



EXPORT PERFORMANCE OF MSME SECTOR IN THE POST LIBERALIZATION ERA

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ABSTRACT

The Micro, Small and Medium Enterprise (MSME) sector is one of the most vital sectors of the Indian economy. It is the real engine of economic growth of our nation. The government of India, with the introduction of new economic reforms since 1991, has withdrawn many protective measures for the MSMEs. This has forced these enterprises to face ruthless competition in domestic and global markets. The present study aims at evaluating the impact of new economic reforms on the exports of the MSME sector. The period under review is 1991-92 to 2011-12. The study reveals that the export of MSMEs, especially during the second phase of liberalization is not up to the desired level when compared to India's total exports.

KEYWORDS: MSMEs, New Economic Reforms, Globalization, Liberalization, India's Exports, MSMEs Exports, ACGR, Global Market.

I. INTRODUCTION

The Micro, Small and Medium Enterprises (MSMEs) play a strategic role in India's economic development and have remained in headlines in all the ages. These enterprises are the backbone of our economy. As per the recent available information, the MSMEs account for about 95 per cent of the

country's industrial units, 45 per cent of exports, 8 per cent of the GDP and provide large number of employment opportunities to the Indian people of all grades and skills. The distinct advantages of these enterprises include low capital intensity, decentralization of industrial base and dispersal of industries in rural areas

and creation of entrepreneurial skills at grass root levels. Our pace of economic growth is substantially influenced by the MSME sector and this sector today is believed to be an elixir for all economic and social ills of our nation.

II. CONCEPT OF MSMEs

In India, the concept of MSMEs has undergone changes for many times. A major

change took place in 2006 with the enactment of MSME Development Act-2006. This act classifies MSMEs into two categories namely manufacturing and services. The act further integrates three tiers of enterprises viz; micro, small and medium. Table -1 gives the detailed information of investment limit of each category.

Table-1
Investment Limit of MSMEs under MSMED Act 2006

Category	Manufacturing Enterprises (Investment in plant and machinery)	Service Enterprises (Investment in equipment)
I. Micro Enterprises	Up to Rs. 25 Lakhs	Up to Rs. 10 Lakhs
II. Small Enterprises	More than Rs 25 Lakhs and Up to Rs. 5 Crores	More than Rs. 10 Lakhs and Up to 2 Crores
III. Medium Enterprises	More than Rs 5 Crored and Up to Rs. 10 Crores	More than Rs. 2 Crores and Up to 5 Crores

Source: *Rajesh, K. and Sivasankar, P.R. (Sept. 2012), Role of MSMEs in the economic development of India, SEDME, Vol. 19, No. 3, P. 77.*

III. LITERATURE REVIEW

The review of literature is an important aspect of every research. It helps to understand the significance and background of the research topic selected for study. A brief of the same is presented in this section. B. Krishnamurthy (2002) in his study concluded that due to liberalization and entry into WTO, the MSMEs have to be strong enough to compete not only the internal market but also the enterprises of foreign countries. Mahalingam (2004) concluded that the MSMEs in many areas are fast emerging as contributors to India’s total exports. Neelam Jain (2004) found that the numbers of problems have been confirmed by the MSMEs sector following the process of globalization.

According to Raghurama (2005), MSMEs must survive and grow for which export is of vital importance. But MSMEs are faced with various marketing problems. Vijay Guma (2009) says that the new economic reforms of 1991

and emergence of WTO have brought certain challenges and several new opportunities before MSMEs sector. Sonia and Kansai Rajeev (2009) studied the effects of globalization on MSMEs during pre and post liberalization era. They concluded that MSMEs failed to put up an impressive export performance in post reform period. Subrahmanya Bala (2011) has probed the impact of globalization on the export potentials of the MSMEs. The study shows that the share of MSMEs export in the total export of India has increased in protection period but remain more or less stagnated during the liberalization period. Rajib Lahari (2012) says that the MSMEs in India face a tough situation due to extreme competition. He concludes that though the globalization has increased competitiveness in Indian MSMEs, still Indian MSMEs are not adequately prepared to compete with global players.

IV. STATEMENT OF THE PROBLEM

India's foreign trade is deeply associated with MSMEs exports. Goods manufacturing in this sector contributes substantially in country's total exports. Since July 1991, with the introduction of new reform measures the government has withdrawn many protective policies for the MSMEs and introduced Promotional measures to increase competitiveness of this sector. The new economic reforms and WTO agreement altered the incentive framework of our MSMEs. This has forced the MSMEs to face tough competition from large domestic firms and MNCs. All these have certain positive and negative effects on MSMEs exports. With this background in mind the present study has been undertaken to examine the export performance of MSMEs with special reference to its trends, patterns and concerns in the post liberalization era. It covers a period of 21 years from 1991-92 to 2011-12.

V. OBJECTIVES

The specific objectives of the study are:

1. To evaluate the progress made by the MSMEs in India.
2. To find out the impact of new economic reforms and WTO agreement on the exports of Indian MSMEs products.
3. To explain the trends in MSMEs exports during the period 1991-92 to 2011-12.
4. To analyze the changing scenario of the composition and direction of MSMEs exports.
5. To identify the constraints and bottlenecks in the way of exports of MSME sector.
6. To suggest suitable measures based on the observations to gear up the pace of MSME exports.

VI. METHODOLOGY

The research methodology includes the scope, data-base, parameters and tools of analysis that are generally used in the research work.

A. Data-Base

The present study is descriptive in nature. It is mainly based on secondary data. The major sources of secondary data include various published books, journals, periodicals, economic survey of India, Annual Reports on MSMEs, Report of Prime Ministers Task Force on MSMEs, Report of forth All India census of MSMEs 2006-07, RBI publications viz; Report on Currency and Finance, Annual Report on Basic Statistics on Indian Economy and India: MSMEs Report -2012 as published by Institute of Small Enterprises and Development, Cochin.

B. Parameters and Tools

Six major parameters namely No. of MSMEs, Investment, Production, Employment, Export and India's total Exports have been used for examining the performance of MSMEs exports. The data collected from different sources are tabulated and classified systematically to make the study more scientific. The different statistical and mathematical tools viz; percentage, growth in folds, annual growth rate and annual compound growth rate are used to find out factual position of MSMEs export during the post liberalization period.

VII. FINDINGS AND DISCUSSION

The new economic reforms introduced a large number of innovative and promotional measures. A distinct feature of these measures was the shift from protection to promotion and competition. In this context, the export performance has been reviewed in this section.

1. The study reveals that the exports of MSMEs as well as the total exports of India increased rapidly during the period of 1991-12 to 2000-01 (Table 2

and 3). However; exports of MSMEs increased at a higher rate than the total exports of India. The exports from India increased by 4.62 times from Rs. 44042 crores in 1991-92 to Rs. 203571 crores in 2000-01 and thus registering the ACGR at 18.54 percent. The export from MSMEs, on the other hand, increased by 5.02 times from Rs. 13883 crores in 1991-92 to Rs. 69797 crores in 2000-01 with 19.65 per cent ACGR during the same period.

2. In the second phase period of 2001-02 to 2011-12 (Table-2 and 3) MSMEs exports grew at a lower compound growth rate of 14.82 per cent per annum than the India's total exports which increased at a higher rate of 21.50 per cent per annum. There was also a considerable degree of fluctuation in the annual growth rates of MSME sector exports ranging from a low of 7.62 per cent and high of 42.30 per cent during 1991-92 to 2000-01 and 2.07 per cent and 27.42 per cent during 2001-02 to 2011-12.

Table- 2
Export Performance of Indian MSMEs Sector (1991-92 to 2011-12)
(Exports: Rs. Crores)

Sr. No.	Year	India's Total Exports	Annual Growth Rate (%)	Exports From MSME Sector	Annual Growth Rate (%)	% share of MSMEs Exports in Total Exports
1	2	3	4	5	6	7
1.	1991-92	44042	35.27	13883	43.65	31.52
2.	1992-93	53688	21.90	17784	28.10	33.12
3.	1993-94	69571	29.91	25307	42.30	36.28
4.	1994-95	82674	18.52	29068	14.86	35.15
5.	1995-96	106353	28.64	36470	25.46	34.29
6.	1996-97	118817	11.71	29248	7.62	33.03
7.	1997-98	130101	9.49	44442	13.23	34.15
8.	1998-99	139753	7.41	48979	10.21	35.04
9.	1999-00	159561	14.17	54200	10.66	33.96
10.	2000-01	203571	27.58	69797	28.78	34.28
11.	2001-02	209018	2.67	71244	2.07	34.08
12.	2002-03	255137	22.06	86013	20.73	33.71
13.	2003-04	293367	14.98	97644	13.52	33.28
14.	2004-05	375340	27.94	124417	27.42	33.14
15.	2005-06	456418	21.60	150242	20.76	32.91
16.	2006-07	571779	25.27	182538	21.50	31.92
17.	2007-08	655864	14.70	202017	10.67	30.80
18.	2008-09	840755	28.19	214387	6.12	25.50
19.	2009-10	845534	00.56	238752	11.36	28.23
20.	2010-11	1142922	35.17	256834	7.57	22.47
21.	2011-12	1465959	28.26	283847	10.51	19.36

Source: 1. Govt. of India, Ministry of MSMEs (2012), Annual Report on MSMEs, 2011-12, PP.15-16.

2. www.dcmsme.gov.in

3. With regard to the share of MSMEs exports in India's total exports (Table-2), it was very negligible in the early period of independence. In 1971-72 the share of these enterprises increased to 9.6 per cent and further to 26.5 per cent in 1981-82. Thereafter, the share of MSME sector in the total exports varied between a minimum of 31.52 per cent and maximum of 36.28 per cent during 1991-92 to 2011-12 and 19.36 per cent and 34.08 per cent during the period of 2001-02 to 2011-12. It is interesting to note that the share of MSME sector declined from 32.91 per cent in 2005-06 to 25.50 per cent in 2008-09 and further to 22.47 per cent in 2008-09 and further to 22.47 per cent and 19.36 per cent in 2010-11 and 2011-12.

Table -3
Compound Growth Rate of Selected Parameters of MSME Sector
(Per cent per annum)

Sr. No.	Parameters	Growth Rate Between		
		1991-92 to 2000-01	2001-02 to 2011-12	1991-92 to 2011-12
1	2	3	4	5
1.	No. of MSMEs	4.07	11.95	7.93
2.	Investment	4.32	4.03	4.21
3.	Production	13.95	17.34	12.19
4.	Employment	4.12	5.09	4.61
5.	MSMEs Export	19.65	14.82	16.28
6.	India's Total Exports	18.54	21.50	19.15

Source: 1. Govt. of India, Ministry of MSMEs (2012), Annual Report on MSMEs, 2011-12, PP.15-16.

2. www.dcmsme.gov.in

4. The production and exports of the MSME sector increased by 17.33 times and 20.44 times respectively during 1991-91 to 2011-12 (Table 4). Besides, the proportion of MSMEs exports to their own production was 17.22 per cent in 1991-92. This share increased to 25.61 per cent in 1993-94, 27.31 per cent in 2002-03 and 30.17 per cent in 2005-06. Thereafter, it declined to 23.45 per cent in 2010-11 and further to 20.30 per cent in 2011-12. Overall, the proportion of MSMEs exports to their own production varied between a low of 17.22 per cent in 1991-92 and a high of 30.17 per cent in 2005-06.

Table -4
Production and Exports of Micro, Small and Medium Enterprises

Sr. No.	Year	Production of MSMEs Sector (Rs. Crore)	Annual Growth Rate (%)	Exports from MSMEs Sector (Rs. Crores)	MSMEs Exports as % of MSMEs Production
1	2	3	4	5	6
1.	1991-92	80615	2.30	13883	17.22
2.	1992-93	84413	4.71	17784	21.06
3.	1993-94	98796	17.04	25307	25.61
4.	1994-95	122154	23.64	29068	23.79
5.	1995-96	147712	20.92	36470	24.68
6.	1996-97	167805	13.60	29248	17.42
7.	1997-98	187217	11.57	44442	23.73
8.	1998-99	210454	12.41	48979	23.27
9.	1999-00	233760	11.07	54200	23.18
10.	2000-01	261297	11.78	69797	26.71
11.	2001-02	282270	8.03	71244	25.23
12.	2002-03	314850	11.54	86013	27.31
13.	2003-04	364547	15.78	97644	26.78
14.	2004-05	429796	17.90	124417	28.94
15.	2005-06	497842	15.83	150242	30.17
16.	2006-07	709398	42.49	182538	25.73
17.	2007-08	790759	11.47	202017	25.54
18.	2008-09	880805	11.39	214387	24.33
19.	2009-10	982919	11.59	238752	24.29
20.	2010-11	1095042	11.40	256834	23.45
21.	2011-12	1397738	27.64	283847	20.30

Source: 1. Govt. of India, Ministry of MSMEs (2012), Annual Report on MSMEs, 2011-12, PP.15-16.

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5. Statewise distribution of exporting MSMEs and their exports reveals uneven picture (Table-5). In 2006-07 there were 46675 exporting MSMEs in the country. The state of Gujarat alone had the largest number of exporting enterprises with a share of 52.16 per cent. This was followed by Tamil Nadu (6.37 per cent), Utter Pradesh (5.72 per cent), Maharashtra (4.17 per cent), Kerala (3.88 per cent), Karnataka (3.84 per cent), Punjab (3.76 per cent), Rajsthan (2.89 per cent), Haryana (2.10 per cent) and West Bengal (1.85 per cent). These ten states together

accounted for 86.74 per cent of the total exporting MSMEs in the country. The total value of exports of the 46677 exporting MSMEs was Rs. 67914 crores. Utter Pradesh accounted for the highest share of 21.12 per cent followed by Tamil Nadu (14.80 per cent), Maharashtra (8.08 per cent), Karnataka (8.06 per cent) and Rajasthan (7.33 per cent). The share of these ten exporting states accounted for 87.25 per cent of total exports. The remaining 18 states and 7 UTs accounted for only 12.75 per cent share in MSME exports.

Table -5
Statewise Distribution of Exporting MSMEs*

Sr. No.	State/ UTs	No. of Exporting MSMEs	% share	Export Value (Rs. Crore)	% share
1	2	3	4	5	6
1.	Utter Pradesh	2668	5.72	14342	21.12
2.	Tamil Nadu	2973	6.37	10049	14.80
3.	Maharashtra	1946	4.17	5484	8.08
4.	Karnataka	1791	3.84	5471	8.06
5.	Rajasthan	1349	2.89	4978	7.33
6.	Gujarat	24346	52.16	4962	7.31
7.	Harayana	982	2.10	4834	7.12
8.	Punjab	1755	3.76	4701	6.92
9.	Kerala	1811	3.88	2279	3.36
10.	West Bengal	862	1.85	2153	3.17
11.	Total of above ten	40483	86.74	59253	87.25
12.	Other States	6192	13.26	8661	12.75
All India Exporting MSMEs		46675	100.00	67914	100.00

* Permanently Registered MSMEs

Source: Govt. of India, Final Report of fourth All India Census of MSMEs, PP. 46 and 223.

6. The composition of MSMEs sector exports indicates (Table-6) that in 1991-92 the share of readymade garments in the total MSME exports was the highest (38.04 per cent). This was followed by basic chemicals (11.02 per cent), engineering goods (10.93 per cent), processed foods (8.80 per cent) leather and leather products (6.70 per cent) and electronics and computers (5.25 per cent). In 2005-06 the major items of MSMEs exports were readymade garments (22.88 per cent), engineering goods (20.03 per cent), electronics and computers (14.44 per cent), chemicals and allied products (11.72 per cent) and processed foods (8.33 per cent). The USA, Hong Kong, UAE, UK, Germany, Japan, Bangladesh, Belgium, Italy, France, China, Singapore, Indonesia, EU and Canada were the major export destinations for MSME products during the period under review.
- 7 The commodity wise annual compound growth rates of MSMEs exports as presented in Table 6 reveals that during 2000-01 to 2005-06, the highest export growth rate was recorded by chemicals and allied products (101.49 per cent) followed by electronics and computers (42.66 per cent), engineering goods (31.57 per cent), plastic products (23.49 per cent), processed foods (15.02 per cent) and spices (14.91 per cent). In case of other commodities the annual compound growth rate of exports varied between -6.88 per cent to 12.24 per cent during the period under reference.

Table -6

Exports of Major Products of MSMEs Sector

(Exports in Rs. Crore)

Sr. No.	Product Group	Export of MSMEs in 2000-01	% to Total	Export of MSMEs in 2005-06	% to Total	ACGR Between 2000-01 to 2005-06 (%)
1	2	3	4	5	6	7
1.	Eng. Goods	7632	10.93	30097	20.03	31.57
2.	Basic Chemicals	7696	11.02	8421	5.60	1.81
3.	Chemicals and allied Products	530	0.75	17605	11.72	101.49
4.	Plastic Products	1700	2.43	4883	3.26	23.49
5.	Leather and Leather Products	4684	6.70	8345	5.55	12.24
6.	Marine Products	2702	3.77	3372	2.24	4.52
7.	Processed foods	6215	8.80	12516	8.33	15.02
8.	Wool and Woolen Products	2997	4.28	2098	1.40	-6.88
9.	Sports Goods	250	0.35	457	0.30	12.82
10.	Readymade Garments	26627	38.04	34373	22.88	5.23
11.	Synthetic and Rayon Textiles	1263	1.80	2130	1.42	11.01
12.	Processed Tobacco	636	0.91	908	0.60	7.38
13.	Electronics and Computers	3671	5.25	21698	14.44	42.66
14.	Cashew	1876	2.67	2514	1.68	6.02
15.	Lac	131	0.18	160	0.11	4.08
16.	Spices	1487	2.12	663	0.44	14.91
Total MSMEs Exports		69797	100.00	150242	100.00	16.57

Source: Govt. of India, Ministry of MSMEs, Annual Reports.

VIII. ISSUES OF CONCERN

The export of Indian MSMEs reveals fluctuating trends during the post liberalization period. These enterprises with so much policy measures and support, face several problems at every stage of their production and exports activities. The process of globalization has resulted in some serious constraints on the MSMEs. Firstly, these enterprises face cut throat competition from large domestic firms and MNCs. Secondly, many of the enterprises operate with poor and primitive technology with old methods. Thirdly, lack of managerial expertise causes high overhead costs, borrowing at higher rate of interest and under-utilization of resources. Fourthly, the MSMEs also suffer numerous constraints in the field of marketing. The problem lies in the fact that they do not have any well planned marketing strategy and market research programs. Fifthly, the mindset of the many small entrepreneurs has not yet changed. They still expect protection and preferential treatment from government.

IX. SUGGESTIONS

In the light of the discussion made above, the certain policy measures are offered to strengthen the export capacity of MSMEs in the global market.

1. In the present economic environment of liberalization and WTO rules, care should be taken by the government to protect the interest of our exporting MSMEs.
2. The proper branded products get higher prices in the world market. So awareness in this regard must be created in MSME sector.
3. Sincere and dedicated efforts are also needed to improve the quality of exportable goods, because there is immense scope for increasing exports of quality products in the global market.
4. The government should always look into the matter of dispute settlement

mechanism of WTO when there is discriminatory treatment to our MSME products.

5. Sufficient and timely credit facilities must be made available to the MSMEs at a lower rate of interest.
6. At present, new emerging markets like EU, UAE, African Countries and CIS countries have a lot of potential for absorbing more MSME exports. Hence, the efforts should be made to tap the potential of these markets.

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absorbing more MSME exports. Hence, the efforts should be made to tap the potential of these markets.

X. CONCLUSION

The analysis of the above facts and figures reveals that the export performance of MSME sector is satisfactory during 1991-92 to 2000-01 when compared to India's total exports. However, it is not up to our expectations during second phase period of liberalization. The statewise pace of growth is not uniform. The share of MSMEs export in India's total exports shows declining trend. The new economic reforms have accelerated the degree of competition in the world market. So there is an urgent need to convert the threats of globalization into opportunities. The government, therefore should provide all sorts of facilities and supports to the MSMEs. This will help to achieve our national objective of rapid economic growth in general and inclusive growth with social justice and equity in particular.

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