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# Msmes, Start-Ups and Their Participation in Global Value Chains

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## ABSTRACT

*The integration of firms into Global Value Chains (GVCs) has become imperative for economic development and competitiveness in the era of globalization. Global Value Chains (GVC) refers to the cross-border fragmentation of the production process where different stages of production are carried out in different countries. Micro, Small and Medium Enterprises are considered as the growth engines of economic growth, innovation and employment generation across the world. They contribute enormously to the value chains thereby offering specialized components, services and various innovative solutions to larger multinational firms. The contribution of MSME to the GDP, manufacturing output and export of the country is approximately 30%, 45% and 45% respectively. Start-ups such as Flipkart, Ola and Zomato refers to newly created innovative businesses with high growth potential that are usually driven by technology and entrepreneurship. The increasing participation of MSMEs and Start-ups in Global Value Chains (GVCs) can increase productivity, expand market access and facilitate technology upliftment. However, there are various challenges that restrict their effective participation in Global Value Chains (GVCs) some of which includes: limited financial resources, obsolete technology, lack of skilled and trained manpower and compliance with international quality standards. The paper seeks to examine the growth prospects of integrating Indian MSMEs and Start-ups into the Global Value Chain (GVCs). It also attempts to identify major challenges faced by MSME's and Start-ups in participating in Global Value Chains. At the same time, the study recommends various strategies to strengthen MSMEs and Start-ups participation in Global Value Chains.*

***Keywords:*** *GVC, MSME, Start-Ups, Economic Growth, Global Integration*

## Introduction

In the era of globalization the integration of firms into Global Value Chains (GVCs) have become imperative for economic development and competitiveness. Global Value Chains (GVCs) are often referred to as across-broader production network where different stages of production are fragmented across various countries. In the contemporary global economy, the process of production is increasingly organised through the Global Value Chains. The networks for GVCs are undoubtedly coordinated by large multinational corporations but the functioning of these chains depends to great extent on smaller firms supplying intermediate goods, services and specialised technologies. Micro, Small and Medium Enterprises (MSMEs) and Start-ups are therefore marginalised from effective GVC participation while multinational corporations have the edge. Global Value Chains (GVCs) can be explained using different terms such as slicing of the value chain, global production sharing, disintegration of production, fragmentation of the production process, delocalisation, vertical specialization and many more (Antras, 2016). Micro, Small and Medium Enterprises and Start-ups play an important role in the Global Value Chain thereby acting as suppliers, subcontractors, innovators and service providers. These enterprises generate robust employment opportunities, promote innovation and support regional industrial development throughout the country thereby contributing to the economic development of the nation. Globally, MSMEs account for nearly 90% of all businesses and are known for their ability to generate 50% of global employment demonstrating their importance in the world economy. However in India, the MSME sector is considered as the backbone of the industrial economy. According to the MSME Annual Report 2024-25, the sector comprises over 7.34 crore estimated MSMEs employing 26 crore individuals serving as the cornerstone of India's economic growth. Start-ups have also emerged as an important component of the entrepreneurial ecosystem especially in sectors such as technology, fintech. biotechnology and digital commerce. Unlike traditional small businesses, Start-ups generally focus on innovation technology and high growth potential. They often begin with limited resources but aim to expand quickly by attracting investment, developing new products and reaching wider markets. The synergy between MSMEs Start ups and large firms has strengthened India's integration into Global Value Chains (GVCs).

## Review of Literature

**Porter, M.E (1990)** in his studies revealed that the emergence of the Global Value Chains in the 1990s was driven by increasing participation in both horizontal and vertical clustering and networking. These collaborative arrangements enable enterprises to gain access to knowledge spillovers and skilled work force which would have been difficult to attain if firms operated independently.

According to the **Organisation for Economic Cooperation and Development (1997),** globalisation and regional economic integration have played a significant role in promoting the development of MSMEs. This has encouraged the growth of value chain and created new market opportunities for MSMEs.

**Harvie (2010)** highlighted the need for MSMEs to improve their global competitiveness especially in Research Development, skill and upgraded quality control. He also emphasised that the government should come forward to encourage the development of intermediate products and supplier industries in order to enhance domestic content in the operation of MNCs in a country.

**Ando and Kimura (2005a)** in their studies opined that integration of MSMEs into the Global Value Chain has been largely influenced by increasing global competition and the growing emphasis on quality, cost efficiency and timely delivery. They also highlighted that outsourcing practices, technological advancements and regional trade agreements have played an important role in facilitating MSME participation in global production network.

**Azmen and Nadvi (2014)** claimed that the integration of firms from developing countries to Global Value Chains provide opportunities for firms to increase exports and generate employment. However, they emphasize that integration alone does not ensure economic upgradation as many firms remain engaged in low value activities unless supported by appropriate policy skill development and technological capabilities.

## Research Gap

While various research studies have been focusing on the importance of Global Value Chains(GVCs) in improving competitiveness, market access and export opportunities, not much research has been done to consider the participation and upgradation of MSMEs and Start-ups in the developing countries. Particularly in a country like India, a comprehensive empirical analysis on the extent to which these enterprises benefit from Global Value Chain and the challenges they encounter together with various strategies to strengthen MSME and Start-ups participation in Global Value Chains (GVCs) would help the policy makers and interested stakeholders in taking effective measures and framing more appropriate policies concerning economic growth. Thus, the study addresses the gap by examining the participation of MSMEs and Start-ups in Global Value Chains particularly in Indian content.

## Objectives

The study endeavors:

1. To examine the growth prospects of integrating Indian MSMEs and Start-ups into Global Value Chains (GVCs).
2. To identify the major challenges and suggest strategies to strengthen the participation of MSMEs and Start-ups in Global Value Chains (GVCs).

## Research Methodology

The study is entirely based on secondary data which takes a qualitative approach to examine the opportunities of embedded integration of Global Value Chains into Indian MSMEs and Start-ups. Various reports from authentic sources such as Institutional reports by World Bank, reports from online research papers, portals and conference proceedings in relation to GVCs, Indian MSMEs and Start-ups, Reports from Industrial documents such as Confederation of

Indian Industry(CII) and Reserve Bank of India have been considered. Beside this several newspaper articles, blogs peer reviewed academic channels and government policy documents have been consulted in drafting the body. The study examines the growth prospects of integrating MSMEs and Start-ups into Global Value Chains, challenges faced by MSMEs and Start-ups in global integrations and suggests strategies to strengthen their participation in Global Value Chains (GVCs).

## Concept of Global Value Chains (Gvcs)

Global Value Chains (GVCs) refers to the inter-connected production process distributed beyond national boundaries in order to produce goods and services from raw materials and intermediate goods, thus fragmenting production across nations (Cheng, et. al., 2015). At least two of these stages are carried out in different countries with experts in those specific stages of the manufacturing sequence Global Value Chain(GVCs) involves the entire activities that are undertaken to transform inputs into final products and services. Design, production, marketing, distribution and after sales services for the end users are all included under the purview of Global Value Chains (Porter, 1985). Traditionally, most stages of production occurred within a single country. However in a globalised economy, the stages of production are fragmented in different countries depending on cost efficiency, resource availability and technological capabilities. The key features of Global Value Chains (GVCs) include fragmentation of production across countries, specialisation of firms in specific stages of production, integration of suppliers and production across borders, coordination by Multinational Corporation, continuous technological innovation and knowledge transfer. Participation in Global Value Chain (GVCs) allows firms to focus on specialised tasks while benefiting from international market and advanced technologies. Integration with the Global Value Chain can accelerate industrialisation, boost employment generation and increase exports.

## Integration of Indian Msmes and Start-Ups into Global Value Chains: Growth Prospects

### 1. Wider Market Access

Global Value Chains (GVCs) enable Indian MSME and Start-ups to overcome geographical limitations and therefore, reach more customers in international markets. GVC participation helps MSMEs to become suppliers to large multinational corporations and export their product directly. This helps them to reach global customers without establishing their own international distribution network leading to market expansion in terms of higher sales, increased production and business growth.

### 2. Innovation and Technology Transfer

Integrating MSMEs and Start-ups into Global Value Chains help in escalating the technology transfer from the leading firms to the local firms which are the supplier units in developing countries (Morrison et al., 2008). Innovation is yet another component of competitiveness and MSME can test advanced technology in a pilot mode. Exposure to these technologies and manufacturing processes help to increase productivity and boost product standard.

### 3. Enhanced Productivity with Specialization

Participation in GVCs helps MSMEs and Start-ups to enhance their productivity in order to fulfill the requirements imposed by the foreign customers (Mittal et al., 2017). Specialisation of processes helps in reduction of cost and attains higher productivity and competitiveness. These improvements thereby strengthen the overall performance and sustainability of small enterprises.

### 4. Employment Generation

GVC participation helps MSMEs and Start ups in creating millions of new job opportunities within the next few years. The expansion of operations and production capacities of MSME to fulfil international orders generate new employment opportunities thereby helping in the creation of more jobs and economic development within a country. This helps in promoting inclusive economic growth and poverty reduction particularly in developing countries.

### 5. Access to Global Knowledge and Skills

Membership with Global Value Chains (GVCs) helps MSMEs and Start-ups in the upgradation of skills and training of the workforce in order to meet the international standards. When MSMEs collaborate with global firms, they gain knowledge about international business strategies, quality standards and market trends. These interactions help the entrepreneurs to develop news skills related to product design, supply chain management, quality control and digital marketing.

### 6. Enhancement of Export Competitiveness

Global production networks allow MSMEs and Start-ups to expand their export and facilitate accumulation of foreign reserves which acts as a driving force for the developing economies. MSMEs and Start-ups become part of internationally recognised production systems through GVC participation. This exposure improves their credibility and reputation in the global market which in future may help them to export directly under their own brand.

## Challenges Faced by Msmes and Start-Ups in Gvc Integration

### 1. Limited Access to Finance

Inadequate finance is one of the key challenges faced by MSMEs for updating their production process with global standards in almost all developing countries. This inhibits MSMEs from investing in high quality infrastructure and managerial staff, affecting their ability to build on specialisation, identifies new markets and get better integrated into GVC eco system. Many MSMEs struggle to obtain adequate financing for expansion, technology adoption and export activities. Lack of collateral and higher borrowing cost often restrict their growth.

### 2. Poor Technological Capability

With the emergence of industry 4.0 several advanced technologies have transformed modern production systems. Innovation such as robotic automation, 3-D printing and automated quality control has significantly enhanced the efficiency and competitiveness of firms. However, many MSME particularly those in developing economies face difficulties in adopting these advanced technologies due to limited financial and technical resources. Even in developed economies, the adoption of industry 4.0 concept is limited among MSME's than that of large firms.

### 3. Insufficient Awareness of GVCs

Global Value Chains (GVCs) are undergoing rapid transformation due to the growing digitalisation of the global economy which demands specialised technical and managerial talent. Various aspects of GVCs ranging from the production of goods to their final distribution are highly influenced by digital technology such as Artificial Intelligence (AI) and Internet of Things (IoT). However, many MSMEs still lack sufficient awareness and understanding of how to remain competitive in the digital environment partly due to the lack of managerial talent.

### 4. Inadequate digital Infrastructure

Efficient supply chain management is essential for the smooth functioning of Global Value Chains (GVCs) as it facilitates the timely and cost effective movement of goods and components across international borders. However, many MSMEs and Start-ups lack access to reliable digital infrastructure which limits their ability to participate effectively in global markets resulting in delays and increased transaction costs. Consequently, inadequate digital infrastructure prevents MSMEs particularly in developing and least developed countries from successfully integrating into Global Value Chain (GVCs).

### 5. Limited Managerial and Skilled Workforce

The Micro, Small and Medium Enterprises (MSMEs) and Start ups often face managerial and entrepreneurial constraints. These units are unable to recognise opportunities related to the goods, financing such goods, contract them, mitigate risk and include themselves into the Global Value Chain (Mittal et al,.2016). It becomes very difficult for various MSMEs and Start-ups to recruit managerial and technical skilled persons allowing them to penetrate well into the global markets and their complex supply chain.

### 6. Compliance with International Standards

Compliance with international standards such as quality, labour and environmental standards are often cumbersome for MSMEs and Start ups demanding huge amounts of money and complicated adjustments. Global markets required strict adherence to international quality certifications and regulatory requirements. MSMEs and Start-ups often face difficulties in meeting these standards due to lack of expertise, institutional support and financial resources.

## Strategies to Strengthen Participation in Global Value Chains

### 1. Financial Support and Credit Access

MSMEs and Start-ups required a solid financial base so as to establish productive and organisational capacities for meeting international standards. Government and financial institutions should come forward to provide affordable credit and venture capital to small enterprises.

**2. Technological Upgradation**

There is an urgent need to develop advanced production technologies and digital infrastructure to provide MSMEs with information about emerging technology trends and digital innovations. Such technological upgradation assists MSMEs and Start-ups in improving productivity and competitiveness through cost effective production.

**3. Skill Development Programmes**

In order to enhance the technical and managerial competencies of MSMEs and Start-ups, targeted training programs and digital skill development initiatives need to be organised. Strengthening skill development will enable MSMEs to improve productivity and expand their participation in the global production network.

**4. Cluster Development Programmes**

In order to strengthen MSMEs and Start-ups participation in Global Value Chains (GVCs), there is an urgent need for co-location of small enterprises with large manufacturing firms within industrial clusters. This helps MSMEs to function as ancillary suppliers providing components, parts and specialized services to the large firms.

**5. Export Promotion**

In order to help MSMEs and Start-ups secure the necessary certification by meeting global standards, the government should provide collateral-free loans in export oriented sectors. At the same time, export promotion councils and trade facilitation programs can help MSMEs access global markets.

## Conclusion

MSMEs and Start-ups have become an essential component of the global economic system in many developed and developing countries of the world. Their participation in Global Value Chains (GVCs) enables them to assess international markets, improve productivity and acquire advanced technologies. Indian MSME and Start-ups contribute significantly to the economy in terms of many perspectives which include output, growth, employment, export, poverty alleviation, economic empowerment and regional development. Integration of MSMEs and Start-ups with global value chains can enhance their growth and competitiveness. However, there are numerous barriers to their effective integration such as poor financial resources and technology, lack of skilled personal bureaucracy and compliance requirements. In order to overcome the challenges, the government must implement supportive policies, improve infrastructure, promote innovation and strengthen digital capabilities. Thus, it can be said that challenges facing MSMEs and Start-ups are many but if these measures are effectively implemented, they have a huge potential to result in the development of dynamic and competitive MSMEs and Start-ups in regional and global economies.

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