



EMPOWERING MSMEs WITH THE TWIN ENGINES - A STUDY

Dr. Sadyojathappa S¹

Prof. Department of Studies in Commerce Vijayanagara Sri Krishnadevaraya University Ballari.

Mail Id: dr_jathappa@yahoo.co.in,

Mrs. Uma Devi K²

Research Scholar, Department of Studies in Commerce Vijayanagara Sri Krishnadevaraya University, Ballari.

Mail Id: chirantandhrona@gmail.com.

Abstract:

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in India's journey toward economic self-sufficiency and global competitiveness. As key contributors to GDP, employment generation, and industrial growth, MSMEs drive innovation, entrepreneurship, and localized manufacturing. This paper explores how MSMEs facilitate import substitution and export promotion, thereby strengthening India's position in global trade. This study examines the transformative impact of digitalization and Industry 4.0 on MSMEs growth, enhancing productivity, efficiency, and integration into global supply chains. Government initiatives such as Atma Nirbhar Bharat and Make in India have further empowered MSMEs by providing financial, technological, and infrastructural support. However, challenges such as limited access to capital, technological gaps, and regulatory constraints remain significant. This study aims to highlight strategies existing for enhancing MSMEs competitiveness, fostering innovation, and ensuring sustainable economic development, positioning India as a resilient and self-reliant global player.

Key words: MSMEs export, digitalization, sustainable, economic, development.

Introduction

Micro, Small, and Medium Enterprises (MSMEs) serve as the backbone of India's economy, contributing significantly to GDP, employment generation, and industrial output. With over 63 million MSMEs operating across diverse sectors, they collectively account for nearly 30% of India's GDP, 45% of total manufacturing output, and 48% of total exports. These enterprises play a crucial role in fostering entrepreneurship, driving innovation, and promoting inclusive economic development. In an era of rapid globalization and digital transformation, the adoption of digital technologies and Industry 4.0 including artificial intelligence (AI), Internet of Things (IoT), cloud computing, and block chain has significantly transformed MSME operations. Digitalization enhances productivity, streamlines supply chains, and improves market access, enabling MSMEs to compete on a global scale. Despite their potential, MSMEs continue to face critical challenges such as limited access to capital, technological gaps, and regulatory constraints. The twin engines of trade expansion and digital innovation in empowering MSMEs, analyzing their impact on economic resilience, competitiveness, and sustainable growth. It aims to highlight strategies that can strengthen MSMEs' contributions to India's trade landscape, ensuring their seamless integration into global supply chains and reinforcing the country's position as a dynamic economic powerhouse.

Literature review

1. Bandopadhyay, K., & Khan, T. L. (2020) 2. Prof. Shailendra Patil and Dr. R.R. Chavan (2020) 3. Dr. Suhail Mohammad Ghouse (2014) 4. Dr. M. Meganathan, P. Balaji Kumar and R. Saravanan (2015) 5. Gilda Farajollahzadeh, Abdol Rahman Noorinasab & Dr. Babak Yazdanpanah (2016)

Statement of the Problem

Despite their vital role in India's economy, MSMEs face persistent challenges such as limited access to finance, technology gaps, and regulatory hurdles. While government initiatives support MSME growth, many enterprises struggle to adopt digital tools and integrate with global markets. This hinders their competitiveness, innovation, and contribution to self-reliant economic development, necessitating strategic interventions for sustainable transformation in the Industry 4.0 era.

Objectives of the study

1. To analyze the role of MSMEs an import substitution and export promotion, strengthening India’s global trade position.

Research Methodology

This study adopts a mixed-method approach, combining quantitative and qualitative research methods to analyze the role of MSMEs in import substitution, export promotion, and digital transformation.

Research Design

The study employs a descriptive and analytical research design to examine how MSMEs contribute to India's economic self-sufficiency and global competitiveness. Understand the impact of government policies, digital transformation, and trade dynamics of MSMEs.

Data Collection Methods

The study relies on secondary data source such as Government reports and ministry of MSMEs annual reports and statistical reports of MSMEs Udyam registration portal statistics.

The table showing the classification of MSMEs (2020 - 2024 & 2025)

| Category | Investment in Plant & Machinery/Equipment | Annual Turnover |
|-------------------|---|------------------|
| Micro Enterprise | Up to ₹1 crore | Up to ₹5 crore |
| Small Enterprise | Up to ₹10 crore | Up to ₹50 crore |
| Medium Enterprise | Up to ₹50 crore | Up to ₹250 crore |

Source: Compiled by the researcher

Role of MSMEs in India: strengthening India’s global trade position through the Import Substitution and Export Promotion.

1. Trade Expansion by Import Substitution & Export Promotion

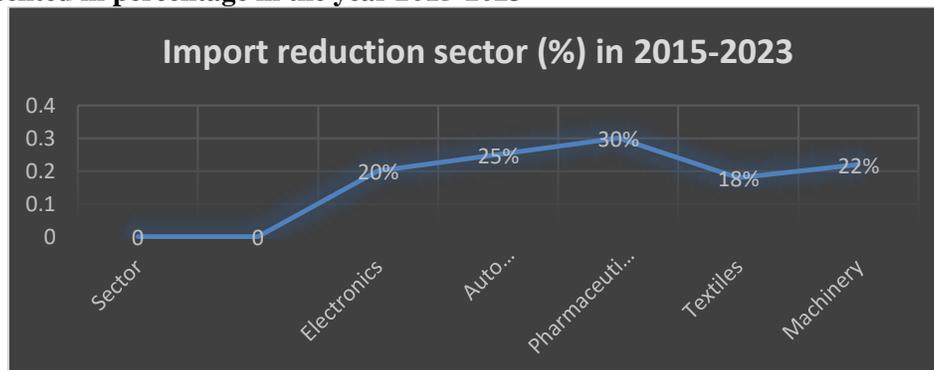
MSMEs play a dual role in strengthening India's trade position: Import Substitution by reducing reliance on foreign goods by producing locally. Export Promotion through Expanding India’s global market presence by increasing outbound trade.

A. Import Substitution: Reducing Foreign Dependency

Table showing MSMEs are helping to reduce India’s import bill by localizing production in critical sectors.

| Key MSME Contribution | Government Support Initiatives |
|--|--|
| Local manufacturing of components, PCB design | PLI Scheme, Custom Duty Hike |
| Increased domestic production of engine parts, batteries | FAME India (EV incentives), Make in India |
| Generic drug manufacturing, API production | PLI Scheme for API, Aatmanirbhar Bharat |
| Indigenous cotton, synthetic fibers, apparel production | TUFS (Technology Upgradation Fund), Export Promotion Council |
| Local machine tool manufacturing | MSME Cluster Development Program |

1.1 The chart showing MSMEs are helping to reduce India’s import bill by localizing production in critical sectors and represented in percentage in the year 2015-2023



Source: The Ministry of MSMEs export-import annual report 2022-23

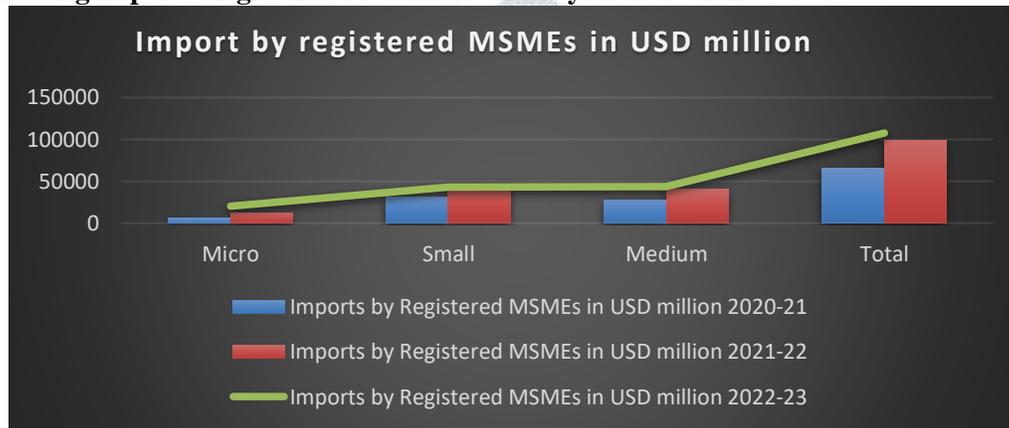
Interpretation: The graph shows import reduction percentages across various sectors from 2015 to 2023. Pharmaceuticals saw the highest reduction at 30%, followed by Auto Components (25%) and Electronics (20%). Machinery and Textiles had moderate reductions at 22% and 18%, respectively. Some sectors showed no reduction. Overall, there’s a clear shift toward self-reliance, especially in critical sectors like pharmaceuticals and auto components.

1.2 The table showing imports Registered MSMEs from the year 2020-2023

| MSME Type | Imports by Registered MSMEs in USD million | | | |
|-----------|--|----------|----------|----------|
| | Year | 2020-21 | 2021-22 | 2022-23 |
| Micro | | 5996.211 | 12481.06 | 20461.08 |
| Small | | 31603.9 | 46030.73 | 42964.59 |
| Medium | | 28321.31 | 41104.34 | 44069.19 |
| Total | | 65921.4 | 99616.1 | 107495 |

Source: The Ministry of MSMEs export-import annual report 2023

1.3 The chart showing imports Registered MSMEs from the year 2020-2023



Interpretation: From 2020-21 to 2022-23, imports by registered MSMEs steadily increased, rising from USD 65,921 million to USD 107,495 million. Micro enterprises saw over a threefold increase, indicating rapid growth. While small enterprises peaked in 2021-22, medium enterprises showed consistent growth. The overall trend reflects increasing reliance on imports, especially by micro & medium MSMEs, showing their expanding role in the global supply chain.

Table showing Strategies for MSMEs to Reduce Imports & Promote Domestic Production

| Strategies for Reducing Imports | Key Actions by MSMEs |
|---|--|
| Manufacturing Indigenous Products | MSMEs produce goods that were previously imported, such as electronics, auto components, and textiles. |
| Promoting Local Supply Chains | Encouraging local sourcing of raw materials reduces reliance on global supply chains, enhancing domestic production capabilities by procuring raw materials from domestic suppliers. |
| Supporting Government Initiatives | Policies like Production Linked Incentive (PLI) Scheme, <i>Make in India</i> and <i>Aatmanirbhar Bharat</i> emphasize MSME-led manufacturing to replace imports. |
| Enhancing Technological Development | Investment in R&D and innovation enables MSMEs to develop high-quality alternatives to imported products. |
| Infrastructure & Capacity Building | MSMEs improve production facilities and quality standards to match global benchmarks |

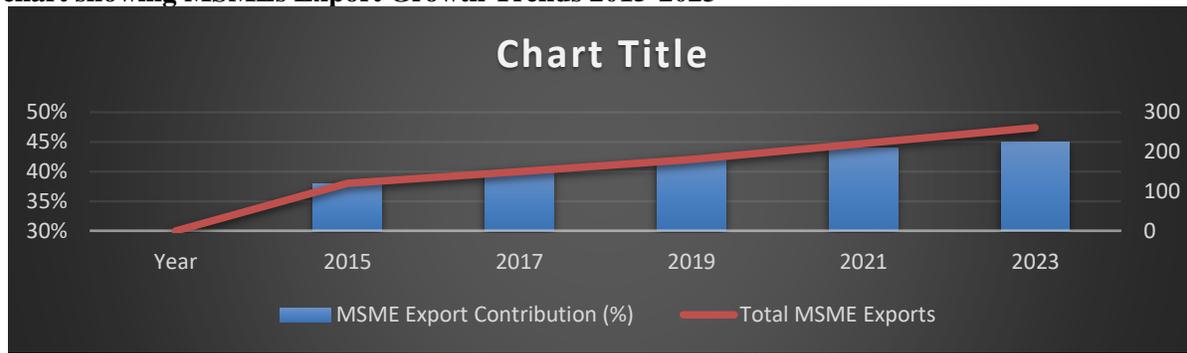
B. Export Promotion: Strengthening India’s Global Trade Position: MSMEs contribute 45% of India’s total exports through the Digital platforms, e-commerce, and trade agreements.

Table showing MSME Export Contribution by various sectors in the year 2015-2023

| Key Export Sectors | Export Growth Drivers |
|--|--|
| Textiles, Leather, Pharmaceuticals | SEZs, Export Incentives |
| Engineering Goods, Electronics | Make in India, Trade Agreements |
| Auto Components, Gems & Jewelry | MSME Credit Schemes |
| Processed Foods, Chemicals | E-commerce Exports, Amazon Global Selling |
| Handicrafts, Renewable Energy Products | Digital Trade Platforms, Free Trade Agreements |

Source: statistics of ministry of MSMEs 2015-2023

1.4 The chart showing MSMEs Export Growth Trends 2015-2023



Source: The Statistics of Ministry of MSMEs export-import annual report 2015-2023

Interpretation: Between 2015 and 2023, the MSME sector’s export contribution increased from 38% to 45%, reflecting its growing importance in India’s international trade. During the same period, total MSME exports more than doubled from USD 120 billion to USD 260 billion. This consistent growth highlights the sector’s expanding global reach, improved productivity, and its crucial role in strengthening the country’s export performance and economic development. The data indicates a positive trajectory for MSME-led export growth.

1.5 Table depicting the Contribution of Registered MSMEs in India’s Export and Import Domains from FY 2020-21 to FY 2022-23

| MSMEs Type | Exports by Registered MSMEs in USD million | | |
|--------------|--|---------------|-----------------|
| | 2020-21 | 2021-22 | 2022-23 |
| Year | | | |
| Micro | 16828.98 | 25185.58 | 29876.65 |
| Small | 33857.2 | 44183.78 | 45086.99 |
| Medium | 37694.06 | 49918.77 | 50562.10 |
| Total | 88380.2 | 119288 | 125525.8 |

Source: The Ministry of MSMEs export-import annual report 2022-23

MSMEs play a vital role in expanding India’s exports by catering to international markets with high-quality and cost-effective products.

1.6 The table showing Key Contributions of MSMEs in Export Growth and Support Mechanisms

| Role of MSMEs in Export Growth | Key Contributions and Support Mechanisms |
|---|--|
| Major Share in Exports and Expanding Market Access | MSMEs account for nearly 45% of India’s total exports, particularly in sectors like textiles, leather, handicrafts, engineering goods, electronics, pharmaceuticals, and automobiles |
| Boosting Foreign Exchange Earnings | By expanding their reach globally, MSMEs contribute to increasing India’s foreign currency reserves. |
| Participation in Global Value Chains (GVCs) | Many MSMEs serves as suppliers to multinational corporations, integrating into the global economy. |
| Government Support & Trade Agreements | Policies such as Export Promotion Capital Goods (EPCG), Merchandise Exports from India Scheme (MEIS), and Free Trade Agreements (FTAs) enhance MSME competitiveness in global markets. |
| Adoption of E-commerce Digital Exports | Platforms like Amazon Global Selling, Alibaba, and government-backed e-marketplaces enable MSMEs to access international customers directly. |
| Quality Enhancement & Standardization | MSMEs invest in product quality certifications (ISO, CE marking) to meet global export standards. |
| Participation in Trade Fairs & Expos | MSMEs showcase their products at international exhibitions and B2B trade events to attract foreign buyers. |
| Export Credit & Financial Assistance | Programs like ECGC (Export Credit Guarantee Corporation) help MSMEs mitigate risks and expand in international markets. |
| Government Support & Incentives | MSMEs benefit from the Foreign Trade Policy (FTP) 2023, which provides financial support, simplified compliance, and credit facilities. |

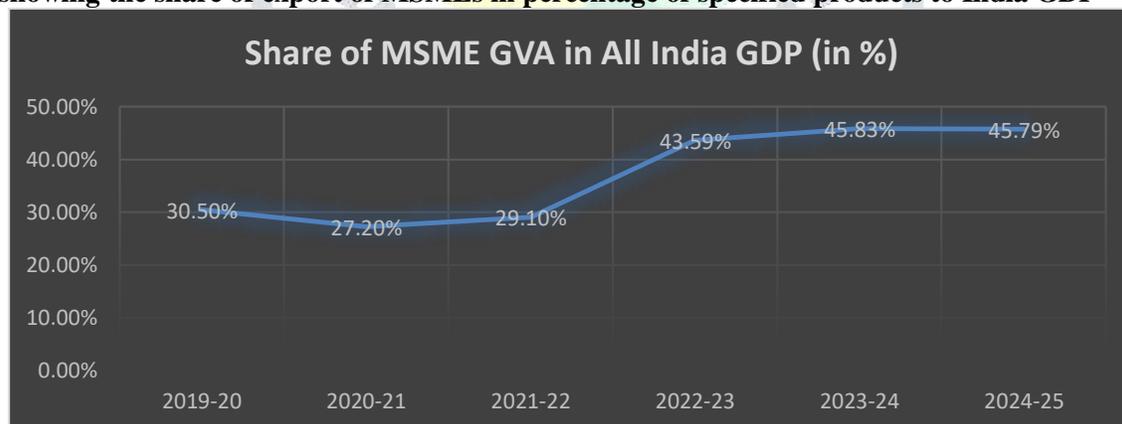
B. Strengthening India’s Global Trade Position

By promoting import substitution and expanding exports, MSMEs contribute to India's trade -balance and economic stability. Their impact includes:

1.7 Table showing the Economic Impact and Contributions of MSMEs

| Economic Impact of MSMEs | Key Benefits and Contributions |
|--|---|
| Reducing Trade Deficits through Boosting Export Growth | Domestic production lowers import bills, improving India's trade balance. MSMEs contribute significantly to exports in handicrafts, agricultural goods, and IT services, as reported by FICCI |
| Enhancing Competitiveness and Production Capabilities | MSMEs provide cost-effective, high-quality goods that strengthen India's standing in global trade. RBI highlights that targeted funding through CGTMSE has improved MSME production, leading to higher exports. |
| Job Creation & Employment Generation in Export-Oriented Sectors | Expanding export businesses lead to more employment opportunities. MSMEs are a major source of employment, particularly in labor-intensive sectors like textiles and handicrafts. |
| Sustainability & Innovation | Green manufacturing and adoption of new technologies improve the global appeal of Indian MSMEs. |
| Contribution to GDP | MSMEs account for 30% of India's GDP, strengthening the country's economic foundation. |
| Regional & Rural Development | MSMEs promote inclusive growth by setting up industries in semi-urban and rural areas. |
| Encouraging Innovation & Entrepreneurship | Government incentives and financial schemes encourage startups and new business models. |
| Improving Foreign Exchange Reserves | Increased exports contribute to higher forex earnings, reducing trade deficits. |

MSMEs play a dual role in reducing import dependency and expanding export markets, thereby enhancing India's position in global trade. Strengthening financial support, improving infrastructure, and adopting digital trade strategies will be crucial in unlocking the full potential of MSMEs in international commerce.

1.8 Chart showing the share of export of MSMEs in percentage of specified products to India GDP

Source: MSMEs Data Dissemination Portal of Directorate General of Commercial Intelligence and Statistics (DGCIS)

Interpretation: The share of MSME GVA in India's GDP showed fluctuations from 2019-20 to 2024-25. It declined to 27.2% in 2020-21, likely due to pandemic impacts, but recovered to 29.1% in 2021-22. A sharp rise to 43.59% in 2022-23 and 45.83% in 2023-24 indicates strong post-pandemic revival and growing MSME contribution. The slight dip to 45.79% in 2024-25 suggests stabilization, reflecting MSMEs' sustained importance in the Indian economy.

Conclusion

MSMEs are the backbone of India's economic resilience and global trade ambitions. By leveraging the twin engines of trade expansion and digital innovation, MSMEs can significantly contribute to India's self-reliance and global competitiveness. The integration of digital technologies and Industry 4.0 will not only enhance productivity but also enable MSMEs to participate in global supply chains more effectively. However, addressing financial constraints, regulatory bottlenecks, and technological gaps is crucial for their sustained growth. With proactive government support, policy simplifications, and a focus on innovation, MSMEs can emerge as key drivers of economic transformation, positioning India as a leading global manufacturing and export hub.

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