



FOREIGN DIRECT INVESTMENT AND MSME TRANSFORMATION IN INDIA: GROWTH, TECHNOLOGY SPILLOVERS, AND COMPETITIVENESS

DR. SHYAMU GANTA

Assistant Professor of Economics

KGC Hanumakonda

Hanumakonda, Telangana State, India

Email: drshyamuganta@gmail.com

Contact: +91 9440571832

ABSTRACT

Foreign Direct Investment (FDI) plays a crucial role in transforming Micro, Small and Medium Enterprises (MSMEs) in India by providing access to capital, technology, know-how, productivity, and market inclusion. The current study focusses on the role of FDI in transforming MSME with special reference to business growth, technology spillover and competitiveness. A quantitative descriptive and analytical research strategy is followed in the current study, using data obtained from 200 MSMEs. Selected indicators based on frequency and percentage methods are analysed. According to the observations, linkages of FDI have been able to improve the business performance of MSME in respect to their business efficiency, annual turnover, production capacity, generation of employment, and market development. Improvements related to technology are also visible through the use of digital technology, product quality, modern production practices, technical skills, and the use of advanced machinery. Moreover, FDI enhances product competitiveness, market competitiveness, supply productivity, and product differentiation. Yet, the more modest enhancement in international market access suggests that MSMEs continue to encounter hurdles in translating FDI-related gains in technology and productivity into greater engagement in global trade. The study finds that FDI acts as an engine for the growth and technological change of MSME and competitiveness in India, while better access to finance, infrastructure, skills, innovation capabilities and international market is essential for sustainable MSME development.

Keywords: *Foreign Direct Investment (FDI); MSMEs; Technology Spillovers; Business Growth; Competitiveness; India.*

1. INTRODUCTION

Foreign Direct Investment (FDI) is a significant factor in the economic development of India as it brings in very important capital, technology, management skills, and market access along with the possibilities for integration into global production chains. Employment, entrepreneurship, production, exports, and regional development in the Indian economy are facilitated through contributions made by Micro, Small and Medium Enterprises (MSMEs). Similarly, they too play an important role in the Indian economy. There has been a rise in investments made in smaller businesses or MSMEs in the recent years. Such investments hold great potential for utilizing economic dynamism towards improving the standard of living. FDI can help transform MSMEs not only through investment but also through knowledge spillovers, competition, etc.

While the above opportunities do exist, the effect of FDI on MSMEs is not consistent. Opportunities through foreign direct investments (FDIs) are utilized by smaller firms owing to variations in technology capabilities, availability of funds, management abilities for production, and infrastructure & market linkages. The spillover of technology may encourage digitization, modern production processes, product quality and skill development of workforce. The increase in competition may encourage MSMEs to improve efficiency, product differentiation and market performance. But, lack of international market access and weaker capabilities to innovate may impose a constraint on their ability to convert the improvements into global competitiveness for a longer term. In this context, the present study investigates the contribution of FDI towards the growth of MSMEs, technology spillovers, and competitiveness in India. It specifically seeks to understand the extent to which FDI-related linkages help modernise and enhance the competitiveness of the MSME sector.

2. LITERATURE REVIEW

Rajak (2020) studied the effect of FDI on MSMEs in India. The research evaluated the FDI and MSME sector relationship, along with the impact of FDI on the area of business growth, investment opportunity, technology development, job generation development, and competitiveness. According to the study, FDI provides important opportunities for MSMEs in terms of availability of capital, improved technologies and managerial practices, and greater exposure to competitive markets. It went on to state that greater FDI participation could enhance the capacity and modernisation of MSMEs. However, smaller enterprises continued to face challenges with regards to finance, technology, infrastructure and market access to fully utilise FDI opportunities.

Mahendran, Olive, and Lavanya (2020) analyzed the contribution of cluster formation in achieving competitive advantage for SMEs and ensuring sustainable economic development. The researchers pointed out that through clustering, SMEs would be able to take advantage of resource sharing, knowledge spillover, technological learning, and strong business networking. Cooperation among firms had been shown to positively affect efficiency, innovation, market reach, and competitiveness. It was proposed in the paper that through developed clusters, the competencies of SMEs could be developed and they could respond to the changing domestic and international environment better. The conclusions were pertinent to MSMEs in India because clusters could ensure greater benefits from foreign investments in terms of technology transfer and networking.

Kaushal (2019) investigated the Indian FDI experience and identified the role of foreign investment in economic development. In doing so, it became clear that FDI helped India in capital accumulation, technology up-gradation, creation of jobs, and integration of Indian economy with the rest of the world economy. Foreign investment gave Indian companies a chance to access the latest technologies, management techniques, and international business connections. But the study suggested that benefits from FDI would depend on appropriate policy formulation and the capacity of local companies to adopt technologies and capabilities. The results of the study have served as a good basis for analyzing the role of FDI in the transformation and technology up-gradation of Indian MSMEs.

3. RESEARCH METHODOLOGY

The study utilized the quantitative descriptive and analytical method to determine the impact of FDI on the growth of MSMEs, its technology spillovers, and competitiveness of MSME in India. The data collected from 200 MSMEs were analyzed using frequency and percentage methods on a set of selected indicators.

3.1 Research Design

The research applied descriptive and analytical approach to examine the effect of foreign direct investment on MSME transformation in India. This research will focus on growth, technology spillover, and competitiveness of MSMEs. A quantitative approach has been taken to analyze the improvement in the above-mentioned areas by MSMEs due to their linkages with FDI.

3.2 Study Population and Sample

The population under study was the MSMEs working in India either directly or indirectly associated with foreign investment companies and multinational companies, foreign vendors and FDI-based networks. This study analyzed 200 sampled MSMEs. These respondents were selected for obtaining information related to performance, technology adaptation, skill development, production process, and competitive behavior.

3.3 Data Collection

This survey employed the use of quantified data concerning the essential elements of MSME transformation. These were categorized in terms of five indicators for MSME growth, five indicators for technology spillover, and five indicators for competitiveness. Respondents indicated whether they experienced improvement in selected indicator after FDI-related linkages. The responses were converted into frequencies and percentages for analysis.

3.4 Variables and Indicators

The assessment considers three broad dimensions related to FDI. The assessment of MSME growth was done using annual turnover, production capacity, employment generation, and others. Technology spillovers were measured through the adoption of digital technologies, product quality, modern production technology, technical skills and advanced machinery. Evaluation of competitiveness entailed product competitiveness, overall market competitiveness, efficiency of supply, differentiation of product and access to international market.

3.5 Data Analysis

The analyzed data were obtained using a descriptive statistical technique, frequency and percentage analysis. To gain insights into the significant areas in which FDI has been facilitating MSME transformation, the percentage of MSMEs reporting improvement for each indicator was calculated. The results represented with the help of 3 tables and charts. This led to comparative interpretation on growth, technology spillovers and competitiveness.

4. RESULTS

As illustrated in Table 1 and Figure 1, the set of indicators employed to assess the correlation between FDI and MSME growth. Some of the benchmarks include yearly turnover, production capacity,

generation of employment, and market expansion. It provides a visual representation of the percentage of MSMEs improving upon these growth dimensions.

Table 1: FDI and MSME Growth

Growth Indicator	Improved (%)
Annual turnover	74.0
Production capacity	68.0
Employment generation	62.0
Market expansion	71.0
Business efficiency	77.0

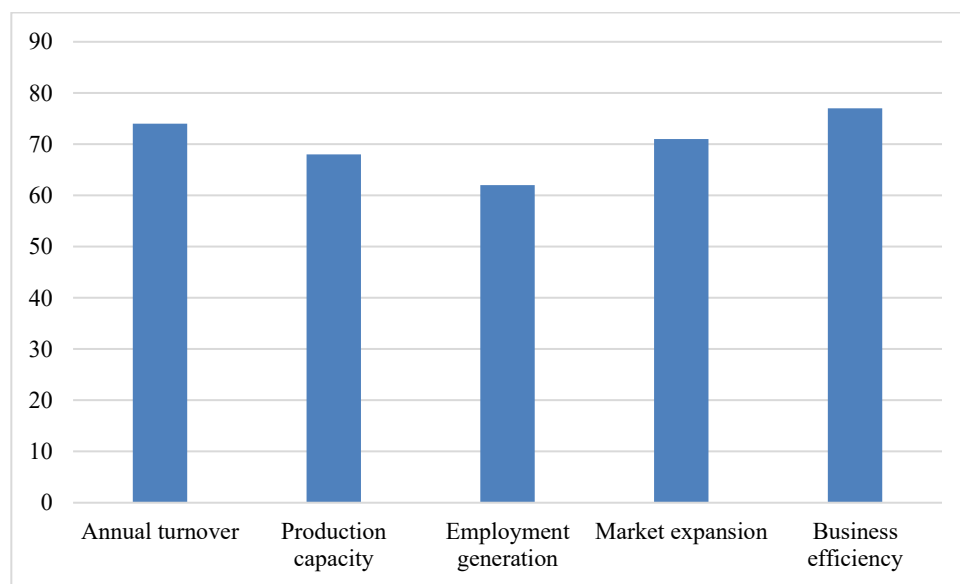


Figure 1: Graphical Representation of FDI and MSME Growth

The study revealed that business improvement was most increased by 77.0% and annual turnover at 74.0% while business expansion was at 71.0%. 68.0% of MSMEs reported an improvement in production capacity while an improvement was lowest (62.0%) in employment generation. According to the findings, positive improvement occurs because of FDI in MSME business performance, most notably operational efficiency, turnover, and market expansion.

The major indicators to assess the technology spillovers related to FDI in MSMEs are presented in Table 2 and Figure 2. These indicators will address the adoption of digital technology, quality of products, modern technology of production, technical skills and use of advanced machinery. The percentage distribution over these technological dimensions is shown in Figure 2.

Table 2: FDI and Technology Spillovers

Technology Indicator	Improved (%)
Digital technology adoption	81.0
Product quality	78.0
Modern production technology	75.0
Technical skills	73.0
Advanced machinery	69.0

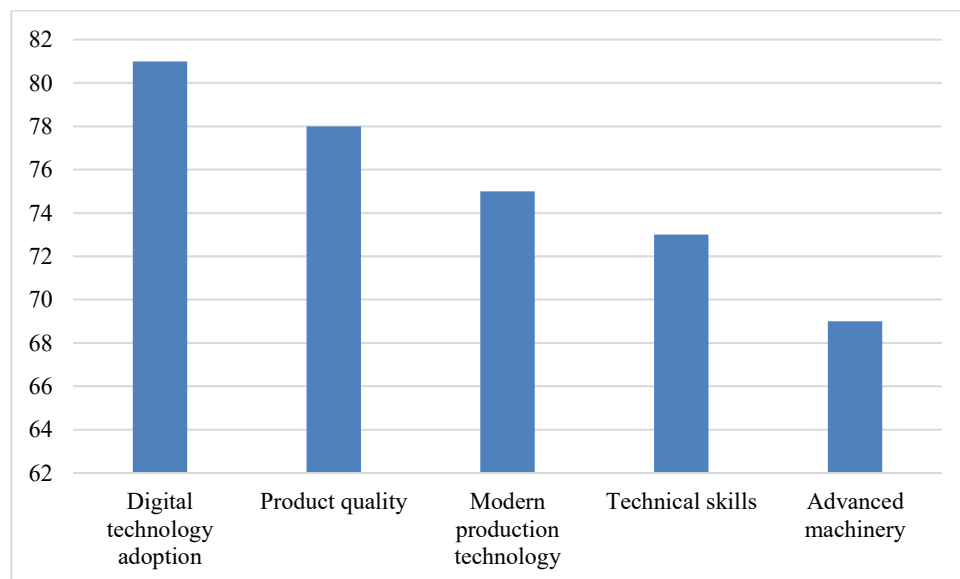


Figure 2: Graphical Representation of FDI and Technology Spillovers

Results indicated the highest improvement of adoption of digital technology at 81.0% followed by the improvement of product quality at 78.0% and the improvement of modern production technology at 75.0%. 73.0% of MSMEs reported improving their technical skills and 69.0% of MSMEs reported improving after adopting advanced machinery. All in all, the study results suggested that linkages related

to FDI contributed significantly to the upgrading of technologies, especially in terms of digitalisation, product quality, and production methods.

According to Table 3 and Figure 3, some major indicators to assess the competitiveness of MSME due to FDI. The key factors are product competitiveness, competitiveness of the market as a whole, supply efficiency, product differentiation, and access to the international market. The percentage breakdown among the competitiveness dimensions is shown in Figure 3.

Table 3: FDI and MSME Competitiveness

Competitiveness Indicator	Improved (%)
Product competitiveness	79.0
Overall market competitiveness	76.0
Supply efficiency	74.0
Product differentiation	72.0
International market access	56.0

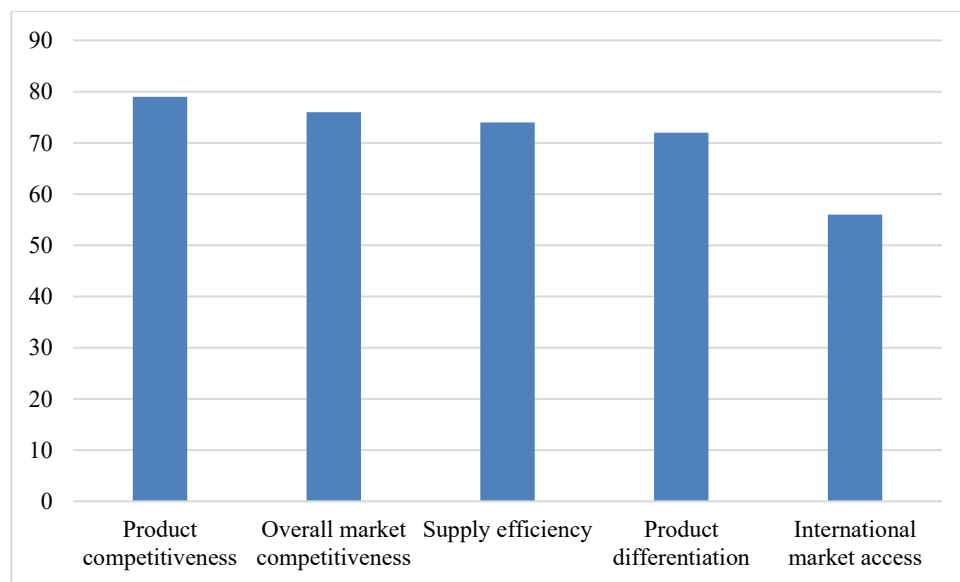


Figure 3: Graphical Representation of FDI and MSME Competitiveness

The results revealed that the highest improvements were made in product competitiveness (79.0%), overall market competitiveness (76.0%) and supply efficiency (74.0%). Seventy-two percent of MSMEs

showed marked improvement in product differentiation while the lowest improvement was 56.0% for access to international markets. The overall result showed that FDI has positively contributed to the competitiveness of MSME particularly performance of products, market position, supply efficiency, and the like although helps needed to strengthen international market access.

5. DISCUSSION

The results showed that the FDI has played a good role in the transformation of Indian MSMEs in terms of business growth, tech upgradation and competitiveness. Linkages through FDI seem to enhance operational efficiency, business expansion, and market opportunities.⁰² Perceived technology spillovers allow businesses to adopt technological tools.⁰³ Other advantages include improved production practices, better product quality and skills of workers. Other findings revealed that MSMEs product competitiveness, supply efficiency, product diversification and market competitiveness got enhanced due to FDI. The comparatively weaker improvement in integration in international markets indicates that technological and productivity gains do not necessarily lead to greater global involvement. Overall, It shows that FDI can be an important driver in the modernisation, technology transfer, productivity enhancement and competitive development of MSME, while supporting policies, infrastructure, finances, and international market linkages are essential in bringing broader and more sustainable transformation.

6. CONCLUSION

The results of this study show that Foreign Direct Investments (FDI) can be considered an important tool in the process of Indian MSMEs transformation due to their effect on business development, technology development and competitiveness. Specifically, the research findings reveal the role of FDI-related linkages in increasing business effectiveness, turnover, productive capacity, market presence and job creation, as well as the effects of technology spillovers on digitalization, modern production technologies, quality of products, technical competencies and use of advanced equipment in MSMEs. FDI helps in the competitiveness of products, supply chain management, product diversification, and market positioning of MSMEs. However, the comparatively low level of involvement of MSMEs in the international market shows the need for additional assistance to MSMEs in areas such as financing, infrastructure, innovation, skill development, and international market connections. In summary, the study finds that proper use of FDI can help in modernizing MSMEs, increase productivity, and develop technological capabilities leading to sustained competitiveness which contributes towards the economic growth of India.

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