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One-Day National Level Seminar on VIKSIT BHARAT 2047: Contribution of MSMEs towards Youth Employment and Skilling for a Developed India

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Editors

Dr.V.Bhuvaneswari

Dr.M.Esther Krupa

Dr.G.Anitha Rathna

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FUELING GROWTH AND OPPORTUNITY: MSMES' ROLE IN GDP AND EMPLOYMENT

Dr.B.Rohini

Assistant Professor, M.Com IB

Nallamuthu Gounder Mahalingam College, Pollachi

ABSTRACT

In both developing and developed nations, micro, small, and medium enterprises are an essential engine of economic expansion, employment creation, and export promotion. Despite their relatively small scale, MSMEs contribute significantly to national Gross Domestic Product create diverse job opportunities, and enhance regional and global economic integration. MSMEs play a crucial role in maintaining economic resilience in India, contributing significantly to exports, employing over 20 million people, and contributing nearly 30% of GDP. This paper examines the multifaceted contributions of MSMEs to economic development, highlighting their capacity to foster entrepreneurship, empower marginalized communities, and drive innovation. Additionally, it investigates the obstacles these businesses face, such as financial constraints, technological limitations, and regulatory obstacles. Furthermore, the study emphasizes the importance of government policies, digital transformation, and skill development initiatives in enhancing MSME productivity and sustainability. This paper demonstrates the significance of MSMEs in fostering opportunities for inclusive growth and strengthening the economic framework as a whole by examining their effects on the economy, society, and trade. The findings aim to provide insights for policymakers, business leaders, and researchers on leveraging MSMEs to fuel long-term economic growth and employment.

Keywords : Economic Growth, Entrepreneurship, Export Promotion, Small Business, Development, Regional Development and Digital Transformation

INTRODUCTION

Micro, Small, and Medium Enterprises are widely recognized as the backbone of modern economies. Despite operating on a smaller scale compared to large corporations, these enterprises play a disproportionate role in driving economic growth, generating employment, and fostering innovation. MSMEs are particularly crucial in developing countries, where they act as catalysts for regional development, reduce income disparities, and support inclusive growth. Over 20 crore people in urban, semi-urban, and rural areas of India are employed by the MSME sector, which contributes approximately 30% of the country's GDP. Their presence is significant in manufacturing, services, trade, and export-oriented activities, making them indispensable to both domestic economic stability and global trade competitiveness. MSMEs are able to quickly respond to shifting market conditions, adopt technological advancements, and satisfy specialized consumer requirements due to their inherent agility and adaptability. Unlike larger firms, MSMEs are often more labor-intensive, creating substantial employment opportunities, particularly for semi-skilled and unskilled workers. Moreover, many MSMEs are led by women and young entrepreneurs,

promoting social inclusion and empowering marginalized communities. Vital contributions, understanding the multifaceted role of MSMEs in GDP growth, employment generation, and overall economic development is essential. Over 20 crore people in urban, semi-urban, and rural areas of India are employed by the MSME sector, which contributes approximately 30% of the country's GDP. Their presence is significant in manufacturing, services, trade, and export-oriented activities, making them indispensable to both domestic economic stability and global trade competitiveness. MSMEs are able to quickly respond to shifting market conditions, adopt technological advancements, and satisfy specialized consumer requirements due to their inherent agility and adaptability. Unlike larger firms, MSMEs are often more labor-intensive, creating substantial employment opportunities, particularly for semi-skilled and unskilled workers. Moreover, many MSMEs are led by women and young entrepreneurs, promoting social inclusion and empowering marginalized communities. This distribution reduces urban migration pressures, generates local employment, and encourages the growth of ancillary businesses, enhancing the economic ecosystem as a whole. By producing specialized and niche products, these enterprises not only generate foreign exchange but also help countries diversify their export portfolios. Their participation in international supply chains encourages adherence to global quality standards and fosters competitiveness in the global marketplace.

CONTRIBUTION OF MSMEs TO GDP

National income and economic expansion are heavily influenced by micro, small, and medium-sized businesses (MSMEs). In India, the MSME sector accounts for nearly 30% of the country's GDP, reflecting its critical role in both manufacturing and service sectors. From traditional textiles and handicrafts to modern engineering, IT services, and high-tech manufacturing, their combined output spans a broad spectrum. MSMEs boost industrial diversification and generate substantial revenue by producing goods and services that meet domestic and international demand.

INDUSTRIAL OUTPUT

MSMEs form an essential part of the industrial ecosystem. They often act as suppliers and vendors to large-scale industries, contributing to the production of intermediate goods and services. These backward and forward linkages not only enhance industrial efficiency but also create additional revenue streams across the economy. By supplying to larger enterprises, MSMEs amplify their contribution to GDP beyond their direct production.

GROWTH

The widespread presence of MSMEs in rural, semi-urban, and tier-2 cities promotes balanced regional development. MSMEs spread economic activity across regions, reducing disparities and encouraging local entrepreneurship, in contrast to large-scale industries, which typically concentrate in metropolitan areas. This inclusivity ensures that income generation and wealth creation are not limited to urban centers, contributing to more equitable national economic growth.

CONTRIBUTION

Beyond manufacturing, MSMEs play a growing role in the services sector, including IT-enabled services, logistics, education, healthcare, and retail. These enterprises support economic diversification, cater to emerging market demands, and contribute to GDP through

value-added services. Countries moving toward knowledge-driven economies have seen an increase in the importance of MSMEs expanding in the service sector.

ECONOMIC SLOWDOWNS

MSMEs demonstrate a high degree of resilience during economic uncertainties. During downturns, they adjust rapidly to changing market conditions, innovate, and optimize resources. This adaptability ensures that their contribution to GDP remains relatively stable compared to large enterprises, which often face rigid cost structures and slower decision-making processes.

GOVERNMENT SUPPORT

MSMEs' contribution to GDP is increased by government policies like subsidies, tax incentives, and financial support programs. Initiatives like the Credit Guarantee Fund Scheme and the Udyam Registration Portal enable easier access to credit and formal recognition, encouraging MSMEs to expand operations and increase output. By improving productivity and facilitating growth, these measures directly enhance the sector's share in national income.

EMPLOYMENT GAINING THROUGH MSME

The creation of employment opportunities is one of the most significant contributions made by Micro, Small, and Medium Enterprises (MSMEs). Globally, MSMEs are recognized as major employers, often absorbing a large portion of the workforce, including unskilled, semi-skilled, and skilled labor. Over 20 million people in India are employed in the MSME sector, which accounts for nearly 45 percent of all industrial employment. This makes MSMEs crucial in addressing unemployment and underemployment challenges, particularly in developing economies.

LABOR-INTENSIVE NATURE OF MSME

Unlike large-scale industries, MSMEs are generally labor-intensive. They rely heavily on human resources rather than automation, creating numerous job opportunities per unit of investment. This labor-intensive characteristic allows MSMEs to absorb workers from diverse backgrounds, including rural populations, women, and youth. Consequently, they not only reduce unemployment but also contribute to income generation and poverty alleviation.

INCREASING FEMALE AND YOUTH EMPLOYMENT

Women and young people can now use MSMEs as platforms for entrepreneurship and employment. Many small enterprises are led by women entrepreneurs or employ a significant proportion of female workers, promoting gender equality and financial independence. Similarly, MSMEs offer employment opportunities to young graduates and semi-skilled workers, fostering skill development and creating a pipeline of talent for the broader economy.

EMPLOYMENT OPPORTUNITIES IN THE RURAL AND REGIONAL AREAS

MSMEs are widely distributed across urban, semi-urban, and rural regions, unlike large corporations that are concentrated in metropolitan areas. This geographical spread ensures local employment generation, reduces migration to cities, and supports regional economic

development. In rural areas, MSMEs in agriculture-related processing, handicrafts, and small-scale manufacturing provide stable livelihoods, contributing to inclusive growth.

RESILIENCE AND STABILITY IN THE WORKPLACE

MSMEs often demonstrate resilience during economic fluctuations. Even during slowdowns, these enterprises maintain employment due to their flexibility and adaptive business models. Unlike large industries that may resort to layoffs, MSMEs adjust operations, diversify products, and optimize resources to retain workforce, thereby stabilizing employment in the economy.

SKILL DEVELOPMENT AND WORKFORCE EMPOWERMENT

Through hands-on experience and exposure to diverse operational challenges, employees in MSMEs acquire practical skills and entrepreneurial knowledge. To improve MSME employees' capabilities and future employability, numerous governments and organizations offer MSME-specific training programs. This skill development contributes not only to individual career growth but also to the productivity and competitiveness of the sector.

MSMEs and Exports

By significantly increasing a nation's export portfolio, micro, small, and medium enterprises play a crucial role in international trade. Despite their relatively smaller size, MSMEs produce a wide range of goods, from traditional handicrafts and textiles to specialized engineering and IT-enabled products, which cater to global demand. In India, MSMEs account for nearly 45.79% of total exports, highlighting their importance in earning foreign exchange and enhancing the nation's trade balance.

EXPANSION OF PRODUCTS FOR EXPORT

MSMEs contribute to the diversification of export goods, which is vital for reducing dependency on a few commodities. Small and medium enterprises are often agile in identifying niche markets and producing specialized products that large corporations may not focus on. This diversity not only strengthens the economy but also increases resilience against global market fluctuations.

CLUBBING INTO GLOBAL SUPPLY CHAINS

Many MSMEs act as suppliers to multinational corporations and are integral to global supply chains. By meeting international standards and quality benchmarks, these enterprises help maintain the competitiveness of national industries. By participating in supply chains, they ensure that smaller businesses and regions reap the benefits of global trade rather than just large corporations.

INNOVATION AND COMPETITIVENESS

Exposure to international markets compels MSMEs to innovate, improve product quality, and adopt modern technologies. This continuous improvement enhances their competitiveness, allowing them to expand into new markets and strengthen their brand recognition globally. Export-oriented MSMEs often set benchmarks for domestic enterprises in efficiency, production techniques, and customer service.

BENEFITS FROM THE GOVERNMENT

Governments provide various incentives and support programs to facilitate MSME exports. Subsidies for exports, participation in international trade fairs, and support from export promotion councils are examples of these. Programs such as the MSME Export Promotion Scheme and simplified documentation processes help smaller firms overcome barriers to international trade, boosting their contribution to the national economy.

SOCIO-ECONOMIC BENEFITS OF MSME EXPORTS

By engaging in exports, MSMEs generate foreign exchange, create high-value jobs, and stimulate local economies. Export-oriented MSMEs often expand operations, invest in infrastructure, and enhance skill development among employees. These factors collectively strengthen the domestic economic ecosystem while increasing global trade presence.

CHALLENGES FACED BY MSME

The difficulties that MSMEs face Despite their significant contributions to GDP, employment, and exports, Micro, Small, and Medium Enterprises (MSMEs) face numerous challenges that hinder their growth and sustainability. These challenges range from financial constraints to technological limitations and regulatory complexities, affecting both their domestic operations and international competitiveness. Understanding these obstacles is crucial for policymakers, entrepreneurs, and stakeholders aiming to strengthen the sector.

FINANCIAL LIMITATIONS

Access to finance remains one of the most critical challenges for MSMEs. Many small enterprises struggle to obtain credit from formal banking institutions due to lack of collateral, limited credit history, and high interest rates. They are unable to effectively manage working capital, expand operations, or invest in technology due to this financial gap. While government schemes such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) provide some relief, many MSMEs are still unable to fully leverage these benefits.

TECHNOLOGICAL LIMITATIONS

In today's rapidly evolving global economy, the adoption of modern technology is essential for efficiency, productivity, and competitiveness. However, many MSMEs face difficulties in upgrading machinery, implementing digital solutions, and investing in research and development. Limited technological capacity often results in lower productivity, higher production costs, and reduced ability to compete with both domestic large firms and international players.

REGULATORY AND COMPLIANCE CHALLENGES

Complex regulatory frameworks and bureaucratic procedures create hurdles for MSMEs. Tax, licensing, environmental, and labor laws all require time and money to follow, especially for smaller businesses with limited administrative resources. Resources are frequently diverted from innovation and business growth by these regulatory difficulties.

MARKET ACCESS AND COMPETITION

Many MSMEs face difficulties in accessing large markets due to weak marketing strategies, lack of brand recognition, and limited distribution networks. Increased competition from large corporations and imported goods further pressures MSMEs to maintain profitability. Many small businesses have trouble scaling up and expanding their reach if they don't have support for effective marketing and export promotion.

SKILLED WORKFORCE AND TRAINING GAPS

Although MSMEs employ a large number of workers, skill gaps often limit their productivity and growth potential. Many employees lack specialized training, and enterprises have limited resources to provide comprehensive skill development programs. Quality, productivity, and the capacity to adopt new technologies are all impacted by this.

EXTERNAL ECONOMIC FACTORS

Due to their smaller size and limited financial buffers, MSMEs can be disproportionately affected by global economic fluctuations, trade restrictions, and supply chain disruptions. Many small businesses struggle to keep running during economic downturns or pandemics, highlighting their vulnerability to external shocks. In conclusion, while MSMEs are indispensable to economic growth and employment, addressing these challenges is essential to unlock their full potential. Enhancing MSMEs' sustainability, productivity, and global competitiveness requires financial support, technological advancement, simplified regulations, market access initiatives, and skill development programs.

SUPPORT FOR GOVERNMENT INITIATIVES AND POLICIES

Recognizing the pivotal role of Micro, Small, and Medium Enterprises (MSMEs) in economic growth, employment generation, and export promotion, governments worldwide, including India, have implemented numerous initiatives to support and strengthen the sector. These measures aim to address financial, technological, and regulatory challenges, thereby enhancing the productivity, sustainability, and global competitiveness of MSMEs.

ASSISTANCE WITH FINANCES AND CREDIT

Access to finance is a major hurdle for MSMEs, and governments have introduced various schemes to bridge this gap. In India, the Credit Guarantee Fund Trust for Micro and Small Enterprises provides collateral-free loans to small businesses, enabling them to secure working capital and expand operations. In addition, initiatives like the Prime Minister's Employment Generation Programme (PMEGP) and the subsidized interest rates provided by banks' MSME loan programs support business expansion and encourage entrepreneurship.

DIGITAL INITIATIVES AND ADVANCES IN TECHNOLOGY

The government encourages MSMEs to adopt technology to boost competitiveness. Schemes like the Technology Up gradation Fund Scheme (TUFS) and initiatives for digital transformation encourage small enterprises to adopt modern machinery, software solutions, and automation technologies. Furthermore, platforms such as Digital MSME and online

procurement portals enable enterprises to access markets, manage operations efficiently, and expand their reach.

EDUCATION FOR ENTREPRENEURSHIP AND SKILLS DEVELOPMENT

A skilled workforce is essential for productivity and growth. Government programs like the Skill Development and Training Programmes for MSMEs provide technical and managerial training to employees and entrepreneurs. These programs enhance operational efficiency, foster innovation, and equip workers with skills aligned with modern industry requirements.

ACCESS TO MARKET AND PROMOTION OF EXPORTS

Governments actively promote MSMEs in domestic and international markets. Initiatives such as the MSME Export Promotion Scheme, trade fairs, exhibitions, and international buyer-seller meets enable small enterprises to showcase products, explore new markets, and boost export earnings. Participation in global trade is further facilitated by export-related incentives and simplified documentation.

CHANGES TO THE LAW AND EASE BUSINESS

To reduce bureaucratic hurdles, governments have implemented reforms aimed at simplifying registration, taxation, and compliance processes for MSMEs. Digital compliance portals and programs like Udyam Registration make it easier for businesses to operate legally, gain access to benefits, and expand without having to deal with complicated regulations.

ENCOURAGING INNOVATION AND STARTUPS

Government initiatives also focus on fostering innovation among MSMEs. Mentorship, funding, and incubation assistance are provided to small businesses pursuing technological and business innovations by programs like Startup India and innovation hubs. This encourages new business models, product development, and global competitiveness.

MSME FUTURE PERSPECTIVES

The future of Micro, Small, and Medium Enterprises looks promising as they continue to evolve into powerful drivers of inclusive and sustainable economic growth. With growing government support, digital transformation, and global market opportunities, MSMEs are expected to play an even greater role in contributing to GDP, creating jobs, and strengthening exports. However, how well they embrace innovation, overcome structural obstacles, and adjust to the shifting global business environment will determine their success.

DIGITAL TRANSFORMATION AND E-COMMERCE EXPANSION

The increasing adoption of digital tools is reshaping the way MSMEs conduct business. Online platforms, digital payments, and e-commerce marketplaces provide MSMEs with opportunities to expand customer reach beyond geographical boundaries. Fintech solutions have made it possible for even small businesses to get credit and run their operations effectively. The future will see a deeper integration of MSMEs into digital ecosystems, making them more competitive and globally connected.

INTEGRATION WITH GLOBAL SUPPLY CHAINS

Globalization and demand for diversified supply chains present an enormous opportunity for MSMEs. MSMEs can integrate into multinational supply chains by adhering to international standards, enhancing quality, and utilizing environmentally friendly methods. This not only boosts exports but also brings knowledge transfer, innovation, and long-term partnerships with global corporations.

GREEN AND SUSTAINABLE GROWTH

Sustainability is becoming a key focus for future economic development. MSMEs are increasingly adopting eco-friendly production methods, renewable energy, and waste reduction practices. With global emphasis on environmental responsibility, sustainable MSMEs will enjoy higher acceptance in international markets and benefit from “green” financing opportunities.

SKILL DEVELOPMENT AND INNOVATION ECOSYSTEMS

As industries evolve with artificial intelligence, automation, and advanced manufacturing, the workforce needs to adapt. Future MSMEs will benefit from government and private sector initiatives that focus on reskilling and Upskilling workers. MSMEs will also be able to experiment with new business models and technologies thanks to innovation clusters, incubators, and startup accelerators, allowing them to remain adaptable and competitive.

ENHANCED POLICY SUPPORT AND GLOBAL COMPETITIVENESS

The future trajectory of MSMEs will be shaped by continuous policy reforms that improve access to finance, simplify regulations, and strengthen infrastructure. Competitiveness will be enhanced by trade facilitation measures, tax incentives, and targeted subsidies. If supported effectively, MSMEs can increase their share of GDP and exports, becoming engines of both national and global growth.

CONCLUSION

Micro, Small, and Medium Enterprises are the backbone of modern economies, contributing significantly to GDP, employment, and exports. They are essential for both domestic economic stability and global competitiveness because of their adaptability, labor-intensive nature, and innovative capacity to support regional development, generate income, and create jobs. In India, MSMEs account for nearly 30% of GDP, provide employment to over 20 crore individuals, and contribute substantially to exports, demonstrating their multifaceted role in fostering inclusive growth. Despite their significant contributions, MSMEs face challenges including financial constraints, technological limitations, regulatory hurdles, and market access issues. Addressing these challenges through targeted government policies, digital adoption, skill development, and innovation support is critical to unlocking their full potential. Government initiatives such as credit schemes, technology up gradation programs, skill development, and export promotion measures have played a vital role in strengthening MSMEs and ensuring their sustainability. Looking ahead, the prospects for MSMEs are promising. Their competitiveness and productivity will rise as a result of the ongoing digital transformation, integration into global supply chains, emphasis on environmentally friendly practices, and continuous policy support. MSMEs are not just

economic units they are engines of opportunity, social empowerment, and innovation. By fostering an enabling environment for MSMEs, countries can achieve long-term economic growth, equitable development, and global trade resilience. In essence, nurturing and empowering MSMEs is essential for building a robust, inclusive, and future-ready economy where small enterprises continue to fuel growth, create employment, and expand global trade opportunities.

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