

Enterprise Scene in India Today: Search for Survival Strategies

ISED Policy Briefs

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ISED Small Enterprise Observatory
Jointly with
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Preface

Against the background of the on-going Pandemic, it is important to carefully understand the scenario of labour market behaviour, and of MSME performance in India, as the new survival strategies need to be explored and supported. The purpose of this paper is three-fold: First, it attempts to provide a summarised view of the MSME constituency in India today. Secondly, it discusses the strategic options available to the country in this transitional stage. Thirdly, it looks into some of the key steps relating to policy and strategies that needs to be initiated on a priority basis.

Under the India MSME Communication Programme(IMCP), the 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 come 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

Against the background of the on-going Pandemic, it is important to carefully understand the scenario of labour market behaviour, and of MSME performance in India, as the new survival strategies need to be explored and supported. The purpose of the following discussion is three-fold: First, it attempts to provide a summarised view of the MSME constituency in India today. Secondly, it discusses the strategic options available to the country in this transitional stage. Thirdly, it looks into some of the key steps relating to policy and strategies that needs to be initiated on a priority basis.

Key Words: MSME, policy, survival strategies, Covid 19, India

1.0. Introduction

Having traversed through the current global setting of a pandemic, and of an economic crisis there from, it is important to carefully understand the scenario of labour market behaviour, and of MSME performance. Such an understanding is critical, as the destinies of millions of people and their income opportunities would be shaped by the course of Covid-19, which still remains too uncertain. The purpose of the following discussion is three-fold: First, it attempts to provide a summarised view of the MSME constituency in India today. Secondly, it discusses the strategic options available to the country in this transitional stage. Thirdly, it looks into some of the key steps relating to policy and strategies that need to be initiated on a priority basis.

2.0. Post-Covid Global Order: A Scenario

It has now been generally accepted that the post-Covid19 world order is likely to be radically different in terms of geo politics, economic relations with respect to trade and investment, and the distribution of income and opportunities within and among countries. Countries and communities will have to think in terms of 'boot-strap development' strategies, which would essentially mean meticulous attempts to harness their natural advantages and capabilities.

What is the global order that is likely to emerge from the present crisis? There are two view points on this: 1) death of multilateralism and active globalisation; and 2) selective globalisation. 'Globalisation', obviously, may undergo a change in terms of its content and direction, based on learning on the experience of the past.' Selective globalisation', a new paradigm that is likely to emerge, would mean a multilateral advisory arrangement, to address global issues, such as poverty, unemployment, climate change, public health etc. Development of SMEs and entrepreneurship are likely to have a central place in this agenda, because the

multilateral commitments are likely to be much more declaratory rather than mandatory. This would mean that, the corporations rather than the governments will implement such declarations at the ground level-CSR in a new form. The prospects of development in general, and of opportunities of income and employment at the bottom layer of the productive system, will be dependent on these changes.

2.1. Objective Situation

Perspectives and projections on the post-COVID 19 global economy and society have come from various sources. Multilateral agencies have made their global projections on economic growth, employment, trade, and investments.

On growth prospects, the key projections have come from the IMF and the UNDP. According to the United Nations (2020), the world economy in 2020 is projected to shrink by 3.2 per cent, racking up some \$8.5 trillion in overall losses – wiping out nearly four years of output gains. As of mid-2020, GDP in developed countries will plunge to -5.0 per cent, while the output of developing countries will shrink by 0.7 per cent.

On employment, the key observations have come from the ILO. Global unemployment is expected to increase by around 2.5 millions in 2020. Besides, underemployment will exacerbate, as total labour underutilization is more than twice as high as unemployment; the estimated figure is 470 millions.

On trade and investment, UNCTAD has come out with some projections. International trade in goods is expected to continue its nosedive in the coming months as economies struggle to recover from lockdown measures used to slow the COVID-19 outbreak. The latest

UNCTAD data published on 11 June show that, merchandise trade fell by 5% in the first quarter of the year and point to a 27% drop for the second quarter, and projects an annual decline of 20 per cent.

On industrial growth, the UNIDO has come out with some important findings. The most recent data from UNIDO's seasonally adjusted index of industrial production (April 2020 vs. December 2019) indicate that, both lower and upper-middle income countries have been significantly impacted by the Pandemic.

3.0. The Evolving Economic Order: A Snapshot

Where do such changes in socio-economic scenario lead to? An answer need to be sought in relation to: 1) the evolving technology paradigm, as a response to the COVID 19 experience; and 2) changes in production structure and the flow of capital; 3) the evolving growth pattern and business demography; and 4) the distributional scenario, in relation to incomes, opportunities and employment.

3.1. Evolving Techno-economic Paradigm

The evolving global order, as in 2020, need to be examined in relation to the great rupture in the dominant techno-economic paradigm, by an external shock. The Fourth Industrial Revolution has been co terminus with the changes in the paradigm of global value chains, and as in 2019, it was getting into another phase. The key functional drivers of 5G were expected to unlock a broad range of opportunities, including the optimization of service delivery, decision-making, and end-user experience. This was expected to result in \$13.2 trillion in global economic value by 2035, generating 22.3 million jobs in the 5G global value chains alone. Much against this stream, the experience of COVID 19 ushers in, and is leading to an accelerated focus towards local and regional value chains. A synthesis, obviously, need to emerge from these two conflicting streams.

3.2. Enterprise Structure and Capital Flows

The changes, as visualised above, can be both a cause and consequence of radical changes in industrial structure. More recently, there has been a mushrooming of literature that paints the scenario of an enhanced technology driven world. But the emerging scene is not as simple as that. Apart from macro level projections, a careful analysis of the changes in household and firm behaviour over time would be needed.

Besides projections given by the various multilateral agencies, there are also some valuable insights that have come from other sources. According to the McKenzie Report (2020), the key changes anticipated belong to four broad areas:

1. Social contracts. The essential and expanded role played by the state during the Pandemic, protecting people and organizing the response, will transform the long-held expectations on individuals and institutions.

2. Future of work and consumption: The new technology platforms and practices, ranging from e-commerce to remote working and e-learning tools (e.g.: Alibaba's Ding Talk, We Chat Work, and Ten cent Meeting) will be carried forward. New working and shopping practices will probably become a permanent fixture of the next normal.
3. Speed and scale of Resource Mobilization: The experience of emergency infrastructure creation (eg: China, Mumbai) and huge economic stimulus packages by governments, are lessons for investment promotion and governance.

Regionalization of Supply Chains: Vulnerability of extended global supply chains will be re examined by countries. For example, China accounts for about 50 to 70 percent of global demand for copper, iron ore, metallurgical coal, and nickel. New experiments of countries will be towards contiguous location of production, leading to localization or regionalization of supply chains.

The above view of the McKenzie report has some limitations, as well: First, business is helping to reshape, how we live, work, consume, and connect in ways that could outlast the current crisis. Naturally, this could shift our economic focus from growth to distribution. Secondly, stake holder roles in the development process are likely to undergo major changes. What follows is that, business is helping reshape how we live, work, consume, and connect in ways that could outlast the current crisis.

Technology is generally considered as a driver of this emerging divide. Capabilities as the driving force of graduation in income, was side tracked, pushing many people into sectors such as retail and home-health services. Money illusion, rather than job security have enticed them to hold on. A similar influence was migration, which worked both as a push as well as a pull factor. Education has played the role of intensifying such unsustainable tendencies, rather than to contain them.

New forms of support to the gig economy are likely to emerge. For example, funds were created by various businesses to compensate sick and quarantined workers. While this was a response to the concerns expressed by the gig workers, new forms of "social responsibility" initiatives are likely to emerge.

What is an economy? It is the sum total of arrangements for the production and exchange of goods and services. It is the outcome of decisions of millions of decisions by households and firms. But, these decisions are taken both at micro and meso levels. While consumers are seriously sceptical of particular goods/services, a particular consumption pattern develops. This shapes