED Discussion Paper
ISBN 978-93-80830-63-6
Price: Rs. 300.00 (India); US \$ 10.00 (Overseas)

About 'ISED Discussion Paper' Series

This monograph forms part of the '*ISED Discussion Paper*' series of the Institute. Brought out by ISED Small Enterprise Observatory (ISED-SEO), the Institute's knowledge platform, titles under this Series are meant to offer a platform for discussion on some of the latest developments in the economy and society. The contents of this document may be used for debates and discussions, as also for preparation of course materials, but with due acknowledgement only.

Preface

There are three long-term trends in the global economy today: First, globalization and interconnectedness. The opening up of trade and financial flows has helped to raise global growth and welfare, but without eliminating poverty in all economies-it also poses major challenges like rising inequality, which is increasingly noticeable around the world today. It is projected that, in the coming decades, powerful forces of globalization-communication technology, financial flows, migration-will continue to influence the world we live in. Second is demographic change. Life expectancy in many countries of the North has led to a swelling of the dependency ratio. Other societies, especially in Asia, will also go through a dramatic aging of the population in the future. All these will have enormous ramifications—socially, politically, and economically. Third is technological innovation. Technological progress is having a revolutionary impact in many ways—it raises people’s expectations in this hyper-connected world, but will also make a lot of traditional jobs obsolete. These underlying drivers create both opportunities and challenges for MSMEs. Of course, through difficult steps, they need to identify and sustain their space.

The purpose of this Discussion Paper is to bring to light some of the least known aspects of the subject. It is also meant to initiate a wider discussion on the subject so that it may contribute to public policy and strategies.

This paper is the outcome of a project at the Institute of Small Enterprise and Development. The study was initiated by the ISED Center for Enterprise Development, jointly with the ISED Small Enterprise Observatory. The support extended by the research team of the two Centers is gratefully acknowledged.

Cochin

February 23, 2017

P.M.Mathew

Small & Medium Enterprises: The Global Scene Today

Abstract

There are three long-term trends in the global economy today: First, globalization and interconnectedness. The opening up of trade and financial flows has helped to raise global growth and welfare, but without eliminating poverty in all economies-it also poses major challenges like rising inequality, which is increasingly noticeable around the world today. It is projected that, in the coming decades, powerful forces of globalization-communication technology, financial flows, migration-will continue to influence the world we live in. Second is demographic change. Life expectancy in many countries of the North has led to a swelling of the dependency ratio. Other societies, especially in Asia, will also go through a dramatic aging of the population in the future. All these will have enormous ramifications-socially, politically, and economically. Third is technological innovation. Technological progress is having a revolutionary impact in many ways-it raises people's expectations in this hyper-connected world, but will also make a lot of traditional jobs obsolete. These underlying drivers create both opportunities and challenges for MSMEs. Of course, through difficult steps, they need to identify and sustain their space. India's MSMEs have several positives in a relative sense, though much of it still remains yet to be tapped.

Key words: Small and medium enterprises, Global trends, India, globalisation.

1.0. Introduction

The story of the global economy, as at the last quarter of 2016, does not show a top bright picture. Recovery from the global economic crisis had been rather slow. The world economy continues to expand at rates well below the trends that preceded the onset of the global crisis in 2008, and is unable to close the significant employment and social gaps that have emerged. The challenge of bringing unemployment and underemployment back to pre-crisis levels now appears as daunting a task as ever, with considerable societal and economic risks associated with this situation.

The status of India's MSMEs and their propensity to grow needs to be evaluated against this background. A fresh look at the role and relevance of MSMEs is important as the forecasts for years ahead are also not very promising, and the original targets of 2020 now appear far fetched. May be, the targets have to be re-fixed at 2025 or beyond.

2.0. Key Data Sources

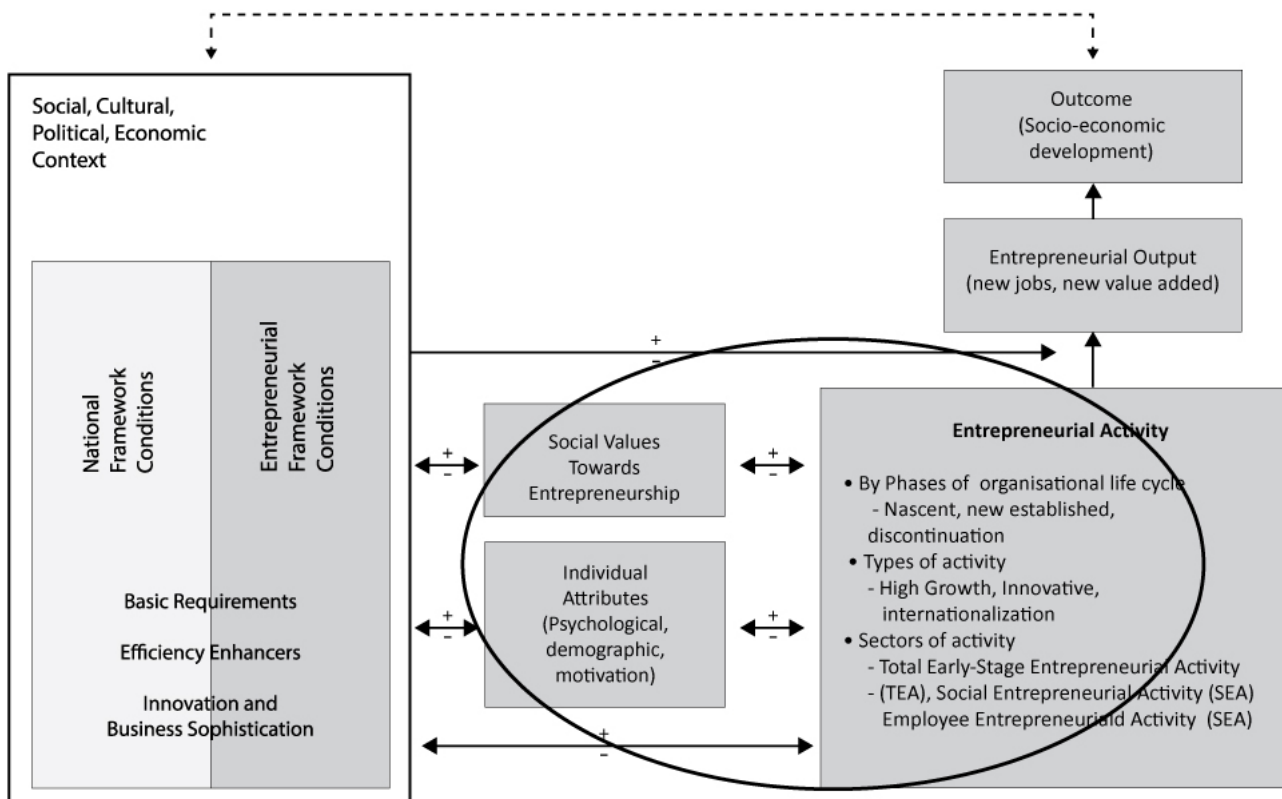
The World Bank and various United Nations agencies like UNDP, UNCTAD and UNIDO provide structured annual data concerning the global economic scene, disaggregated into county profiles, besides a number of ad-hoc reports on specific economy related issues, as well as on MSME sector. While these organization provide, in general over all trends in the countries, organizations like OECD, Oxford University etc. bring out subject-specific and country-specific studies with global previews. These reports and studies have an immense value in understanding the relative position of India among the countries in the world.

Global Entrepreneurship Monitor (GEM) is a privately sponsored initiative which studies the entrepreneurial aspects of participating countries and brings out an

annual Global Report. The GEM report illustrates the diverse profile of entrepreneurship around the world, revealing gaps that can be addressed through policy and practice. It makes use of an innovative model based on the concept of Total Entrepreneurship Activity (TEA) which represents the Life Cycle Approach to entrepreneurship development- start up, sustenance, growth, stabilization and exit. The GEM approach is illustrated in the chart below:

The propensity for growth is measured in terms of Early-stage Entrepreneurial Activity through the overall 'TEA indexing' and its components of entrepreneurial perceptions, endurance of the start up to stay in business for 3.5 years and upwards, gender profile of the new and continuing Early Stage Entrepreneurs, the age-profile of the work force etc. Start ups are viewed from angles relevant to three different stages viz. Nascent, not older than 3 months; New, less than 3.5 years and Established, survived beyond 3.5 years. It also looks at enterprise deaths. The 2015-16 report studies 60 participating countries; India participated in the study until 2001 and then rejoined in 2013, after 12 years. Participating countries are categorised into three groups viz. Factor driven, efficiency driven and innovation driven. The base level, factor driven, countries are defined as those that depend largely on their natural endowments. Technological advancement by way of innovation to meet the requirements enable countries to stand on their own without much dependence on others or on their natural resources. Such countries are classified as 'Efficiency Driven'. Countries where the level of innovation has matured such that they are capable of supplying intellectual content to their activities and transferring them to others in the previous two stages. India is placed in the primary category of 'Factor Driven' countries, at the threshold of entering into the 'Efficiency driven' class. The chart below shows the relevance of GEM studies to the national economy.

Figure 1: Gem Conceptual Framework



Source: *Global Entrepreneurship Monitor, 2015/16*

3.0. Major Findings

The global economy continued to expand only at a moderate pace of 2.6 percent in 2014. United Nations had projected a possible growth rate of 3.1 percent for 2015 and 3.3 percent for 2016. In January 2016 World Bank had projected a 2.9 percent growth. Since the publication of the January 2016 Global Economic Prospects, weakness in the global economy has persisted and risks have become more pronounced.

By mid 2016, the growth prospects were found to have weakened throughout the world economy, according to the June 2016 Global Economic Prospects (GEP). Global

growth for 2016 is now projected at 2.4 percent, 0.5 percentage point below the January forecast. Emerging Market and Developing Economies (EMDEs) are facing stronger headwinds, including weaker growth among advanced economies and low commodity prices. Significant divergences persist between commodity exporters struggling to adjust to depressed prices and commodity importers showing continued resilience. However, global growth is expected to pick up to 3 percent by 2018, as stabilizing commodity prices provide support to commodity exporting EMDEs. "Downside risks have become more pronounced. These include deteriorating conditions among key commodity exporters, softer-than-expected activity in advanced economies, rising private sector debt in some

The Global Economy in 2016: Major Trends

Box No: 1

By mid 2016, the growth prospects were found to have weakened throughout the world economy, according to the June 2016 Global Economic Prospects (GEP). Global growth for 2016 is now projected at 2.4 percent, 0.5 percentage point below the January forecast. Emerging Market and Developing Economies (EMDEs) are facing stronger headwinds, including weaker growth among advanced economies and low commodity prices. Significant divergences persist between commodity exporters struggling to adjust to depressed prices and commodity importers showing continued resilience.

Source: *The World Bank, Global Economic Prospects, June 2016*