

## Growth Prospects of SMEs in CPEC Perspective

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### Abstract

SMEs operate in smaller volume of material and human resource; therefore, they need comparatively less capital. They are more manageable from organizational point of view and contribute more in terms of numbers; therefore, have multiplying effects on economy. Smaller business entities with manageable infrastructures are economically viable and progressive especially for developing countries. CEPC provides such activities for smaller businesses to flourish in Pakistan. Emerging business opportunities for SMEs include clean drinking water supply, dry fruits processing, fuel stations, transportation, hotels, restaurants, construction, retail outlets, salt refining, education institutions, seafood processing, bilingual legal consultation firms, cattle farming (to meet the growing needs of halal meat and dairy sector) and many more.

**Keywords:** SMEs, Economic Growth, CPEC Perspective

### 1. Introduction

Developing countries, especially those in the South Asian Region need investments and creation of jobs for rapid and sustainable economic growth. Small to Medium Enterprises (SMEs) have distinct characteristics of comparatively less capital requirements to start the business and simplicity of managing human and material resources. Against large scale investments, SMEs can multiply in numbers and employments of human resource with comparative ease and greater success probability. Therefore, their contribution in the economic growth of a country is by virtue of their numbers and manageable operations. Their multiple outlets for production of goods and services have accumulative effects at the national levels. The micro / local level business operations lead to meeting the domestic consumption, export-led growth and enhanced competitiveness. Consequently, the upswing in economy provides better opportunities for reinvestments and use of technology for cost effective and quality products. Appropriate application of technology and modern management techniques multiply growth for economy of scales and return of profit to the small to medium scale investors. Efficient use of technology has become necessity to compete in the market; SMEs can do so with better financial health and management expertise.

One of the major issues of developing societies has been creation of jobs to put their idle hands to work. Jobless population especially the youth has degenerating effects on societal progress and healthy growth of communities. The technology on the other hand has reduced employment of human hands for better and refined production of goods and services. The modern state system is not meant to generate jobs in that numbers to fulfill the requirements of ever increasing population. The solution lies in decentralization of business management and operations. SMEs not only decentralize, rather spread business and management of small scale entities in greater numbers. They provide means of job creations and consequently employment opportunities in smaller pockets where ownerships multiply the outcomes at national levels.

Geography and natural resources have been / are means of producing goods and services for internal usage and exports at competitive prices. However, despite the availability of natural resources and facilitating geography, there appears deficient growth in SMEs in most of the developing countries; Pakistan is no exception to that. China Pakistan Economic Corridor provides enhanced scope for SMEs growth; sustainability, compatibility and competitiveness (GOP, 2017a). For this purpose, areas of SMEs developments include communication infrastructures, services sectors, microfinance for retail businesses, construction sector, events management, food industries, restaurants, hotels, repair and maintenance facilities for transport and tourism. It entails investment for human resource development, enhancing their employment and creation of services for enduring developments. The gigantic project as a whole needs huge investment and management of smaller businesses which cannot be undertaken by the government

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alone rather needs private sector to come forth and invest for competitive businesses. CPEC provides a forum to domestic and foreign investors for making profitable businesses. Pakistan's comparatively cheap labor and abundance of natural resources like 185 billion tons of coal, 74 million tons of bauxite and 430 million tons of iron ore have made it an investment attractive country (Economic Survey of Pakistan, 2005-2006). Southern and Western parts of Balochistan; hub of main CPEC activities, have huge quantities of metallic and non-metallic mineral reserves. Under these circumstances and prevailing opportunities, there is a scope for SMEs to develop and flourish, provided these are executed well for the benefit of investors as well as the people.

### 1.1 Problem Statement

The concept of SMEs and their operation is in place in Pakistan since decades. Though their numbers have increased to a degree of satisfaction over a period, but the growth has not been as high as envisaged in view of their obvious advantages and development potentials. There are many dimensions of perceived slow progress in SMEs growth in Pakistan within the domains of socio-cultural backwardness of the society, deficient initiatives at the government level to create awareness amongst the people and lack of guidance mechanism for small entrepreneurs. There appears to be inertial resistance to developments of SMEs; rather a discouraging response from investors, educationists, economists and policy makers. The question is that with our past history of SMEs developments and sustaining operations, how could we benefit from CPEC. The study would provide a model for SMEs developments within the folds of CPEC and its complementary developments. This review paper intends drawing relevant lessons from the past experience of SME operation in Pakistan and other parts of the world and suggesting an effective and successful strategy for the conduct of smaller to medium capacity businesses.

### 1.2 Objectives

- To analyze SMEs development in Pakistan over a period since their inception; highlighting success factors and shortfalls.
- To draw spectrum of relevant business opportunities, the CPEC contains in its folds for people of both the countries.
- To analyze and draw conclusions from obtaining business environments of Pakistan which have become security sensitive.
- To conceptualize and suggest a success model of SMEs for Pakistan; sustainable under prevailing geo-strategic environments.

### 1.3 Scope and Kind of Intended Research

The descriptive, supplemented with exploratory research under the given theme entails SMEs development in Pakistan over the period of time. It encompasses CPEC; its geostrategic dimensions, business opportunities it offers to the people of Pakistan and China, growth prospects of SMEs and supporting factors for rapid progresses. The research study encompasses politico-economic dimensions impacting businesses in both the countries and security imperatives for the success of SMEs operation within the folds of CPEC. Findings of the study are based on the analysis of distinct policy documents and past studies on the subject in relation with CPEC.

## 2. Literature Review

### 2.1 SMEs: Global and International Perspective of Definition and Scope

There is no standard definition of small, medium and large enterprises which is globally acceptable and followed among nations. Every country has its own criteria of fixing a price tag for a particular category of business entity; which is related to its economic health, purchasing power of the customers, technological knowhow and investment opportunities. At regional levels, however, European Union gave a standard definition to micro, small and medium enterprises (European Commission, 2003). Other states' mechanisms used this definition as appropriate to them with modification and deviations. Dowling, Festing, & Engle, (2013) have defined small and medium enterprise in relation with volume of employees and annual turnovers. According to their study, an enterprise where headcount is 50 to 250 and annual turnover ranges from 10 to 50 million Euros is called medium enterprise. Similarly, for less than 50 headcounts and 10 million Euros annual turnover, the enterprise is termed as small. Though not defined by European Commission but inferentially, the turnover beyond 250 and 10 million Euros annual turnover would fall within

the domains of large enterprise. However, it should be kept in view that there is no mutually accepted definition of SME between European Union and rest of the world.

**Table No 1: European Union's standards for defining Small and Medium Enterprises**

Enterprise Category	Headcount: Annual Work Unit (AWU)	Annual Turnover	or	Annual Balance Sheet Total
Micro	< 10	≤ €2 million	or	≤ €2 million
Small	< 50	≤ €10 million	or	≤ €10 million
Medium-sized	< 250	≤ €50 million	or	≤ €43 million

Source: European Commission (2005)

Differences in SME definition prevails in three dimensions. Firstly, its definition and perception by international institutions especially the financial mechanisms, secondly by national laws of respective national governments and thirdly by industrial and corporate sectors. Its diversity in understanding and perceptions is a food for thought to those at the helm of affairs in academic and financial institutions. Institutions in European Union and some international organizations like World Bank, United Nations and World Trade Organization are of the view that all business entities which do fall under the category of large scale enterprises are to be termed as small and medium businesses. Despite the fact that there is no standard definition of SME, it is essential to define certain parameters of such businesses for the purpose of fixing tax scales or for determining their eligibility for a particular kind of public support and understanding (UNIDO-OECD, 2004) For this purpose, one quantitative measurable indicator is number of employees (Timothys S. Hatten, 2011)

**Table No. 2: World Bank's Standards for Defining Small and Medium Enterprises**

Enterprise Indicator (2/3)	Number of Employees	Total Assets	or	Total Annual Sales
Micro	<10	≤ \$100,000	or	≤ \$100,000
Small	> 10; ≤ 50	> \$100,000; ≤ \$3,000,000	or	> \$100,000; ≤ \$3,000,000
Medium	> 50; ≤ 300	> \$3,000,000; ≤ \$15,000,000	or	> \$3,000,000; ≤ \$15,000,000

Source: Independent Evaluation Group (2008)

Contrarily; (Carter & Jones-Evans, 2006) suggest combination of quantitative and qualitative approach in defining SME. However, predominantly policymakers at international institutions and statistical agencies including European Commission promote quantitative criterion such as numerical strength as fundamental to the definition of SME (European Commission, 2003). European Commission through its guidelines on determining the criteria for defining SME include number of employees, annual turnover and annual balance sheet (European Commission, 2005). On the other hand, World Bank uses three quantitative criteria for defining SMEs which include number of employees, assets in hand and annual sales both in \$ US (IEG, 2008). A study under World Bank reveals that out of 132 countries, 46 define SMEs as businesses with lesser than 250 employees (Kushnir, Mirmulstein & Ramalho, 2010). It implies that each country exercises the freedom to define SMEs as per its own standards. In USA, the criterion is different for agriculture and industrial sectors (USSBA, 2013).

**Table No. 3: Different Countries' Distribution of Firms as Per Number of Employees**

Country	Micro	Small	Medium	SME	Large
EU Region, Switzerland, Norway & Iceland	1 - 9	10 - 49	50 - 249	1 - 249	250 +
Australia	0 - 9	10 - 49	50 - 199	0 - 199	200 +
Canada	0 - 9	10 - 49	50 - 499	0 - 499	500 +
Japan	4 - 9	10 - 49	50 - 249	1 - 249	250 +
Korea	5 - 9	10 - 49	50 - 199	5 - 199	200 +
Mexico	0 - 10	11 - 50	51 - 250	1 - 250	251 +
New Zealand	1 - 9	10 - 49	50 - 99	0 - 99	100 +
Turkey	1 - 19	20 - 49	50 - 249	1 - 249	250 +
United States	1 - 9	10 - 99	100 - 499	1 - 499	500 +

Source: OECD (2010)

According to (Loecher, 2000) two criteria decide a firm being SME or large i.e. personal principle and unity of leadership and capital. Personal principle means that the firm's manager performs a central role in decision making and maintains contact with all stakeholders including employees, customers and suppliers. Unity of leadership and capital means that firm's manager and proprietor are the same. Unification of property and management eases up the issues of responsibility and accountability. Bolton Report (Stokes & Wilson, 2010) outlines three essential characteristics of small firms which include management by the owner personally, relative small share of market and independence. There is another school of thought who considers qualitative aspects fundamental to the definition of SME. Qualitative aspects include legal form of the firm, its position in the market, organizational structure and functional autonomy (Decker, Schiefer, & Bulander, 2006). It was acknowledged, however, that in qualitative definition, it was not easy to have an access to the information in tangible terms for decision making. Main advantage of qualitative over quantitative criterion is its universality across the sector or the country.

Ferreira & Leite, (2011) have observed that despite inconsistencies in quantitative criteria, SMEs across countries tend to display similar cultural and characteristics that are qualitative in nature. Simultaneous use of qualitative and quantitative criteria is another option for firms to examine and adopt; however, it becomes complicated to draw conclusions. Number of employees for example; despite having the same would differ in nature of their employment and output. Integrated use of technology would reduce the requirement of human resource; however, would increase the output in quantity and/or quality. Curran & Blackburn, (2001) are of the view that simplicity in defining SME is rather more useful despite its imperfection. In actual terms, it is basically the purpose of use which would determine criteria for defining SME. Qualitative criterion is more useful for researchers and policymakers. On the other hand, quantitative criterion is essentially required to determine size and volume of output of the firm.

Criteria of numbers of employees as well as turnover both have been under criticism by the intellectuals and practitioners from varying perspectives. Curran and Blackburn (2001) opined that definition of SMEs by numbers is difficult due to part time employment, daily wages contracts and temporary arrangements of work assignments which are becoming more and more popular in the business world. There has been a decreasing trend of permanent hiring of human resource, rather outsourcing or acquisition of labor on daily or weekly contract basis appeared more attractive to the business community. The question was how to take into account these various kinds of human resource employments. Till the time some standard is set for the engagement of human resource under varying categories, it is not appropriate to determine size of the business entity according to working hands engagements.

It is internationally accepted that SMEs play a very important role in the global economy. According to available data (Dowling, Festing, & Engle, 2013), there are more than 16 million enterprises in European Union Areas and Switzerland. Out of those less than one per cent is large enterprises; others fall within the preview of SMEs. These SMEs provide two third of all jobs in this region, while one third are provided by large enterprises. Despite this, definition of SMEs has not been finalized at world level for the purpose of uniformity and common understanding. For SMEs to grow internationally, they need to have common language (terminologies) to communicate and interact with each other. Without that, it is difficult to support each other's efforts and mutually benefit.

## **2.2 SMEs: Pakistan Perspective of Growth, Definition and Scope**

Immediately after independence, Pakistan's preference was creation of large scale enterprises. Large scale manufacturing remained fundamental to its industrialization strategy during late 1950s to late 1960s which recorded 8.78% growth. It was consistently supported by its macroeconomic policy. Small scale sector was not its priority at the outset; accordingly, it was not directly supported from economic policies. From 1950s to 1980s, small to medium scale business sector virtually existed in the shadow of the large scale-manufacturing. SMEs attracted attention of the policy makers in 1980s onwards. Pakistan's SMEs sector recorded impressive growth of 14.7% during late 1980s to 1990s. Its output value increased from Rupees 19.7 to 67.5 million. At the same time, SMEs recorded growth of 5.8% in numbers during this period. According to details available on Federal Bureau of Statistics, Government of Pakistan (2008), 90% of all private sector manufacturing units employ less than 99 workers and the SMEs employ about 78% of non-agricultural labor. SMEs contribute about 30% to GDP (GOP, 2005b).

Interestingly there is no official definition of SMEs in Pakistan which can be taken as standard for measuring growth in different categories. However SMEs Policy of 2005 recommended adoption of a unified definition based on the criterion of employment size or total assets of the firms (SMEDA, 2005). According to (Economic Census of Pakistan, 2005), there are 2.96 million business units in the country for goods and services. These 2.96 million units fall under two broad categories i.e. established 2.8 million and rest in household category. Out of these units, Punjab holds 65.26%, Sindh 17.82%, KPK 14.21% and Balochistan 2.09% (GOP 2005b). Out of 2.8 million established units' share in different sectors of the economy, it has 53% in wholesale, retail trade and hotels etcetera, 22.3% in community, social and personal services hold 22.3% and 19.72% in manufacturing. Under the household category, manufacturing sector has 66.5%, community services 20.5%, and agriculture retains 8.7%. Within manufacturing establishment units' textile and leather has 43.2% share, food and beverages 20.9%, wood products 10.8% fabricated metal products 10.0%, handicrafts 8.9% and remaining sectors 11.1%. It is also interesting to note that in the industrial group of textile, household has 31.5%. Another distinct feature identified has been that about 85.0% of the household manufacturing was located in rural areas.

Another known feature of SME has been creation of job especially for countries like Pakistan with more population growth rate. All developing countries face the biggest challenge of ever increasing unemployment. According to the Economic Survey 2015-16, Pakistan's labor force increased from 60.39 to 86.23 million. Agriculture sector used to absorb bulk of the unskilled human resource; however, with technology driven farming, obviously employment of working hands has further squeezed. The sectors which can produce employment are manufacturing and services mainly comprising small to medium enterprises. However, it needs availability of capital for expanding businesses. In the small businesses, there are two categories of employments i.e. self-employment and hiring of human resource; in either case it creates jobs for different shades of employees. SMEs are specifically relevant to the female employment in Pakistan. Due to wide variety of employment and investment pattern, SMEs have great diversity which includes, resource base management structure, size, product lines etcetera. In order to provide financial support to SMEs, Pakistan has a fairly developed financial system spread over most of the urban and rural areas of the country. There are over 8000 branches of commercial banks. Additionally, all commercial banks provide credit to SMEs under the special schemes. With obsolete technology, the SMEs become cost exuberant but they do not have access to the latest technology. For that purpose, they are dependent on government channels or large scale industries. SME policy of Pakistan covers broad parameters and does not explicitly deal with heterogeneity of the sector. SME at the same time face complex legal environments especially tax related issues.

Tax ordinance 2005 defines small business with equity of up to Rupees 25 million and turnover of 200 million. The ordinance further explains that business entities with productive assets ranging from 2 to 40 million and employing 10-99 workers may be termed as SMEs. For small scale business, the assets range from Rupees 2 to 20 million and human resource employment varies from 10 to 35. For medium scale business, assets range from 20 to 40 million and human resource employment from 36 to 99 (GOP, 2005c).

To take exclusive account of SMEs growth, Government of Pakistan created 'Small and Medium Enterprises Development Authority (SMEDA) in 1998 under Ministry of Industries and Production. SMEDA was assigned following objectives:

- Formulate policies to encourage growth of SMEs in the country and advise the government for profitable expansion strategy including related fiscal and monetary issues.
- Identify business opportunities on the basis of gaps between supply and demand for the ultimate growth of small to medium businesses.
- Setup and maintain a mechanism of database for SMEs in the country for competitive advantages.
- Facilitate internationalization of SMEs by conducting seminars, workshops and training programs.
- Help SMEs for secure financing and facilitate sectoral business development services to such businesses.
- Assist SMEs in getting international certifications for their products and processes.
- Facilitate the development and strengthening of SME associations and chambers through linkages with federal and provincial organizations.

- Develop a forum of public private partnership to facilitate an enabling environment for business development in the SME sector.
- Develop SMEs through donor-assisted programs and projects for expanding businesses and participation.

SMEDA is represented by Secretary Industries and Production, Secretary Commerce, Secretary Finance and Chairman Central Board of Revenue from the public sector. From the private sector, it is represented by Chief Executive Officers (CEOs) of firms like Synthetic Products Enterprises, SME Bank, Proprietor, Arts & Gems Exports and Frontier Foundry etcetera. SMEDA is headed by Chief Executive Officer who belongs to public sector. Initially SMEDA was organized into ten economic sectorial departments which included fisheries, light engineering, gems and jewelry, textiles, marble & granite, urban transport, agriculture, IT, ceramics and surgical goods. However, the vertical structuring of departments into sectors created a fragmented organization with inadequate inter-departmental linkages. In 2000, SMEDA was reorganized with specialist departments like finance, technical, business technology and SME policy etcetera which provided specialist support to regional offices and provincial headquarters. In the same way, donor liaison and sectorial analysis wings were also created separately. Its future road map comprises of three main areas like policy and regulation reforms to make life easier for SMEs, cluster development of major industries and outreach for SMEs (Abbas, 2006). In order to further streamline functioning; SME Task Force was created which comprised of all major stakeholders like government machinery and private sector enterprises. The Task Force is basically to facilitate creating business friendly environment for SMEs and eliminating unnecessary obstacles. SMEs access to finance including equity financing; fulfilling documentation requirements and enhancing their capacities to become bankable are facilitated by the Task Force. SMEDA has made the difference in long term planning like Pakistan's Textile Vision 2050 and industry support programs.

### **3. SME in Pakistan: Present State and Issues**

As indicated by SMEDA, approximately 90% of all enterprises in Pakistan fall under the category of SMEs. They employ 80% of the non-agricultural workforce and contribute about 40% in GDP (Malik, Khan, Bhutto, & Ghouri, 2011). There are about 3.2 million business projects in Pakistan; out of those more than 93 percent fall under the category of SME (Economic Survey of Pakistan, 2008). Despite having numerous advantages as opined by various authors reflected in the literature review, there has not been compatible increase in quantum and volume of SMEs in Pakistan. An empirical study carried out by (Syed, Ahmadani, Shaikh, & Shaikh, 2012) provides evidence based causes of slow growth of SMEs in Pakistan. The research work of these authors comprise of empirical data from Sind; mix of urban and rural areas which can be generalized for other parts of Pakistan. Evidence based outcome of this research study reflects strong perceptions of the people that SMEs can play a vital role for economic growth of the country. It also demonstrates that all stakeholders of SMEs believe expanding export sector beneficial for creating new jobs and consequently reducing poverty.

### **4. SMEs CPEC Perspective and Peculiarities**

Immense investment opportunities are waiting for local and Chinese SMEs to explore on the route of CPEC, especially in tertiary sector, transportation, construction, education, restaurants, hotels, tourism, energy, mining, agriculture, livestock, logistics and more. Presence of Chinese giant corporate entities, will give an advantage to local SMEs to flourish through initiating joint ventures and different business collaboration projects. Access to latest technology will be easier for Pakistani SMEs through business cooperation with Chinese companies.

Around the globe SMEs are considered as labs of inventions and creativity. Technological wonders mostly appear at this level. Pakistan has growing number of tech-savvy entrepreneurs, having great potential of innovation in engineering sector. I.T specialist of Pakistan are known internationally for their out of the box creativity in software development. Apparel industry is at boom due to the exposure of new fashion trends and the influx of young entrepreneur in fashion industry. Factors like financial barriers and lack of sufficient awareness regarding ecommerce potential, may hamper the domestic SMEs' growth. Despite of several obstacles, novelty of entrepreneurial ideas in the minds of new generation could give Pakistan the marvels of business world if guided in the right direction. To support entrepreneurs/SMEs in

CPEC perspective, several policy measures have announced by authorities including the development of Special Economic Zones (SEZs) and Export Processing Zones (EPZs).

Distinction of these special enclaves from other industrial clusters is the provision of multiple fiscal and other incentives like purpose built premises. The major special benefits for SMEs within these zones are following:

**Fiscal Incentives:** Exemption from all income taxes for 10 years and one time exemption from all taxes and customs duties on import and installation of capital goods in SEZ (SEZ Act, 2012).

**Security:** Impeding factor like security threats including extortion and street crimes have hampered SMEs' progress for past many decades. Local business clusters usually lacking boundary walls and cohesive security measures, opposite to this SEZ will be protected by special security measures within the premises boundary to ensure the safety of investors.

**Communication Network:** CPEC will give greater market access for Pakistani exports in all cardinal directions; Northern landlocked Central Asian countries, energy scarce eastern region, major trading partners countries situated on western side whereas, southern side having Middle eastern and African economies. Within the country, Seaports and SEZs of Pakistan will be connected to China's south-western region which is known as an ancient hub of trading. For building linkages to reach Chinese and other regional markets, every SEZ will be connected to transportation networks such as roads and railway.

**Energy solution:** Provision of electricity to SEZs through exclusive power generation plants and captive power generation and distribution also allowed within the premises by the developer of the zone.

#### 4.1 Incentives for Export Processing Zones

- Freedom from local customs duties/import regulations.
- Duty-free Imports for procurement of capital goods.
- Sales tax exemption on input factors including utility bill payment.
- Under certain condition, duty-free vehicles are allowed.
- Custom duties will be applied on sales in domestic market.
- One percent presumptive tax rate applies on export of goods.

**4.2 SMEs Investment Opportunities:** CPEC stimulated the economic development and efforts at provincial level in Pakistan have gained momentum. Provincial SME investment scenario under CPEC perspective is discussed below:

**Punjab Province:** Competitive advantages of Punjab province are abundant irrigation resources with fertile soil, and supportive provincial policies along with profusion of skilled labor force. SME investment opportunities are immense especially in agriculture, livestock, food processing, textile and apparel industry. To capture the potential of cotton raw material availability in abundance and expanding demand for apparel industry worldwide, Quaid-e-Azam apparel Park has established in Sheikhpura, well connected with CPEC corridor (M-2). Rail Network and dry port facilities are available for SMEs to transport goods. Faisalabad city is considered as the industrial hub of province, with established network of banking / financial institutions and huge consumer market. M-3 industrial city and Value added city SEZs at Faisalabad city will provide extra benefits to local industries in terms of tax and tariff benefits to stretch export potential of SMEs. Presence of large scale industries in Province will further expand room for business collaboration and trading activities for SMEs (Punjab Government, 2017).

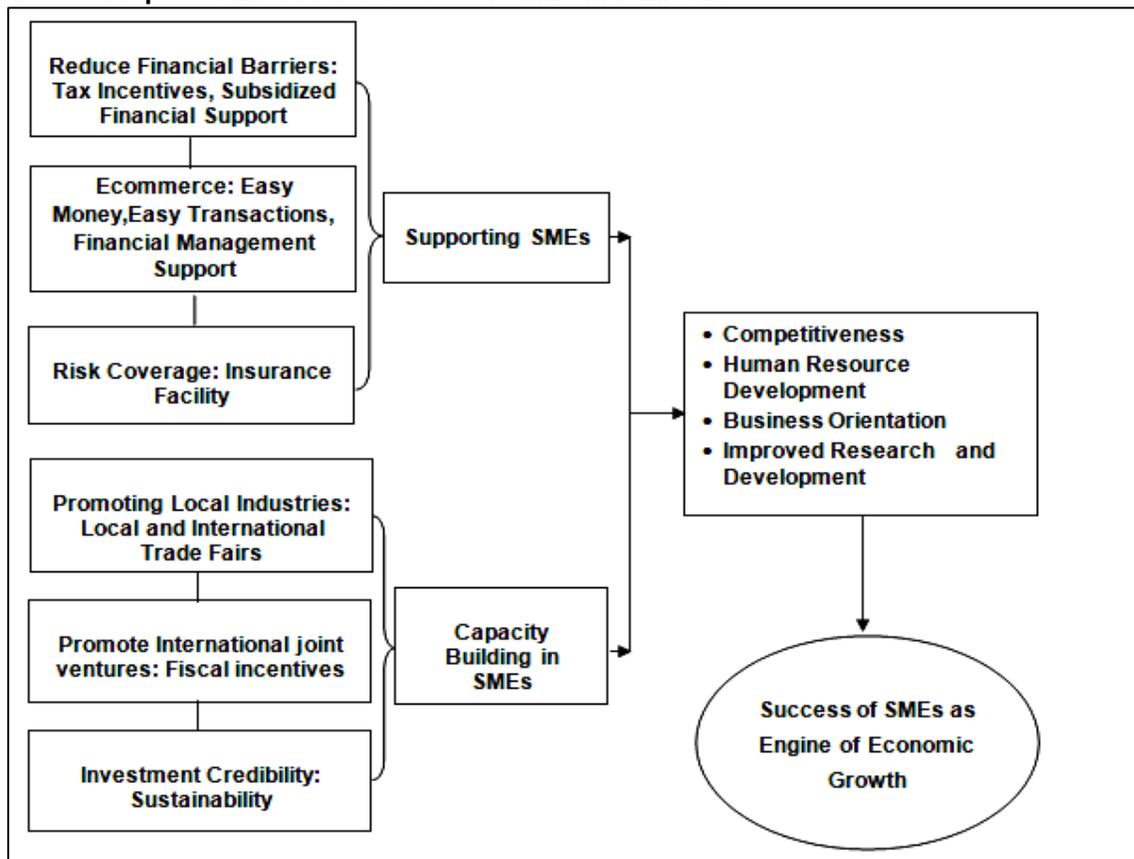
**Sindh Province:** Sindh province offers Small and medium enterprises vast scope of investment in different sectors; agriculture, livestock, fisheries, real estate, textile, leather, electronics, information technology, tertiary and more. It is the most urbanized province of Pakistan having various competitive advantages over rest of the provinces with Karachi the financial hub of Pakistan and two International sea ports (Karachi Port and Port Qasim) other advantages include modern industrial infrastructure, skilled, educated and competitive labor force. The coastline of Sindh is 350 km long, excellent for palm tree cultivation and renewable energy generation. Dense consumer market exists with growing middle class, inducing

consumption needs is a great attraction for SMEs. Tropical weather of interior Sindh excellent for growing export quality Mangoes, Dates and other important crops like rice, sugarcane and cotton. Extensive network of industrial infrastructure is established in different cities Karachi, Nooriabad, Benazirabad, Hyderabad, Sukkur and Kotri. Special industrial enclaves have established in the province to gauge the built-in potential of the particular region. National Industrial Parks (Bin Qasim & Korangi Industrial Parks) and Karachi Export Processing Zone are major investor attractions due to their existence in metropolitan city having well developed financial and legal system along with sea port facility, rail and road network for goods transportation to local and global markets. Khairpur SEZ established in Interior Sindh which is known for its dates production, where local and international SMEs have chance to initiate dates processing units and earn hefty profit from international demand (SBI, 2017).

**K.P.K Province:** Major sectors for SME investment are tourism, transportation, agriculture, livestock and mining. Competitive edge of province is fertile soil for harvesting fruits/vegetable, gemstone mining plus the territorial advantage, that connects it with China on northern border, Punjab on eastern side, southern border connects with Balochistan and western border linked with Afghanistan which depend heavily on transit trade with Pakistan. In terms of CPEC, local SMEs have first mover advantage to develop hotels, petrol pumps, consumer goods' retail stores, transportation services, housing, wooden furniture, food processing. SEZs in the province offers numerous additional benefits for SMEs including discount on land prices, loan markup reduction to facilitate expansion projects, easy installment plan for financing, discount on electricity, subsidized the transportation cost from Karachi port to any location in the provincial territory also provide equity financing to certain percentage for women entrepreneurs to strengthen the efforts for women economic empowerment. Industrial trends are changing, and became more focused towards engineering/IT sector. Rashakai Technology City, CPEC IT Park Tower at Peshawar and Abbottabad IT Park and Mini Technology Estate give higher growth prospects for tech oriented small and medium enterprises, where international and local companies can avail engineering parts for manufacturing units. Access to talented workforce for software development, growing number of tech users, and electronics demand made these enclaves attractive for Tech oriented entrepreneurs. Other Special economic zones are proposed on strategic locations according to the availability of local resources, so far four SEZ have marketed namely Jalozai Economic Zone, Hattar Economic Zone, Rashakai Economic Zone and Ghazi Economic Zone (KPEZDMC, 2017).

**Balochistan:** Fast paced development work is underway in the province due to its strategic importance in terms of CPEC. Major competitive edge of Balochistan is Gwadar sea port which is situated on the choke point of Strait of Hormuz, considered as energy transportation gateway. Another advantage is the proximity to financial hub of the country, Karachi. First mover advantage can be easily grabbed by the local SMEs as large area of province is barely developed. Emerging business opportunities for SMEs include clean drinking water supply, dry fruits processing, fuel stations, transportation, hotels, restaurants, construction, retail outlets, salt refining, education institutions, seafood processing, bilingual legal consultation firms, cattle farming (to meet the growing needs of halal meat and dairy sector) and many more. SMEs may find some hurdles while conducting business in Balochistan as it is security sensitive area, heavy security measures may interrupt the normal flow of business activities.

**5. Proposed Model for Success of SMEs in Pakistan**



**Figure No. 1: Proposed Model for SME Success in Pakistan**

Above model has identified some key factors for the progress of SMEs in Pakistan. Through consistent support and capacity building, SMEs will grow in terms of competitiveness, business orientation, human resource development and advancement in Research & Development (R & D) which will enable SMEs to contribute in the economic growth of the country. Suggested support measures include reduction in financial barriers through provision of tax incentives and subsidized financial support to SMEs. To harness the ecommerce potential for export growth of the country, ease of transactions and payment facilities along with financial support are important. Risk coverage through insurance facility would help increase investors' confidence. Capacity building include promotion of local industries through conducting local and international trade fairs, joint ventures with international firms could be encouraged through fiscal incentives and promotion of longer term sustainable investment is more viable for business environment than short-term investment endeavors.

**6. Conclusion**

SMEs, despite the difference in their definitions across the globe, have proven to be a source of country's economic growth. In Pakistan, SMEs growth has been slow for which CPEC can act as a remedy. Through CPEC, the presence of Chinese expertise along with prevailing opportunities in Pakistan in terms of land, agriculture, exports etcetera can ultimately give boost to the presence of SMEs in Pakistan. CPEC has already attracted various investors from across the country as well as the globe. CPEC is a way forward for the economic revival of Pakistan and investment prospects are highly favorable for the local and international SMEs in the country.

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