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EDITORIAL ANALYSIS

Small Firms, Big Ecosystems: The Case for Clustering India's MSMEs

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ECONOMY

GS3

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INTERVIEW ANGLE

"China's 'Little Giant' firms are chosen through a formal, three-tier government classification process that decides which companies deserve concentrated state support. If India built a similar programme, who should have the authority to pick the 'Little Giants,' and what would stop that authority from becoming another instrument of favouritism?"

 Every fact web-verified against primary sources

THE LIFT LINE

A million small firms scattered across a million small towns do not add up to one large industry. They add up to a million small firms.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Most MSME answers reach for the same three moves: cite the sector's share of GDP, list a scheme or two, and call for "more credit access." This editorial supplies something sharper, a specific mechanism, industrial clustering, and a specific comparative frame, China's Little Giant firms against the United States' Research Triangle, that lets a Mains answer move from description to genuine policy analysis. It also sits usefully beside the MSME-DPIIT Geographical Indications MoU covered in today's daily edition, which addresses market access for GI products rather than the deeper structural fragmentation this editorial is about, a distinction worth making explicitly in an answer.

GS Paper 3: Indian economy and issues relating to planning, mobilisation of resources and growth; industrial policy; the MSME sector, its role in employment and inclusive growth; infrastructure development.

CONCEPT	MEANING	WHY IT IS TESTABLE
Agglomeration economics	The efficiency gains firms realise from locating near related firms in the same sector	The theoretical foundation for any cluster-policy answer
Porter's cluster theory	Michael Porter's framework holding that geographic concentration of interconnected firms and institutions raises productivity and innovation	The standard academic citation UPSC answers reward
Marshallian industrial district	Alfred Marshall's older concept of localised industries benefiting from a shared skilled-labour pool and supplier network	The historical precursor to modern cluster theory, useful for depth
China's "Little Giant" (SRDI) programme	A formal government classification, Specialised, Refined, Differentiated, Innovative, that channels concentrated state support to niche-specialist SMEs	The editorial's central comparative benchmark
MSE-CDP	Micro and Small Enterprises Cluster Development Programme, India's Central Sector Scheme funding Common Facility Centres	India's existing but underleveraged cluster instrument
SFURTI	Scheme of Fund for Regeneration of Traditional Industries, covering traditional and artisan-based clusters	The parallel scheme for traditional, craft-based industry
Knowledge spillover	The uncompensated transfer of technical or market knowledge between geographically proximate firms	The mechanism that separates a genuine cluster from mere co-location

BACKGROUND AND CONTEXT

India's Micro, Small and Medium Enterprises are, by most measures, the single largest organised block of the Indian economy outside agriculture. The combined count on the Udyam Registration and Udyam Assist platforms stood at **7.86 crore MSMEs** employing **34.63 crore people** as of **February 27, 2026** (trading enterprises made up **42.89 per cent**, services **36.22 per cent** and manufacturing **20.89 per cent**), and crossed **8.7 crore enterprises** by June 2026 as registrations continued to grow. Broader employment estimates for the sector, including informal enterprises captured through subsequent registration drives, put the workforce closer to **38.9 crore**, making MSMEs India's largest source of non-farm employment. The sector contributes roughly **30 to 31 per cent of GDP**, around **35 to 36 per cent of manufacturing gross value added**, and close to **half of India's exports** on recent Ministry figures. Note that older estimates of "63 million enterprises" and "111 million employed," drawn from the pre-Udyam 73rd National Sample Survey (2015-16) and still circulating in commentary, predate the more complete Udyam and Udyam Assist coverage and undercount the sector; the verified, current Ministry figures above are higher on both counts.

The Ministry of MSME received a Union Budget allocation of **Rs 23,168 crore for FY26**, a **4.6 per cent** increase over FY25. Its principal cluster-development instruments are the **Micro and Small Enterprises Cluster Development Programme (MSE-CDP)**, a demand-driven Central Sector Scheme funding Common Facility Centres and infrastructure upgrades in response to state government proposals, which has approved **606 projects** since inception with **364 completed** and **242 under implementation**; and the **Scheme of Fund for Regeneration of Traditional Industries (SFURTI)**, which has approved **513 traditional-industry clusters** since 2015-16 with committed assistance of **Rs 1,332.95 crore**, benefiting an estimated **3.03 lakh traditional artisans** in sectors such as handicrafts, handloom, agro-processing and coir.

THE ANALYSIS

1. Fragmentation, not scale, is the binding constraint. India's MSME sector is large in aggregate and small in unit: with tens of millions of registered enterprises averaging only a handful of workers each, no individual firm can afford the testing laboratories, design capability, compliance certification or export documentation that global value chains now expect as a baseline. A firm-level subsidy, whether a credit guarantee or an interest subvention, marginally eases one firm's cash flow but does nothing to build the shared infrastructure that fragmentation has made unaffordable to any single enterprise.

2. The theoretical case for clustering rests on spillovers, not just proximity. Michael Porter's cluster theory and the older Marshallian industrial-district literature both identify the same three mechanisms: a deep, shared pool of specialised labour that no single firm needs to train alone; knowledge spillovers between firms working on related problems, often informally, through supplier relationships and worker mobility; and shared infrastructure and specialist supplier ecosystems that let even a small firm access capabilities, testing, tooling, logistics, it could never build independently. These mechanisms only activate when firms are not just co-located but genuinely interconnected, which is the distinction the editorial's argument turns on.

3. China's "Little Giant" programme shows what a deliberately engineered ecosystem looks like. Rather than subsidise MSMEs indiscriminately, China's Ministry of Industry and Information Technology built a formal classification pipeline, Specialised, Refined, Differentiated and Innovative (SRDI) enterprises, that identifies niche-specialist firms, often suppliers of a single critical component within a larger supply chain, and channels concentrated support toward them: at least **CNY 10 billion** in central funding between 2021 and 2025 aimed at roughly **10,000 firms**, with individual recognition grants of **CNY 500,000 to 6 million**, often matched provincially. By 2024, firms recognised as Little Giants held only about **3 per cent** of the count of China's designated-size industrial SMEs but generated around **6 per cent** of their revenue and nearly **10 per cent** of their profit, a productivity gap that is the entire case for targeted, criteria-based cluster support over undifferentiated subsidy.

4. The US Research Triangle shows the same logic without state selection. North Carolina's Research Triangle Park, anchored by Duke University, the University of North Carolina at Chapel Hill and North Carolina State University since 1959, built its ecosystem around university research spilling into private

enterprise rather than government-designated firms, demonstrating that the anchor institution generating spillovers need not be the state itself. The common thread across both the Chinese and American models is a **deliberate** anchor, a classification system in one case, research universities in the other, around which specialist supplier and knowledge networks could form; neither is simply land allotment.

5. India's existing cluster infrastructure has mostly stopped short of this deeper logic. MSE-CDP's 606 approved projects and SFURTI's 513 clusters have real achievements, they have built Common Facility Centres, shared testing equipment and infrastructure that individual artisans and micro-enterprises could not otherwise access. But by design these schemes have functioned chiefly as physical-asset creation rather than as the ongoing innovation-and-specialisation ecosystem that distinguishes a Little Giant programme or a Research Triangle from an industrial estate with a boundary wall. The editorial's proposed "Little Giant" style programme for India would need to go a step further, identifying and nurturing niche-specialist firms within these clusters on transparent, outcome-linked criteria, rather than treating cluster development as complete once infrastructure is built.

6. The MSME-DPIIT Geographical Indications MoU is a related but distinct intervention. Signed on August 5, 2026, the MoU onboards GI-tagged product collectives onto the Open Network for Digital Commerce and the Government e-Marketplace under a "Bharat GI" banner, integrating the One District One Product ecosystem. This addresses **market access**, connecting already-clustered, geographically rooted producer groups to buyers, rather than **cluster formation** itself. It is a useful complement for GI-tagged clusters that already exist, but it should not be mistaken for the deeper industrial-clustering agenda this editorial argues for, which is about building the shared infrastructure and specialist ecosystems that let ordinary, non-GI MSMEs compete globally in the first place.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

MSMEs registered on Udyam Registration and Udyam Assist combined: 7.86 crore (Feb 27, 2026), crossing 8.7 crore by June 2026

Feb 27, 2026 snapshot: 34.63 crore employment; trading 42.89%, services 36.22%, manufacturing 20.89%

MSME contribution: roughly 30-31% of GDP, ~35-36% of manufacturing GVA, close to half of exports

Union Budget FY26 allocation to Ministry of MSME: Rs 23,168 crore (up 4.6% over FY25)

MSE-CDP: Central Sector Scheme; 606 projects approved since inception, 364 completed, 242 ongoing

SFURTI: 513 traditional-industry clusters approved since 2015-16; Rs 1,332.95 crore committed; benefits roughly 3.03 lakh artisans

China's "Little Giant" (SRDI) programme: at least CNY 10 billion central funding, 2021-2025, targeting ~10,000 firms; by 2024, Little Giants held ~3% of designated-size industrial SME count but generated ~6% of revenue and ~10% of profit

US Research Triangle Park (North Carolina), established 1959, anchored by Duke, UNC-Chapel Hill and NC State

WATCH THE TRAP: DO NOT EQUATE "CLUSTER DEVELOPMENT" WITH SIMPLY ALLOTING INDUSTRIAL LAND OR BUILDING A COMMON SHED. A GENUINE CLUSTER REQUIRES ANCHOR FIRMS, SUPPLIER DEPTH AND ACTIVE KNOWLEDGE SPILLOVERS; AN INDUSTRIAL PARK THAT LACKS THESE IS CO-LOCATION, NOT A CLUSTER, AND EXAMINERS FREQUENTLY TEST THIS EXACT DISTINCTION WHEN SEZS OR INDUSTRIAL CORRIDORS APPEAR IN A QUESTION.

THE DEBATE

Argument FOR cluster-based industrial policy. Fragmentation is the single largest constraint on Indian MSME competitiveness, and firm-level subsidies, however well-intentioned, cannot create the shared infrastructure, specialist labour pools or supplier ecosystems that only geographic concentration with genuine interconnection can produce. China's Little Giant firms demonstrate, in measurable revenue and profit terms, what a deliberately engineered specialist ecosystem can achieve, and India already possesses substantial cluster infrastructure through MSE-CDP and SFURTI that could be deepened rather than replaced.

Argument AGAINST. India's own record with Special Economic Zones and state industrial parks shows that geographic concentration without anchor-firm density and supplier depth produces idle land and underused common facilities more often than thriving ecosystems. A government that struggled to identify

which individual firms deserved subsidy support has no demonstrated comparative advantage at identifying which clusters or which “Little Giant” firms deserve concentrated backing either, and a new cluster programme risks becoming a fresh channel for the same discretionary allocation problems.

Balanced verdict. Both readings are defensible, and the honest position sits between them. Clustering is not a guaranteed fix, China’s outcomes rest on a specific, criteria-based selection and monitoring apparatus that India would need to build and sustain, not merely announce. But the counter-argument’s own evidence, that land allotment alone does not create a cluster, actually supports a more careful version of the editorial’s case: India should audit and deepen its existing MSE-CDP and SFURTI infrastructure against genuine ecosystem indicators, anchor-firm presence, supplier density, facility utilisation, rather than either abandoning cluster policy as a failed idea or launching a new programme without correcting the design flaws that undermined the old one.

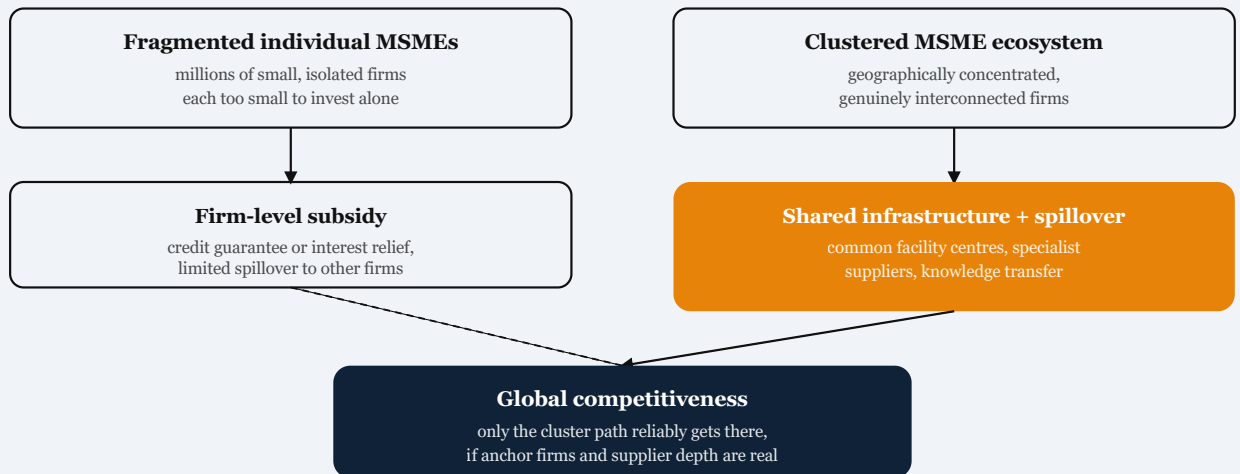
HOW TO THINK ABOUT THIS

The transferable pattern is agglomeration economics: ask whether geographic concentration is producing active knowledge spillovers and interdependence between firms, or merely placing them on adjacent plots of land. Concentration creates a cluster only when it generates a self-reinforcing ecosystem, a specialist labour pool, informal knowledge transfer, and a supplier base that each individual firm would be too small to sustain alone. Concentration without those linkages is simply co-location, and co-location alone does not raise productivity.

This test travels well beyond MSMEs. **Tirupur’s knitwear and hosiery cluster** in Tamil Nadu succeeded because generations of interlinked dyeing units, knitting units, exporters and labour built genuine interdependence, not because the town happened to have many garment factories. **Moradabad’s brassware cluster** in Uttar Pradesh shows the same pattern in a traditional-industry, SFURTI-relevant context, artisan skill transmission and shared finishing infrastructure built over decades. By contrast, several **underperforming Special Economic Zones**, discussed as the counter-argument above, illustrate the negative case: land was allotted and boundary walls built, but the anchor firms and supplier depth needed to trigger spillovers never materialised. The same test applies to newer debates, including whether India’s proposed **semiconductor fabrication clusters** will generate the supplier and talent ecosystem that made Taiwan’s cluster work, or will remain isolated fabs on subsidised land.

DIAGRAM-IN-WORDS

Two ways to support the same MSME



Firm-level subsidy reaches one enterprise at a time with limited spillover, while a genuinely interconnected cluster, not mere co-location, builds shared infrastructure and specialist supplier networks that can carry MSMEs to global competitiveness.

TAKEAWAY BOX

China did not make its small firms giants by handing each one a subsidy. It made a small number of them very good at one thing each, and put them next to each other.

*Udyam + Udyam Assist combined registrations **7.86 crore** MSMEs, **34.63 crore** employment (Feb 27, 2026), crossing **8.7 crore** by June 2026; MSME share of GDP ~**30-31%**, manufacturing GVA ~**35-36%**; **MSE-CDP** (606 projects, 364 complete) and **SFURTI** (513 clusters since 2015-16) are India's principal cluster schemes; China's **SRDI "Little Giant"** classification; **Research Triangle Park**, North Carolina, established **1959**.*

China's Little Giant firms are chosen through a formal, three-tier government classification process that decides which companies deserve concentrated state support. If India built a similar programme, who should have the authority to pick the "Little Giants," and what would stop that authority from becoming another instrument of favouritism?

UPSC has repeatedly tested the MSME sector's employment and GDP role, industrial policy instruments, and government schemes for small industry; this editorial supplies the comparative and theoretical layer, agglomeration economics, Porter's cluster theory, the China and US models, that turns a scheme-recall answer into genuine policy analysis.

"Firm-level subsidies address symptoms of MSME fragmentation, while cluster-based industrial policy addresses its cause." Critically examine this statement with reference to India's existing cluster-development schemes and international models.

Sources: *Indian Express, Ministry of MSME, PIB*

Source: Small Firms, Big Ecosystems: The Case for Clustering India's MSMEs — Ujjyari.com | Free UPSC & State PCS Editorial Analysis

● KEY ARGUMENTS AT A GLANCE

India's Micro, Small and Medium Enterprises are individually too fragmented, undercapitalised and disconnected from shared infrastructure or knowledge networks to compete globally on their own, so the more effective lever is not another round of firm-level subsidies but deliberate cluster-based industrial ecosystems, on the model of China's specialised "Little Giant" enterprises and the United States' Research Triangle, that let geographically concentrated MSMEs share infrastructure, suppliers and knowledge spillovers.



SUPPORTING

- The scale of the sector is large enough that competitiveness gains at the cluster level would move the whole economy: MSMEs number well over 8 crore on the Udyam Registration and Udyam Assist platforms combined, contribute roughly 30 to 31 per cent of India's GDP and about 36 per cent of manufacturing gross value added, and account for close to half of India's exports, yet remain individually too small to invest in the testing labs, design capability or export compliance that global buyers now expect as standard.
- Industrial clustering has a well-established theoretical basis, Michael Porter's cluster theory and the older Marshallian industrial-district literature both show that geographic concentration of related firms generates knowledge spillovers, a deep specialist labour pool and shared supplier ecosystems that no single small firm could otherwise afford, and China's "Little Giant" programme operationalises exactly this logic at enterprise level: a formal SRDI, specialised, refined, differentiated and innovative, classification pipeline that channelled at least CNY 10 billion in central funding toward roughly 10,000 firms between 2021 and 2025, producing enterprises that in 2024 held only about 3 per cent of designated-size industrial SME numbers but generated around 6 per cent of their revenue and nearly 10 per cent of their profit.
- India already has cluster-development infrastructure in place, the Micro and Small Enterprises Cluster Development Programme has approved 606 Common Facility Centre projects since inception with 364 completed, and SFURTI has approved 513 traditional-industry clusters since 2015-16, but this infrastructure has functioned mainly as physical-asset creation, sheds, common facility centres, testing equipment, rather than as the deliberate innovation-and-specialisation ecosystem that distinguishes China's Little Giants or the Research Triangle from an ordinary industrial estate.



COUNTER

Cluster-based industrial policy has a poor record in India, and the sceptical reading deserves to be taken seriously: many Special Economic Zones and state industrial parks were allotted land, built boundary walls and common infrastructure, and never achieved the anchor-firm density or supplier depth that makes a cluster work, leaving idle plots and underused facilities as the more common outcome than a thriving ecosystem. Geographic concentration by itself does not create spillovers, spillovers require anchor firms, deep supplier chains, and a talent pipeline that no amount of land allotment can manufacture on its own, and a state that could not pick winning firms under subsidy schemes has no obvious comparative advantage at picking winning locations or winning specialisations either.

The risk is that a new cluster or “Little Giant” programme becomes another discretionary allocation exercise, this time of cluster status and priority-sector funding, rather than a genuine correction of the fragmentation problem.



WAY FORWARD

The corrective is to treat cluster status as earned through demonstrated ecosystem depth rather than allocated by government fiat: audit MSE-CDP and SFURTI clusters for actual anchor-firm presence, supplier density and shared-facility utilisation rather than only sanctioned outlay, redirect underperforming Common Facility Centres toward genuine shared services, testing, design, export compliance, that MSMEs individually cannot afford, pilot a transparent, criteria-based “Little Giant” style recognition for niche-specialist Indian MSMEs, tied to measurable export or technology outcomes rather than political discretion, and treat market-access interventions such as the MSME-DPIIT Geographical Indications MoU as a complement to, not a substitute for, this deeper cluster-ecosystem work.


MAINS ANSWER FRAMEWORK
QUESTION

Examine why India's Micro, Small and Medium Enterprises, despite their scale and employment contribution, have struggled to achieve global competitiveness, and discuss whether a cluster-based industrial policy offers a more effective alternative to firm-level subsidies. (250 words)

INTRODUCTION

India's Micro, Small and Medium Enterprises number in the tens of millions, employ a workforce larger than most countries' entire populations, and contribute close to a third of national GDP, yet very few have scaled into globally competitive, technology-intensive firms. An Indian Express editorial by Nilanjan Banik and Pradeep Racherla argues that the constraint is not capital or subsidy but fragmentation itself, and that cluster-based industrial ecosystems, not firm-level support, are the more effective policy instrument.

BODY

The diagnosis rests on agglomeration economics: Michael Porter's cluster theory and the Marshallian industrial-district tradition both hold that geographically concentrated firms in a related sector generate knowledge spillovers, a deep specialist labour pool and shared supplier ecosystems that no individually small firm can replicate alone. China's "Little Giant" programme operationalises this at enterprise scale through a formal SRDI classification that channels concentrated state support, at least CNY 10 billion between 2021 and 2025, toward a curated set of specialised SMEs, which in 2024 generated nearly double their proportional share of profit relative to their numerical weight among industrial SMEs.

The United States' Research Triangle shows the same logic anchored around university-industry linkages rather than state selection. India already possesses comparable cluster infrastructure, the MSE-CDP's 606 approved Common Facility Centre projects and SFURTI's 513 traditional-industry clusters, but this has functioned largely as physical-asset creation rather than as a deliberate specialisation ecosystem.

The counter-argument is serious: India's own history of underperforming Special Economic Zones and industrial parks shows that geographic concentration without anchor firms and supplier depth does not automatically produce spillovers, and a state that struggled to pick winning firms may struggle equally to pick winning clusters.

CONCLUSION

The realistic path is neither wholesale rejection nor uncritical adoption of the cluster model, but a criteria-based, outcome-linked upgrade of India's existing cluster infrastructure, auditing MSE-CDP and SFURTI sites for genuine ecosystem depth, redirecting underused facilities toward shared services MSMEs cannot individually afford, and piloting a transparent "Little Giant" style recognition tied to measurable export and technology outcomes rather than discretionary allocation. Complementary market-access measures, such as linking GI-tagged product collectives to ONDC and GeM, strengthen distribution but do not substitute for this deeper ecosystem-building work.

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