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ROLE OF MICRO, SMALL AND MEDIUM ENTERPRISES IN ECONOMIC DEVELOPMENT OF INDIA - AN EMPIRICAL ANALYSIS

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ABSTRACT

Economic development of a country is a vibrant area for interrogation because the models of development has consistently caught the academic attention. In this paper the attempt is to analyse the role of MSME in economic development. Annual data collected from Reserve Bank of India and Ministry of MSME has been analysed. Vector and Autoregressive analysis has been used for empirical analysis. The study reveals the contribution and significant influence of MSME on India's GDP and Export.

KEYWORDS

micro, small and medium enterprises, economic development of India.

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INTRODUCTION

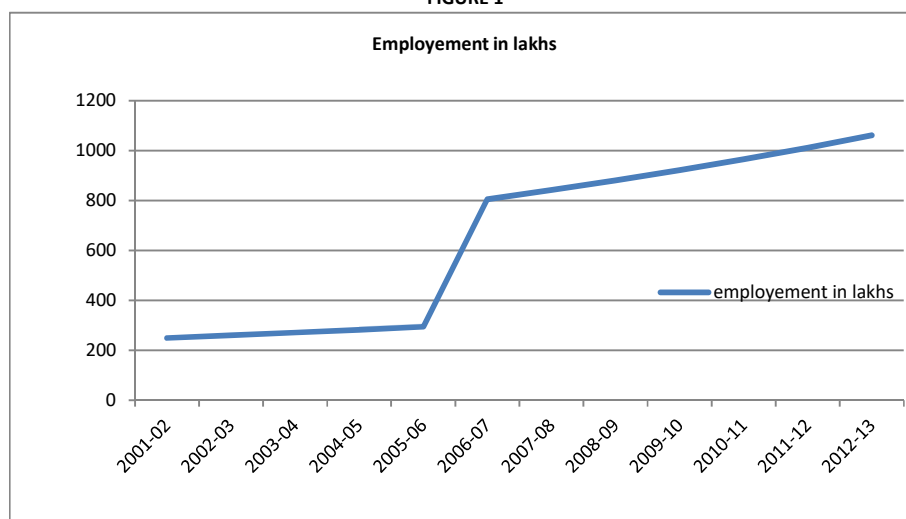
India is one of the most powerful emerging economy in the world because as per the latest statistics India is ranked 7th in case of Nominal GDP and 3rd in Purchase Power Parity. India's Gross Domestic Product Growth is 7.3% (as per Economic Survey 2015) whereas the global GDP growth is only 3.3% (as per IMF) in financial year 2015. After the global economic crisis, 2007-08, global economy faces various problems like European debt crisis, whereas Indian economy shows a steady growth, for 2014 Indian economy is estimated as Rs. 129.57 trillion. Government has taken numerous initiatives and simultaneously programmes are implemented to achieve magical two digit growth in economy.

Economic Survey of India 2015 reveals, in 1951, agriculture has contributed majorly to GDP but in 2014, major part is contributed by Service sector. Although, 49% of employment is provided by Agriculture and allied activities, in 2014-15 the service sector contributed 57%, industrial sector contributed 26% and Agriculture sector 17% to the Gross Domestic Product. Industrial sector consists of various sub sectors such as industry, mining quarrying, manufacturing and electricity gas, water supply and other utility services. Compared to developing countries like China, Russia, Brazil and South Africa the contribution of Industrial sector to GDP is low. Contribution of manufacturing sector to GDP is 5.3% in 2013-14 and 7.13% in 2014-15 economic survey 2015. Manufacturing sector is in growth stage but we need to accelerate the growth in a short span.

Accelerating industrialisation in the country cannot ensure a balanced development in the country even though a country can't survive without industrialisation. Thus, it is a very complex situation in which we need to handle industrialisation and balanced development. Government has given more attention to large scale industries for developing industrialisation but it requires large amount of capital mobilisation as well. In this context the relevance of Micro, Medium and Small Enterprises for Indian economy requires a sincere interrogation.

Now a day's MSME plays a vital role in Indian Economy. In India MSME sector including 36 lakhs units and MSME providing large number of employment opportunities in the country. MSME providing employment over 80 lakhs people. MSME producing more than 6,000 products. As per Ministry of Micro, Small and Medium Enterprises report 2016, MSME contribute 45% of share in total manufacturing output, 8% to Gross Domestic Product and 40% to total export in 2015-16. The number of unit and entrepreneurs are increasing gradually. In India, Micro, Small and Medium Enterprises plays a vital role in providing employment to Indian people. In 2012-13 MSMEs provide 1061.52 lakh employment opportunities in India.

FIGURE 1



Source: Annual report Ministry of MSME

The estimated value of manufacturing output of MSME in 2011-12 Rs. 1790804.67 crore, percentage share of MSME to total manufacturing output is 37.52% and MSME contribute 7.28% in Gross Domestic Product. It is very clear that MSME is an important sector in Indian Economy.

MSMEs have for long received government's attention but effort to build global scales is not apparent. China's Town & Village Enterprises have succeeded on the back of significant support in terms of fiscal incentives. In India we have geographical specializations which can be developed into large scale industries. It is imperative for small scale industries in India to cover new global markets. These are the industries that are capable of touching the bottom of the pyramid with their reach and product portfolio. This paper attempts to analyse the role of MSMEs in India in the context of economic development. The rest of the paper is arranged as 1. Review of Literature, 2. Data Methodology, 3. Empirical Analysis and Result, 4. Conclusion.

REVIEW OF LITERATURE

There are many studies in the area of MSMEs and its role. Boomika Garge in 2014 studied Role of MSME in economic development it shows it have significant role in various areas like skill development, Entrepreneur development etc. Robert McIntyre (2013) studies Role of Small and Medium Enterprises in Transition: Growth and Entrepreneurship, it gives a multinational perspective of SMEs growth and Entrepreneurship programmes. Dr. P. Uma (2013) studied the role of SMEs in economic development; it gives a conceptual frame work of performance of Small and Medium enterprises in India. Will Bartlett and Vladimir Bukvic (2001) talks about barriers to SME growth in Slovenia to identify the various bottlenecks faced by SME including institutional environment and bureaucracy. Eric Gonzales, Martin Hommes and Melina Laura Mirmulstein (2014) study: "Role of MSMEs in economic growth -cross country regression analysis reveals that the role of micro, small, and medium enterprises in the growth of per capita income, using an expanded database for firms in the formal manufacturing sector with fewer than 10, 20, 100, or 250 employees". In this study using regression models to know the relationship between the economic growth and firms size. the study find that causal relation between the variables. In this paper analyse the relationship between MSME output with GDP and Export of the Country. Stephan Wanhill (2000) studied Small and Medium tourism enterprises in this recommended that government should take initiatives for promoting the small and medium enterprises and these firms provide the community underpinnings for entrepreneurship and job creation.

RESEARCH GAP

In the above literature review, it is clear that there is no study conducted in India related to role of MSME in economic development by using Econometrics tools.

OBJECTIVE OF THE STUDY

The primary objective of the study is to analyse the relationship between MSME, GDP and Export. MSME is one of the important factors in GDP and Export of the country. This study attempts to find out the role of MSME in GDP and Export.

DATA AND METHODOLOGY

a) Type of Study: research type study

b) Sample: Annual data is used for analysis from the period of 1991-92 to 2013-14.

c) Method of Data Collection: Secondary data methods are used in this study. Data has been collected from RBI and annual reports from Ministry of MSME.

d) Variable selected for this study are:

1) Gross Domestic Product:- GDP of country is one of the important indicator of growth and development. Economic development is mostly measured in GDP and percentage growth in GDP. The study measures significance of MSME in GDP.

2) Export: Export have significant role in growth of an economy. Products of MSME have good demand in foreign market. MSME is one of the important sector that contribute to high amount of foreign currency through export oriented activity.

3) Output of MSME:- MSME has been divided into various groups like Micro, Small and Medium firms on the basis of MSME act. This study focuses only on the total output produced by these groups. The time series data given by RBI Data Base is total production of MSME.

e) Statistical Tools Used:

Firstly we check the stationarity of time series data, because most of economic data are non-stationary. For this unit root test are conducted and ADF statistics are used for testing unit root. It is clear that GDP is integrated two series and other variable are integrated one series. After that lag Order selection criterion is used, selected optimum lag structure for this AIC is used. In the next stage developed Vector Auto regression is used because MSME is an important sector in GDP and GDP growth is also influencing the MSME. Likewise the exports have significant influence in MSME and growth of export is also dependent on MSME was seen after analysing the Impulse Response Function and Variance Decomposition.

EMPIRICAL ANALYSIS AND RESULTS

UNIT ROOT TEST

Traditionally, most of the economic variable is non-stationary; hence we test for the presence of unit root using Augmented Dickey-Fuller test.

Augmented Dickey-Fuller Test Result:

TABLE 1

Variable	t-statistics	Prob	
GDP	-4.517	0.0022	I DIFF.
EXPORT	-5.685	0.0022	I DIFF.
MSME	-4.3924	0.0027	I DIFF.

It clear that GDP is a I(2) variable so it is in stationary with second difference, export and MSME are I(1) variables so these are stationary with first difference.

VAR LAGS ORDER SELECTION CRITERION

TABLE 2

Lag order	AIC	SC	HQ
0	-6.65376	-6.504636*	-6.628521*
1	-6.68314	-6.08666	-6.58219
2	-6.696051*	-5.6522	-6.51939

* indicates lag order selected by the criterion

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

Akaike information criterion is used to select lag order to construct a VAR model. According to AIC optimum lag order is two.

VECTOR AUTO REGRESSION ESTIMATE

TABLE 3

Lagged variable	MSME	GDP	EXPORT
MSME(-1)	-0.004792 (-0.28927) [-0.28927]	-0.029489 (-0.03631) [-0.81213]	0.013945 (-0.06335) [0.22013]
MSME(-2)	-0.018179 (-0.29477) [-0.06167]	0.02236 (-0.037) [0.60431]	-0.105448* (-0.06455) [-1.63348]
GDP(-1)	2.194127 (-2.18916) [1.00227]	-0.027425 (-0.2748) [-0.09980]	1.690358*** (-0.47942) [3.52582]
GDP(-2)	-1.408862 (-2.93947) [-0.47929]	-0.202749 (-0.36898) [-0.54949]	1.691632*** -0.64374 [2.62782]
EXPORT(-1)	0.995976 (-0.95204) [1.04615]	-0.042939 (-0.11951) [-0.35931]	-0.544245*** (-0.20849) [-2.61035]
EXPORT(-2)	0.501819 (-0.71089) [0.70590]	-0.000908 (-0.08923) [-0.01017]	0.03903 (-0.15568) [0.25070]

***, **, * indicate 1%, 5% and 10% level of significant.

Standard errors () & t-statistics []

Lagged values of MSME and GDP are influencing the export of India. MSME have significant role in boosting export. Level of economic activities also influences export of India.

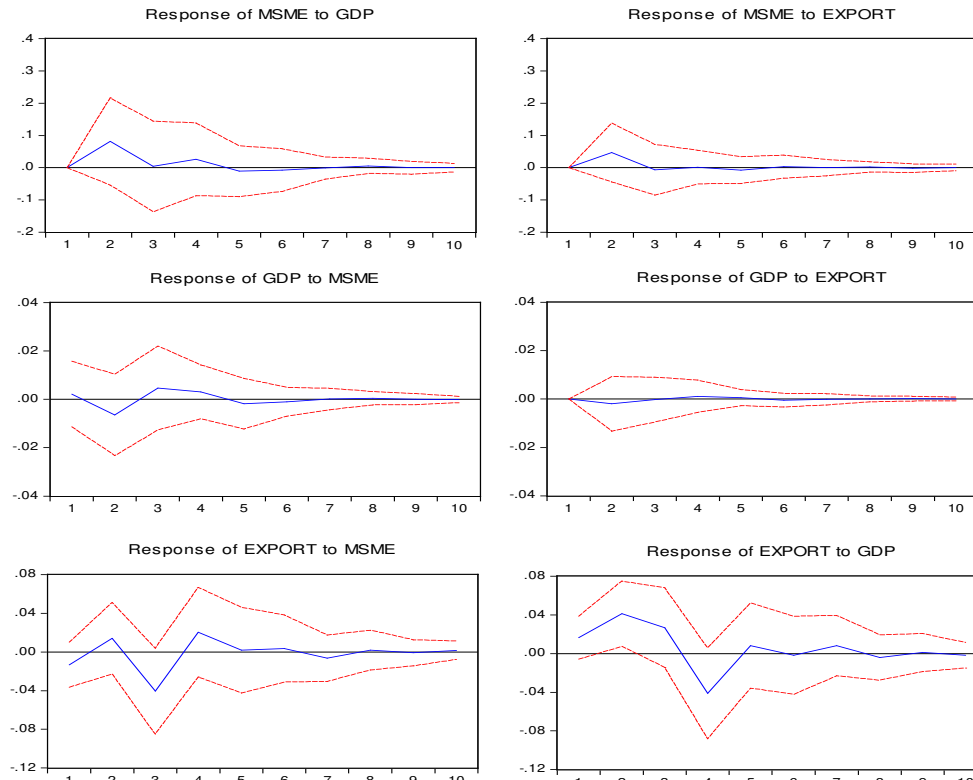
VARIANCE DECOMPOSITION

TABLE 4

Variables	MSME	GDP	EXPORT
MSME	85.17	7.65	23.63
GDP	11.30	91.78	42.77
EXPORT	3.52	0.5	33.56

Variance de composition shows that MSME itself explain 85.17%, 11.30% of MSME explained by GDP and only 3.52% is explained by Export factor. In GDP 7.65% is explained by MSME, 91.78% is explained by GDP itself and 0.5% is explained by the export factors. But in Export 23.63% is contributed by MSME, 42.77% is explained by GDP and 33.56% is explained by export itself.

FIG. 2 TO 7
Response to Cholesky One S.D. Innovations ± 2 S.E.



MSME to GDP explains that, if we give one standard deviation shock to GDP, the performance of MSME is accelerate and it last for five to six years after that it will come back. MSME to Export shows that one shock in export will boost MSME performance effect will last for several years. That means if export increases the performance of MSME will increase. Response of GDP to MSME shows mixed reactions, if we give one shock to MSME the GDP responds negatively and it recovers very soon. Response of GDP to Export shows constant effect. Response of Export to MSME shows combined effect that is if we give one shock to MSME, Export will react positively at first stage and in very short period it shows a negative impact and after that it will recover. Response to Export to GDP has high impact it last several years.

CONCLUSION

Let us conclude the paper concerning the role of MSME in economic development, it is clear that MSME is one of the important sectors in Indian economy not only in employment generation but also has a significant role economic development and export promotion. In GDP 7.65% is contributed by MSME and in Export it is 23.63%. If the government does not take necessary steps to develop MSME in Indian economy, it is not possible to achieve project economic growth. Government should take initiatives to develop Micro, Small and Medium Enterprise to boost export of India and to capture a market in Global. This will facilitate a balanced development in the country.

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