

Digitalization and Exports: A case of Indian Manufacturing MSMEs

Abstract

In this paper, we assess the digitalization of Indian manufacturing Micro, Small and Medium Enterprises (MSMEs) by using the Centre for Monitoring Indian Economy's Prowess database consisting of around 800 manufacturing MSMEs for the period 1990-2019. Our primary objective is to answer two questions: First, what is the role of digitalization in promoting export intensity of Indian manufacturing MSME firms? Second, how digitalization helps in facilitating export market entry for these firms? The summary of the findings based on the robust econometric techniques such as System Generalized Method of Moments and Dynamic Probit Regression Model and employing three alternative definitions of digitalization reveals that higher level of digitalization of an Indian manufacturing MSME increases its exports intensity. Besides, higher sunk costs, increased labour productivity, and age of the firm are also associated with greater export intensity of the firm. Also, a digitalized manufacturing MSME firm is more likely to enter the export market, vis-à-vis a non-digitalized one. The findings advocate towards an urgent need for manufacturing MSMEs to go for digitalization to sustain and strengthen their contribution to the Indian economy.