

ISED Discussion Paper

SMEs & Entrepreneurship: Continental and Country Experiences

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Institute of Small Enterprises and Development

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About 'ISED Discussion Paper' Series

Brought out by the Institute's knowledge platform, the ISED Small Enterprise Observatory, titles under this Series are meant to stimulate a discussion on some of the latest developments in the economy and society. The contents of 'ISED Policy Briefs' emerge largely from the findings and experience of research work at the various Knowledge Centers of the Institute of Small Enterprises and Development. They are meant to be a backgrounder for policy debates and discussions at various levels.

Preface

The Pandemic COVID-19, which has triggered disruption in lives and livelihoods globally, obviously, re-shapes the present as also the future of economies and of humanity as a whole. However, it is a challenge and opportunity for humanity to outlive such constraints. Shaping new development strategies and promotion of enterprise and entrepreneurship alone can be the solution to this impasse. That means, we need to start speaking of the impacts at the “bottom of the pyramid”, and plan for broad basing the mass base of entrepreneurship.

Under the India MSME Communication Programme(IMCP), the ISED Small Enterprise Observatory, in co operation with the various Knowledge Centres of the Institute, makes a rigorous analysis of the latest currents in the MSME constituency, leading to a unique ‘Development Report’. This study is a spill-over of this exercise of Development Reporting on micro, small and medium enterprises (MSMEs) at the ISED.

While the team of the Observatory did a meticulous job under the guidance and support of the Project Leaders, individual members of the Team, including the editors and the Associates, have made their special contribution in specific thematic areas. While this title is significant in the present context of the Indian economy, and of the MSME developments in specific, I hope it will contribute to wider discussions in the subject area.

As this title comes out as a joint output of the Observatory and the ISED Centre for Enterprise Development, the Institute wishes to thank, without fail, the pains and efforts of the authors, and all who have supported it through inputs and suggestions. ISED has taken best efforts to ensure the quality and reliability of this paper. However, for the findings and views, the authors alone are responsible.

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Abstract

The emerging global agenda of SME development has to be understood against the historical factors, as also the more recent continental and country experiences. Globally, technology and trade have been undergoing rapid changes. The commodity-producing countries are seriously challenged recently, because of falling commodity prices. The new era of 'flexible production' has entered into a new phase of economic concentration based on market opportunities. This phenomenon of 'Hubanomics' is likely to redefine the prospects of countries and regions. Naturally, at the end of employment, technology is likely to bring in new problems and challenges. On the other hand, in the labour market, a new wave of self employment is getting accelerated; the moot question, however, is its sustainability. From the point of view of incomes and livelihoods, these changes are likely to bring in new challenges regarding sustainable development to India as well.

KEY WORDS: *Hubanomics, continental experience, SME, technology, trade*

1.0. Introduction

Though SMEs constitute the largest single segment of the business population in most countries, and entrepreneurs form a significantly large constituent of the labour market, they are relatively invisible in the domain of analysis and policy making. Therefore, what one can generally conclude is that, the major changes in economic structure and policy have their impact, either positive or negative, on them.

The global economic history of the past one hundred years stand out in terms of the shifting emphasis in economic structure and policies. The series of global trade negotiations, under the aegis of the UNCTAD/GATT, resulted in a shift from bilateralism to multilateralism, as also to a rule-based system of trade and investment. The rapid changes in technology is leading to a substantial reduction in the distance in time and space, both in the arena of production and exchange. More recently, with the rapid changes in global politics, one also finds a 'u-turn' from multilateralism to bilateralism, and to protectionist policies, that gradually emerges into a common practice by many countries. Of late, the trade war between China and the USA has largely contributed to global situation of economic slowdown. These significant changes in the policy and practice at the global level, have important implications on the environment in which SMEs operate.

The purpose of the following discussion is a stock-taking of the emerging trends at the global level, that can have important implications for the prospects of SMEs and livelihood opportunities in the developing and emerging

economies, and more specifically, in India. Though SMEs is often considered as rather a regional subject, it can have national as well as international implications. It is on these grounds that the United Nations has, of late, reckoned it as part of a global development agenda. June 27 has been celebrated as the 'International Day of SMEs'.

2.0. The Emergence of Small Enterprises and their Policy Space

Public policy takes shape as a response to an articulated public issue. While, this public issue and its magnitude varies from country to country, the macro-economics, at the country level and internationally, have an



important role to play. What is the role of SMEs in the public policy space? How does developments in the SME constituency influence public policy in a country? An answer to these questions need to be sought in terms of an examination of the relative openness of the economy. Until the 1990s, the economies were largely closed. In the modern world, where economies are more open, cross-border investment flows are decisive in SME growth and achievement of sustainable development goals.

According to SME Competitiveness Outlook 2019 (by UNCTAD/ITC), increasing annual investments in SMEs by \$1 trillion would yield disproportionate dividends in terms of progress towards the Sustainable

Global Economy: From Poverty Widening Inequality

The recently released Sustainable Development Goals Report 2019 paints a mixed picture of global progress on extreme poverty eradication. On the one hand, global poverty rates, measured as the proportion of people living below the international poverty line of US \$1.90 a day, have continued to decline. In 2018, an estimated 8.6 per cent of the world's population was living in extreme poverty, down from about 28 per cent in 2000 and 16 per cent in 2010. Much of this decline was due to the rapid progress achieved in East Asia and South Asia. China has virtually eliminated extreme poverty over the past three decades, while India has also made great strides, particularly since the early 2000s. On the other hand, global progress has been highly uneven. In sub-Saharan Africa, more than 40 per cent of the population are still living on less than \$1.90 a day and the total number of extremely poor people is significantly higher today than it was two decades ago. Globally, the pace of progress in eradicating poverty has notably slowed in recent years.

Development Goals. These investments also have the potential to deliver healthy returns for investors. To boost investment in developing country small firms, this report finds that stronger investment facilitators (actors which connect firms to investors) are a key. The report also finds that, bundling investments for small firms into large packages helps scale up financing. Besides, disseminating information on small business credit performance improves risk assessments. Helping the small firms to be investor-ready, can contribute to improve their commercial viability.

3.0. Global Economy: Latest Macro-level Trends

Though it has not yet been officially broadcasted by the multilateral agencies, a global recession is in the offing. The rumblings of such a crisis has been painted by some of the global thought leaders and institutions. 'The Economist', in its issue dated August 17 2019, has given broad indications of a trend towards global recession. The suggestive arguments of the Journal are based on an analysis of the behaviour of the bond market. In Germany, the latest figures indicate a contraction of the economy. Interest rates are negative for various kinds of short-term deposits and bonds. In Switzerland negative yields extend all the way to 15 year bonds. Even in Italy, where the shape of the economy today is not so good, a 10 year bond gets 1.5% yield. In the USA, the behaviour of the yield curve is notable. Dollar is up against many other currencies, whereas gold is at a 6 year high position. The prices of copper, which is often used as a proxy for industrial health, are down sharpened.

The Economist gives three warning signals :1) the more investors reach out at Dollar, the more it indicates that there is danger ahead;2) the trade negotiation between

USA and China need to be watched as a critical factor; and 3) the corporate bond yields in USA, is a point to be watched. The extreme anxiety in the bond market may come to look like a form of recklessness. That, in turn, can worsen the situation.

The projections on global GDP growth, as in 2018, paints a picture of slowing gradually over the next two years. It marks deceleration in advanced-economies , and recovery in major commodity-exporting emerging market and developing economies levels off(World Bank, 2018).

According to the World Bank's optimism on these countries," if the present growth rate can be sustained, it could help lift millions out of poverty, particularly in the fast-growing economies of South Asia,". But, besides growth, boosting productivity and labour force participation, are also crucial.

Activity in advanced economies was expected to grow 2.2 percent in 2018 before easing to a 2 percent rate of expansion next year, as central banks gradually removed monetary stimulus, in June 2018 Global Economic Prospects says. Growth in emerging markets and developing economies overall was projected to strengthen to 4.5 percent in 2018, before reaching 4.7 percent in 2019 as the recovery in commodity exporters matures and commodity prices level off following this year's increase.

This outlook is subject to considerable downside risks. The possibility of disorderly financial market volatility has increased, and the vulnerability of some emerging market and developing economies to such disruption has risen. Trade protectionist sentiment has also mounted, while policy uncertainty and geopolitical risks