

# **Small and Medium Enterprises of Pakistan in the Context of China Pakistan Economic Corridor**

**Amna Muhammad Shafi Azad**

Department of Commerce, University of Karachi  
amnashafi28@gmail.com

## **Abstract**

This study is concerned with small and medium enterprises (SMEs) in the scenario of china Pakistan economic corridor (CPEC). After the initiate of mega project of CPEC both China and Pakistan SMEs can enjoy opportunities and have threats as well. This paper discusses the strength, weaknesses, opportunities and threats of SMEs of Pakistan after CPEC. Our small and medium businesses are strong by resources of the native Pakistan but weak by limited credit. CPEC provides opportunities of cultural diversity, Asian markets and joint ventures but hinders through instability of Pakistan, Afghanistan and international forces specially India. Even the internal conflicts of Pakistan political parties are not easy to control. Marketing issues are also there. It is time to make proper guidelines and policies to support SMEs. In this paper some of the possible policy measures are discussed. SMEs should have their own separate recognition and have a fund limit allocated by government as credit. Their goods should be standardized and protect against competition in the national market against foreign goods. The paper also discusses the areas of investment which are profitable to run after CPEC. SMEs should supply products in international markets which are famous in the globe like agriproducts, fishes, sports goods etc. This paper is simply an initiate for the connection of SMEs and CPEC.

**Keywords:** SMEs, CPEC, Challenges, Opportunities

## **1. Introduction**

### **1.1 Background**

Small and medium businesses are higher in proportion in Pakistan and we can say that they constitute backbone of economy of our country. Unfortunately, this sector of economy does not receive proper heed of government as it needs. Small and medium entities face financial crises. Our banks are not confident to lend money to the SMEs. They are treated as individuals. Further when they offer their products on the international platform they do not receive fair rewards. They need great support of government. Small and medium enterprises of Pakistan can be treated as foundation of economy. SMEs constitutes 90% of the enterprises and 80% of the non-agriculture labor force. Around 40% of the GDP comes from SMEs. According to SMEDA, SMEs are the enterprises having up to 250 employees and issued capital of Rs.250 million and the annual turnover of Rs.250 million. This paper is basically concerned with SMEs, their issues, solutions and opportunities and challenges of SMEs after the current agreement of China Pakistan Economic Corridor.

Despite of great work force country Pakistan is not earning a good share from the globe. Many factors work when a country develops. SMEs can be awarded as one of the important factor. In our country SMEs are not supported as they deserve. One of the major constraint is their finance. No doubt problems prevail everywhere. But problems are opportunities if realized. Sadly, speaking in our country SMEs are not provided appropriate finance facilities from banks and financial institutes.

Marketing of products locally and internationally is a crucial step in the generation of income. Our SMEs are not getting fair market value of their products. Pakistan supplies fruits and agriproducts, textile, gems, fishes, surgical and sports products in international market through SMEs. Like other countries it is possible to develop ourselves through proper policy measures. In this paper the policies will be discussed.

Nowadays SMEs of Pakistan and china are observing new opportunities after CPEC. Both countries small and medium enterprises are making joint ventures to prosper their businesses. It is a good initiate for many cottage industries of Pakistan. In the context of CPEC it is time to realize strength, weaknesses, threats and opportunities of SMEs. It is 3000km network from Gwadar port of Pakistan to Xinjiang of china-the greatest investment of US \$62 billion, which never done in the past of Pakistan. The project was started in 2013 and a joint cooperation committee from both countries decided the working areas of project as long term planning, energy, transport and Gwadar port.

CPEC has twenty-one projects in energy sector, eight projects in infrastructure development, twelve Gwadar projects, four projects in Rail Based Mass Transit Projects, six new provincial projects, nine proposed special economic zones and two projects in social sector development. There are fifteen projects of energy sector in running at Port Qasim, Hub Balochistan, Thatta, Naran Khyber Pakhtunkhwa, Bahawalpur, Thar and Faisalabad. Construction Work has been commenced of two infrastructure projects at Havelian and Multan. Feasibility reports and legal formalities of other projects are in process.

In the twenty first century economies of countries grow on the basis of knowledge, technology and information (Verma 1995). Traditionally economies depend on the quantitative factors of production such as land, labor and capital. However nowadays human capital and technology innovation are the qualitative basis of the knowledge based economies (Gardner, Verma, Payne 2006)

According to Khalique et al (2011) it can be said that SMEs are facing almost same issues in all over the world. These are recession, barriers from global sourcing, low level managerial abilities and unavailability of finance, trouble facing in access of technology, low productivity and heavy regulatory boundaries. Today Countries which are able to deliver fast knowledge and innovation in their products and services successfully get competitive advantage over others. (Wickramansinghe and sharma 2005). According to Ngah and Ibrahim (2009) for success and survival of SMEs intellectual capital is the most important resource. Similarly, Daud and Yousuff (2010) concluded that for SMEs intellectual capital and knowledge are the most important sources of competitive advantage in a knowledge based economy.

The serious threats for SMEs of Pakistan are political instability, lack of intellectual capital and infrastructure and energy crises. Memon, Rohra and Lal (2010) believe that SMEs in Pakistan generally do not implement the concept of Performance Management System (PMS). Therefore, SMEs in our country are not as competitive and efficient as SMEs in developed countries. In a performance management system such activities are performed like joint goal setting, continuous progress review and frequent communication, feedback and coaching, implementation of employee development programs and rewarding achievements. Further SMEs do not follow human resources policy in recruitment process and traditional methods are adopted. Similarly, Akhtar et al (2011) concluded that SMEs in Pakistan have super challenges are difficult entry in the market and absence of confidence for entering and performing well in the national and international platforms. Ullah et al (2011) observed that major challenges are lack of entrepreneurial skills, education, characteristics and absence of proper trainings.

No Doubt world is moving from traditional ways to modern ways. So production based economies are changing into knowledge based economies. The intellectual capital is

considered most important for survival of organization and survival means success of organization that is how far the firm is able to compete and beat and exist in the market. The power of existence is very much important. Existence is only possible with presence of confidence and knowledge is power and confidence of firms in fact. According to Peter F. Drucker 1999, the very much precious asset for an organization of 21st century will be knowledge workers and their output.

SMEs of Pakistan should change and accept that there is lack of intellectual capital and the fact cannot be denied that it is very much important source of competitive edge and improvement of organizational success. (khalique et al 2011).

## **1.2 Problem Statement;**

The main domain of research is the SWOT ANALYSES for small and medium enterprises of Pakistan in the light of China Pakistan Economic Corridor CPEC. What are the major economic, financial and marketing issues of SMEs, and how these issues can be solved? What policy measures we should adopt to support SMEs infrastructure in the context of CPEC and What are the areas of investment most profitable for SMEs.

## **2. Literature Review**

Strategically CPEC is very important for china because CPEC provides economic security and energy saving. CPEC provides china the access of Indian sea through Gwadar port and reduce transportation distance from 12000 km to 3000 km in transporting the energy and oil resources from West Asia. Further the geography of Pakistan is very important because it is the passage towards East Asia, West Asia, south Asia and central Asia. If the CPEC extended to India it can enhance trade between India and china too. The countries of Asia will have an opportunity of trading and accessing the market share of India, Pakistan and china. It can not only resolve the disputes between three countries but also makes Pakistan critical transit route for India to access the markets of Afghanistan and central Asia. On the other hand, CPEC has many internal and regional challenges. In the western parts of china, the Baluchistan in Pakistan and in Afghanistan there are insecurity and instability problems which hinder the trade activities. These are the challenges of CPEC (Ali A 2016).

Delhi, Islamabad, Beijing, and Washington DC are trying towards the moves which create peace in the region and for the smooth progress of project and it depend on the policy choices of India. Further Pakistan army is also playing its role in the provision of security to the project and the people. The greatest threat for Pakistan in the region is India. Further the political parties of Pakistan also create instability in the country. The international forces and especially India are trying to fail the project and they encourage terrorism activities to make Chinese workers afraid. It is the important hurdle in the success of CPEC. There are tax and power tariff issues of energy projects. The quality of labor is also a challenge. Labor needs development. The KPK government also opposes CPEC because federal government changes the route which benefits Punjab specially. (Riaz A, Mi H 2017)

SMEs can improve their capability if their available resources are used efficiently or they are allotted increased share of resources. Further in other countries which are economically developed SMEs are very much involved in export process by their governments like in Japan, Korea, China, and Hong Kong. In this way they gain great share of income from globe. (Albert berry 1998)

A study was conducted for determinants of success of small and medium enterprises of Pakistan. In this study SMEs are defined as entities have less than 250 employees. According to authors SMEs have similar impact of government policies as large scale businesses. SMEs

play vital role in the growth and productivity of south eastern countries. Small enterprises grow economies by poverty alleviation. The main three aspects in which SMEs differ from large enterprises are uncertainty, innovation and evolution. Agriculture countries start their journey towards industrialization through small scale enterprises. Authors of study suggest that survival of small enterprises in market is the most important for them. There are seven factors of success in the study. These are availability of financial resources at first, marketing strategy, technological resources, information access, government support, business plan and entrepreneurial skills. It is concluded that financial resources are the most important determinant of success. SMEs in Pakistan face trouble in accessing finance. Secondly technology which is not adopted immediately in Pakistan. Technology impacts on productivity. (Jasra et al 2011)

Another study of SMEs of Bahawalpur Pakistan explains the factors of success and failure of entrepreneurial organizations. In this study authors said that countries like Taiwan, Japan and Korea developed on the basis of small and medium enterprises. In developing countries more than 90% of firms are small and medium enterprises. But failure of SMEs is very high. Lussier and Pfeifer (2001) define success of SMEs as the ability of companies to survive. Author made model of success on the research of Benzing et al said that success of business depends on psychological and personal skills, management skills and trainings and external environment. Other factors are access to capital experience and information. Factors of failure are described as unstable economic and political environment, complex taxation, corruption, poor law and order situation in developing economies. Authors made model of failure based on Asian Development Bank arguments. ADB argues in 2005 that credit rationing, high cost of credit, lease financing, high compliance cost, poor infrastructure, poor skill and training, poor education market transaction cost and judicial constraints. Authors generalized the success factors of Benzing and failure factors of ADB on Bahawalpur SMEs. They concluded that customer service is the most important factor of success. (Naqvi and Wajahat 2011)

A study of UK investigates the capital structure of SMEs. Authors study and research on various capital structure theories. MM theory of irrelevance and three theories of relevance. Firstly, the existence of taxes and bankruptcy costs which causes relevance of debt (DeAngelo and Masulis 1980), secondly asymmetric information makes debt relevant (Myers 1984, Ross 1977), thirdly agency costs makes debt relevant (Jensen and Meckling 1976) author said that leverage related costs and tax advantage of debt result in an optimal capital structure below 100% debt financing tax shield is used for possible bankruptcy costs. The author questioned that whether such costs are enough important to effect optimal capital structure or not? Further the main reason of SMEs decline is financial leverage provided that short expected life, estate tax, intergenerational transfer problems and agency matters are too complex. The impacts are relatively similar for small and large businesses. Authors discussed relevant theories. They said that tax shield is the basic force impacts capital structure but small firms will bankrupt if they follow these theories. Because bankruptcy costs are higher and tax shields are lower for them. Large firms have greater tax shields. Talking about agency costs it was hypothesized that asset structure, past growth and future opportunities will encourage debt. Operating risks will discourage gearing. Small scale firms have higher level of asymmetric information. These firms are following pecking order theory. First use retained earnings then debt and at last external equity. So profitability is said to be negatively correlated with debt. Size also positively related to debt. Findings of the study suggests that tax doesn't affect gearing. Past growth, future opportunities, size of firm's asset structure and operating risks are positively correlated with gearing. Profitability and age have negative relations with debt. Conclusion is that agency and asymmetric information have negative impacts on debt short term and long term as well. However, tax doesn't affect debt. Capital structure also time and industry dependent. (Nicos Michaelas 1990)

A study of Malaysia present policies and challenges faced by SMEs of Malaysia. Malaysian SMEs account for 90% of the total manufacturing and facing almost all challenges discussed above. Author suggest some policies for SMEs of Malaysia. Such that government agencies should provide education and consultancy facilities, provision of finance, competitive marketing strategies and R and D establishment. (Ali and Ndubisi 2006)

One of most important factors of success is human resources, intellectual capital, and technology, knowledge, research and knowledge worker's productivity. If small and medium enterprises, consider this fact that in Pakistan SMEs are not entertaining the benefits of knowledge and revolutionize themselves they can stand with the globe. (Khalique et al 2011)

### **3. RESEARCH METHODOLOGY**

This qualitative study is based on secondary data sources. The sources of information are past research papers, government agencies websites, CPEC and SMEDA official webpages. Based on the literature review as well as information from different sources regarding this following research question are discussing.

#### **3.1 Research Questions**

1. What are the strengths, weaknesses, opportunities and threats of small and medium enterprises of Pakistan in the context of CPEC?
2. What policy measures should the government of Pakistan adopt to support SMEs?
3. The areas of investment of SMEs after CPEC in Pakistan and the globe as well.

### **4. Discussion**

Pakistan is a land of resources. SMEs of Pakistan are strong by nature. They involve in the businesses of agriproducts, gems, sports goods, surgical goods, fishery and textile etc. Pakistan is blessed with natural resources and an agricultural country. So the most important strength of SMEs is the availability of quality products in plenty. The rice, fruits and cotton of Pakistan are famous in the globe for quality. SMEs of Pakistan should use the resources as their strength. In our country SMEs have not good sense and education that how to access resources. The tragedy of SMEs of Pakistan is that these small and medium entities are unable to drive themselves with the moving world. They don't know that now world is changing from traditional factors of production basis to the knowledge and intellectual capital basis. Our SMEs have not good sense of training, education, knowledge and technology. If they have strong intellectual capabilities, they can resolve their financing and other issues at their best. Government of Pakistan should play role in the provision of education, information and entrepreneurial trainings.

SMEs are weak by the provision of capital. Banks and financial institutes do not support SMEs properly. It is the second important hurdle for SMEs. Due to unavailability of finance SMEs cannot run their businesses smoothly. Their sources of finance are the relatives and friends more than banks. Survival becomes very difficult in case of finance problems. SMEs lose their confidence level when they observe that their business which is at initial stage of development and as weak as an embryo and funds are not there. Further in Pakistan their products face tough competition from foreign companies. It is also an important weakness. Our SMEs cannot stand even in local markets due to multinational company's products. Externally SMEs of our country are now observing new zones of investment since the CPEC

signed between Pakistan and China. CPEC connects Pakistan to the west, south, east and central Asia. Access to new markets with the strength of resources is a very important opportunity for the SMEs sector of Pakistan. Further the Chinese and Pakistani enterprises are now making joint ventures as well. The impact of cultural diversity seems very good on the economic growth of Pakistan. The people of china are hardworking, committed, honest and trusty. Recently the coal power project in Sahiwal consists of 75% of Pakistani and 25% of Chinese people.

Where opportunities exist, threats also grow. The first threat is the instability created by national and international forces. The Indian government is not happy with the project. Baluchistan is also facing insecurity issues. Besides safety problem, SMEs have marketing issues in the international markets. It is already clarified that their existence is not easy in local markets and for abroad business first they should improve their capabilities especially intellectual capabilities. Because the competitive edge of today's SMEs is knowledge, technology, human resources.

The government of Pakistan should adopt policies to support infrastructure of SMEs in Pakistan and the globe as well. First of all, SMEs need for finance must be fulfilled. Proper registration of SMEs in the SMEDA and guidance through feasibility reports and financial consultants can play a great role. Secondly SMEs after recognition process in SMEDA should allocate a limit of funds which they can borrow from banks or financial institutes with easy to repay conditions. Further a standard of the products established by government can much help them to grow in the international market. In this way it is possible to develop Pakistan through SMEs like Hong Kong, china, Europe and Japan. SMEs are like new born live which needs support in every aspect. Education, guidance, trainings and knowledge provision is the most important factor for success and survival of SMEs in Pakistan. After CPEC the need for information and technology development increased because now the world is going to connect with Pakistan and without fast delivery of knowledge no one can exists. Second need is no doubt funds and infrastructure. Availability of funds and monitoring the application of funds by experts is another challenge. Funds are realized after uses. So the usage of funds needs experience. Inexperienced entrepreneur's despite of education loses confidence and face troubles in managing business. So there is a need of consultancy and monitoring of new SMEs. Third important need is safeguard of business. Pakistan is a developing country with political hindrances. SMEs need security inside and outside the country

The main areas of investment for SMEs after CPEC are agriproducts, fisheries, textile, sports goods, cottage industries based products. No doubt Pakistan is already trading in these goods internationally but now it is time to introduce these goods in the markets of south, east, west and central Asia. CPEC provides access to new markets. Our government can enjoy the opportunity by providing assistance to SMEs so that they can grow in the context of CPEC.

## **5. CONCLUSION AND RECOMMENDATIONS**

This article discussed the small and medium enterprises of Pakistan in the context of China Pakistan Economic Corridor. SMEs of Pakistan are no doubt backbone of our country claims 90% of entities. Despite of the fact Pakistan is not enjoying full benefits of SMEs like China, Japan and Hong Kong. There are several reasons for that. First of all lack of knowledge, secondly lack of funds and infrastructure, thirdly political instability. CPEC is a new zone for SMEs. The discussed factors are now more needed because international markets are based on these three factors. CPEC offers joint ventures, cultural diversity, new markets, high demand and energy and transports. All these blessings can be enjoyed by the provision of these three factors. All three factors are correlated with one another. In the absence of any one others are useless.

This research is based on the previous researches and information available on CPEC and small and medium enterprises. There are constraints in the availability of comprehensive data due to the fact that CPEC is a projects between two countries China and Pakistan and many things are kept in secret. The SMEs have not a good sense of SWOT analysis in the context of CPEC therefore all steps of sampling have not done and research is based on the observation and study of the researcher. It is recommended that in future it is possible to elaborate the picture more clearly and research in this sector will be very much useful.

## **REFERENCES**

Ali, A., (2016) China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration. *Arts Social Sci J* 7: 204.

Berry, A., Aftab, K., & Qureshi, S. K. (1998). The potential role of the SME sector in Pakistan in a world of increasing international trade [with comments]. *The Pakistan Development Review*, 25-49.

Coy, S. P., Shipley, M. F., Omer, K., & Khan, R. N. A. (2007). Factors contributory to success: A study of Pakistan's small business owners. *Journal of Developmental Entrepreneurship*, 12(02), 181-198.

Daud, S. and W. F. W. Yusoff. (2011). How Intellectual Capital Mediates The Relationship Between Knowledge Management Processes and Organizational Performance? *African Journal of Business Management*, 5(7): 2607-2617

De, P., & Iyengar, K. (2014). 1. What are Economic Corridors?. *ECONOMIC CORRIDORS IN SOUTH ASIA*, 1.

Drucker P.F. (1999). *Management Challenges for the 21st Century*. Oxford: Butterworth-Heinemann.

Gardner, P. L., K.V. Verma and B. Payne. (2006). Balancing Research Vision and Research Management to Achieve Success in the 21st Century. Paper presented at Technology Management for the Global Future, PICMET'06.

Jasra, J., Hunjra, A. I., Rehman, A. U., Azam, R. I., & Khan, M. A. (2011). Determinants of business success of small and medium enterprises. *International Journal of Business and Social Science*, 2(20).

Khalique, M., Isa, A. H. B. M., & Nassir Shaari, J. A. (2011). Challenges for Pakistani SMEs in a knowledge-based economy. *Indus Journal of Management & Social Sciences*, 5(2).

Khalique, M., Bontis, N., Bin Shaari, J. A. N., & Isa, A. H. M. (2015). Intellectual capital in small and medium enterprises in Pakistan. *Journal of intellectual capital*.

Memon, S. B., C. L. Rohra and P. Lal. 2010. Critical Analysis of the Performance Management System (Pms) in SMEs of Karachi. *Australian Journal of Basic and Applied Sciences*, 4(6): 1495-1503

Naqvi, S. W. H. (2011). Critical success and failure factors of entrepreneurial organizations: Study of SMEs in Bahawalpur. *Journal of Public Administration and Governance*, 1(2), 17-22.

Nicos Michaelas Francis Chittenden Panikkos Poutziouris , “Financial Policy and Capital Structure Choice in U.K. SMEs: Empirical Evidence from Company Panel Data Small Business Economics”, Kluwer Academic Publishers. , Business Development Centre Manchester Business School Booth Street West Manchester U.K, 1990, pp 113-130.

Riaz A, Mi H (2017) China-Pakistan Economic Corridor and Its Social Implication on Pakistan: How Will CPEC Boost Pakistan’s Infrastructures and Overcome the Challenges? Arts Social Sci J 8: 265.

Ritzinger, L. (2015). The China-Pakistan Economic Corridor: Regional Dynamics and China’s Geopolitical Ambitions. *The National Bureau of Asian Research*, 5.

Saleh, A. S., & Ndubisi, N. O. (2006). An evaluation of SME development in Malaysia. *International review of business research papers*, 2(1), 1-14.

Wickramansinghe, N. and S. Sharma. 2005. Key Factors That Hinder SMEs in Succeeding in Today's Knowledge-Based Economy. *International Journal of Management and Enterprise Development*, 2(2): 141-157.