

**IMPACT OF TRADE AND ECONOMIC AGREEMENTS ON SMALL  
MEDIUM ENTERPRISES (SMES) OF PAKISTAN IN THE CONTEXT  
OF CHINA PAKISTAN ECONOMIC CORRIDOR(CPEC)**



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August 2019

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## ABSTRACT

Impact of economic or trade agreements effect the economy of any developing country in a significant way. Many researchers have done their research on different economic corridors to calculate their impact on the economies of developing countries but there is little, or no research done on China Pakistan Economic Corridor specifically targeting the impact of this economic corridor on the SMEs of Pakistan. The aim of the study was to calculate, analyze and understand the impact of China Pakistan Economic Corridor on the SMEs of Pakistan. Data was collected from the SMEs of Rawalpindi and Islamabad. To conduct this study SME growth was taken as dependent variable while Reduction of Tariffs and Non-Tariff Barriers, Demand of Skilled Labor and New Market Opportunities were taken as independent variables. Data was collected by distributing questionnaires in SMEs of Rawalpindi and Islamabad and statistical analysis was carried out by using SPSS. Findings reveal that SMEs owners believe that China Pakistan Economic Corridor will help their businesses to grow and will increase their profitability. Business community also believes that reduction of tariff and non-tariff barriers will further strengthen their business. Study also briefs us that new market opportunities will be created due to China Pakistan Economic Corridor. Findings also enlightens us that Pakistani businessman believes that demand of skilled labor decreases when SMEs grow

**Keywords:** China Pakistan Economic Corridor (CPEC), Small Medium Enterprises (SME), Reduction of Tariffs and Non-Tariff Barriers, Demand of Skilled Labor, New Market Opportunities, SME Growth

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## 1. Introduction

Trade understandings are the result of arrangements between at least two sovereign countries that manages the terms of the adequate trade of products and enterprises between these parties. These agreements are based on policies which eliminates all kinds of discriminations against imports and exports. Traders from various economies can exchange without a legislature applying levies, shares, sponsorships or restrictions on products and ventures. Exchange understandings contradict the speculations and thoughts of protectionism or monetary neutrality.

Trade agreements help countries to grow both socially and economically. They majorly affect exchange and speculation around the world. Trade or economic agreements oversee forming business connections among organizations over the globe. To succeed in the international environment, businesses need to be aware, understand and make policies to get maximum benefits from the impacts of these trade agreements. Some of the well-known and successful trade agreements are NAFTA, GATT and EU. International trade liberalization has ambiguous effects on SMEs in the informal sector of Latin American countries[1]. Trade agreements had great impact on these countries' economy, culture and traditions. These agreements revolutionized their economy, human development index and their social and moral values. They also effected their culture and tradition.

According to researchers economic or trade agreements have advantages as well as disadvantages. These agreements help countries to boast their economy, create jobs opportunities, develop skilled labor and improve quality of life of their nationals. Basically, they increase economic resources of the country which mainly includes land, labor and capital. It also enhances the efficiency and effectiveness of industries specially in developing countries. Due to variety of suppliers from different countries customers can get better quality product at reasonable price. These trade agreements play a vital role in establishing and improving foreign relations between a developed and developing countries. These improved foreign relations help a developing

country to establish proper and effective infra structure which helps in eliminating poverty and improve their lifestyle.

However, there are some disadvantages of these trade or economic agreements. Due to increased competition between the manufacturing countries labor rights can be compromised to produce cheaper products in order to compete in the market. Trade can also lead to job loss; it creates two job losses out of ten. These jobs are lost due to new technologies, innovation and higher productivity. Amid the 1992 presidential decision, Ross Perot cautioned that the then-new North American Free Trade Agreement (NAFTA) between the United States, Mexico, and Canada would make an "incredible sucking sound" as many occupations were guided out of the U.S. what's more, into Mexico and Canada. What's more, it appears that Perot was 100 percent right, notes "Business Insider" stating "The goods balance of trade for the U.S. with Mexico has been negative and steadily growing over the years. In 2010 it amounted to \$61.6 billion, which was 9.5% of the total goods trade deficit in 2009."

Similarly, more fuel will be consumed to transport goods from one country to another which will have an adverse effect on the environment. It will not only pollute the air but will also affect seas and oceans which will result in water pollution. More transport vehicles on roads mean that it will also create noise pollution which will have severe effects on human as well as other living organisms which will eventually impact the flora and fauna of that specific area.

The China-Pakistan Economic Corridor (CPEC) is a well-considered and well-made idea and task to release the procedure of important collaboration between the two neighboring nations. Based upon the idea of win-win situation, the idea of corridor which has been a reason for colossal improvement in various parts of the world, will take off in Pakistan with the structure of a system of streets, parkways, railroads and power age plants right from Khunjerab, the outskirt of Pakistan and China, to the Pakistani port of Gwadar. Pakistan and the People's Republic of China have worshiped enduring and amicable ties - paying little mind to their ideological contrasts,

obvious in their very names. CPEC was effectively propelled to set up a monetary hallway among China and Pakistan for which the two nations have marked contracts on the proposition for Pakistan China Economic Corridor (CPEC). There are difficulties in fields like political, security, and financial matters incorporate political unsteadiness and frailty. In any case, taking a gander at the CPEC, China ought not to bound it to the reciprocal relations, yet think about it over with a territorial and extensive vision. China ought to energize the Economic Corridor ventures with the help of its "versatile power" in vitality, transportation and framework alongside the "adaptable power" of the Chinese and Pakistani research organizations, broad communications, instructive trades, solid participation and make plans for the total usage of the "One Belt and One Road" activity.

CPEC is also a free trade or economic agreement and it also has advantages and disadvantages on business environment of Pakistan. According to Government of Pakistan Opportunity has come under China Pakistan Economic Corridor to grow our Small and Medium Enterprises (SMEs). Out of 3.2 million entities of trade, industrial and service sectors of Pakistan, around 90% are SMEs deploying 70% non-agricultural labor. These SMEs contribute 30% to the GDP of Pakistan, 25% to export earnings and 35% to value added manufacturing. This means that SMEs are the backbone of Pakistan's economy. Companies entering in joint ventures with Chinese companies should be made part of the national policy, SMEs should be energized under Special Economic Zones (SEZs), SMEs should take advantage of trickle-down effects of CPEC, mechanism should be developed in coordination with Government and State Bank of Pakistan (SBP) and Made in Pakistan identity must be popularized globally through CPEC.

## 1.1 Funnel Diagram

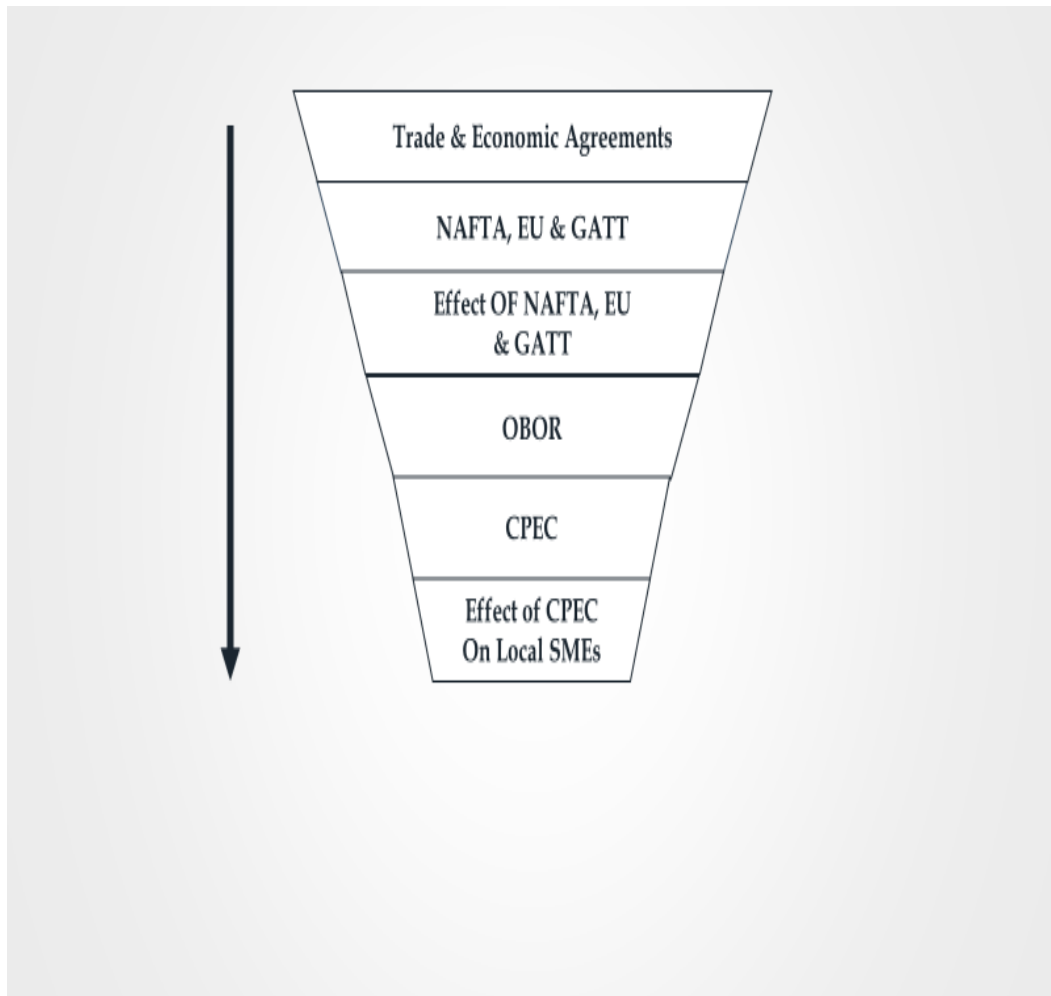


Figure 1 (Introduction): Funnel Diagram

Funnel Diagram shown in (Figure 1, Introduction) shows the method how literature review is done. At first trade and economic agreements were studied in general then some of the most famous agreements like NAFTA, EU and GATT and their impacts on the economies of those countries were studied in detail. Literature reviewed helped in studying how these agreements are signed and what influence they have on the economies of those countries. In order to study CPEC (China Pakistan Economic Corridor) we first studied OBOR (One Belt One Road) and its importance for China. After OBOR literature regarding CPEC was reviewed and its effects on local SME were also studied.

## **1.2 Problem Statement**

Trade or economic agreements have great impacts specially on the developing countries. They impact their social and moral values, economy, infra structure and environment. Trade or economic agreements specially influence small and medium enterprises of developing countries. They have advantages as well as disadvantages for the local business community. Impacts are usually influenced by the terms and conditions agreed between the countries. In the case of European Union or NAFTA we have seen extremely positive economic boom. These agreements have helped developing countries to improve their economies and uplift the quality of life of their people. Proper planned mechanism and systematic execution of these trade agreements bring fruitful results specially for the developing countries.

CPEC is also a trade agreement and has huge potential for regional economic growth and development. This study will help to understand the impact of CPEC on small medium enterprises of Pakistan. This research will also guide SMEs on how to plan in Chinese influenced environment and get maximum benefits from China Pakistan Economic Corridor.

## **1.3 General Objective**

General objective of this research is to observe the impact of China Pakistan Economic Corridor “CPEC” on the local small medium enterprises “SMEs” of Pakistan.

## **1.4 Research Objectives**

- Impact of trade or economic agreements on other countries.
- Impact of CPEC on SMEs of Pakistan.
- What do small business owners think about their future in relation to CPEC.

## **1.5 Research Questions**

- How Trade or economic agreements effect SMEs in developing countries?
- What is the impact China Pakistan Economic Corridor on SMEs of Pakistan?
- What Recommendations can be given to small businesses in Pakistan?

### **1.6 Significance of the Study**

- Study has helped in analyzing the impact of trade agreements on local SMEs of a developing country.
- This study has helped to assess the impact of “CPEC” on local SMEs of Pakistan.
- Study has provided recommendations or policies for SMEs of Pakistan to avoid negative consequences of China Pakistan Economic Corridor.
- Study has been conducted in Rawalpindi and Islamabad and almost seventy SMEs have been engaged to collect data using questionnaire.

## **2. LITERATURE REVIEW**

### **2.1 Introduction**

This chapter includes different literatures reviewed to achieve the research objectives defined in the study. The areas which are covered to achieve research objectives are; theoretical literature review, empirical reviews and conceptual framework. In data collection the secondary source is called Literature review. Literature review helps to understand the situation created in the research; it helps to generate the solution of the problem defined in the research. It also eases the path of the reader to better understand the objectives of the research.

#### **2.1.1 Trade or Economic Agreements**

Trade understandings are the result of dealings between at least two sovereign countries that manage the terms of the worthy trade of products and ventures between the gatherings[2]. Trade or economic agreements help countries to reduce barriers and provide healthy and sustainable business environment. Trade agreements are the removal of or reduction in the trade practices that thwart free flow of goods and services from one nation to another[3]. The largest trade agreement in world is the North American Free Trade Agreement popularly known as NAFTA. It's between the United States, Canada and Mexico and has combined output of \$20 trillion USD. Due to this agreement the regional trade between these countries is increased from approximately \$290 billion USD in 1993 to \$1.1 trillion USD in 2016[7]. There are advantages as well as disadvantages of these economic agreements. Trade agreements create job opportunities in developing countries but also leads to job lose in developing countries due to shifting of manufacturing industry from developed countries to developing countries. They can create environmental hazards due to more free movement of vehicles or cargo ships or planes between countries. They sometimes help domestic industry to grow but can also wipe them out. Buyers eventually advantage because changed exchange can bring down costs and widen the scope of value products and enterprises accessible. Organizations can profit because changed exchange broadens dangers and channels assets to where returns are most elevated. At the point



when joined by fitting local approaches, exchange transparency likewise encourages rivalry, venture and increments in efficiency as its parts[4].

### **2.1.2 SMEs, its success and Indicators**

A small or medium-sized endeavor, or SME, as characterized by the European Commission is a business or organization:

- SME has less than 250 employees.
- Annual turnover should not exceed €50 million or its total annual balance-sheet should not exceed €43 million[5]

Success as a concept is used to refer to a firm's financial performance. SMEs success is attained by making conditions for the improvement and presentation of new innovation, making employments at low capital expense, rapidly adjusting to the necessities and market changes[6]. If all these planned and executed properly it increases firm's efficiency and effectiveness. Performance indicators play a vital role in determining firm's growth or success.

Tasks of performance indicators are:

- It provides information which results in efficient and effective decision making.
- Focuses or indicates the specific areas which are good or the areas which need more attention.

### **2.1.3 Impact of Trade or Economic Agreements.**

Trade pacts majorly affect exchange and venture around the world. Truth be told, they oversee forming business connections among organizations over the globe. So as to prevail in the global condition, private ventures should know about the trade pacts have had and will have on their organizations[7]

Michael Porter, a contemporary exchange scholar, clarifies that the central monetary objective of a country is to deliver a high and rising way of life for its citizens[7]. Doorman asserts that the capacity to do as such relies upon the efficiency with which a country's assets are utilized. Profitability is regularly characterized as a proportion between the yield volume and the volume of inputs[8]. It relies upon quality and the highlights of items and the

effectiveness with which items are delivered. Ability to send out merchandise created with high efficiency encourages a country to import merchandise which have lower profitability. This is incredibly useful because it results in higher national profitability. Indeed, this is a critical factor to determine the competitiveness of SMEs in global market.[9]

To achieve higher productivity and increased international competitiveness, every government must encourage free trade or trade without barriers. If government doesn't promote free trade the economic growth of the nation will be hindered.

In quest for both expanded profitability and universal intensity, governments must advance exchange without hindrances — or unhindered commerce — without which the financial development of a country will block. Trade with barriers or free trade helps in:

- Formulate better and stabilized economy.
- Increases efficiency and competitiveness.
- Saves resources utilized in goods manufactured.
- Provides better and higher living standard.

Diminishing levies and non-levy obstructions can help in the short run where the financial emergency has prompted critical automatic joblessness by lessening expenses of imported items for customers and by giving new market chances to exporters. Taking a more extended term perspective on a more beneficial worldwide economy, enduring increases can be found from reallocation of assets crosswise over division and from efficiency development. Be that as it may, decreasing hindrances to outside direct interest in administrations is found to especially expand interest for higher gifted work, while the off shoring of administrations isn't secured to move positions abroad[10]. While describing the advantages of free trade or economic agreements we must keep an eye of the disadvantages as well. There are many critics of free trade as well and they also provide relevant information about the negative impacts of free trade. The critics of free trade or economic agreements say that it creates increased job outsourcing, theft of intellectual

property, crowd out domestic industries, poor working conditions, degradation of natural resources, destruction of native cultures and reduces tax revenue[11].

## 2.2 Literature Review

China-Pakistan Economic Corridor is a complete framework for regional connectivity. CPEC will bring massive business opportunities not only for Pakistan and China but also for Iran, Afghanistan, India, Central Asian Republic States which include Tajikistan, Turkmenistan, Uzbekistan, Kazakhstan and Kyrgyzstan[12]. CPEC will enhance and stabilize Pakistan's economy. CPEC is multibillion-dollar project. The worth of CPEC projects now is estimated around \$46 USD billion[13]. The project is funded by China Development Bank, Silk Road Fund, Exim Bank of China, Asian Infrastructure Investment Bank and Industrial and Commercial Bank of China (ICBC).



Figure 2(Literature Review): Land & Maritime route of OBOR [14]

CPEC is part of One Belt One Road project by China. China unveiled this project to the World as its dream to revive the ancient Silk Road by developing massive infrastructure projects and adding value to ports around the Silk Road. The project is known as Yídàiyílù in Chinese. This venture has two main trade routes. The one is overland known as the Silk Road Economic Belt, while the other is maritime route, which is termed as the Maritime Silk Road (Shown in Figure 1). Once this venture is completed, it will have some huge economic impacts on the countries on its roadmap. This project will help China to spread and widen its strategic reach. Initially China allocated \$40 USD Billion for this

project but on 15<sup>th</sup> May 2017 President of China Xi Jinping announced another \$124 billion USD for OBOR[15].

CPEC includes complete revamping and upgradation of infrastructure of Pakistan. New Roads will be developed to have better, fast and easy connectivity between Pakistan and China. Railway lines in Pakistan will be upgraded in order to transport goods quickly and safely, establishing new and better air links between Pakistan and China. Special Economic Zones will also be a part of this project. CPEC also gives a complete and detailed plan to deal with energy crisis in Pakistan. A deep-sea port will be developed Government of China in collaboration with Government of Pakistan in Gwadar, Baluchistan, Pakistan. This port will help China to export its goods to Africa and West Asia[16]. Project is based on Win-Win model and it is supposed to be fruitful not only for Pakistan and China but also for the whole region. MOU signed on 22 May 2013 between China and Pakistan which initiated this project however work start started properly when President of China Xi Jinping visited Pakistan in April 2015. On his visit he said “This will be my first trip to Pakistan, but I feel as if I am going to visit the home of my own brother” [17]. CPEC will be implemented in three phases by 2030. The projects completed by 2020 are worth to be \$35 billion USD. These projects are knowns as fast-tracked “Early Harvest” projects and they include generation of 10,500MW of electricity in National Grid of Pakistan plus upgradation of currently installed power distribution system of Pakistan. CPEC will not only meet Pakistan’s current electricity demands but also assures surplus electricity for Pakistan in future. Country’s GDP growth rate has been increased from 4.7% in 2015 to 5.4% in 2016. Pakistan’s GDP has increased from \$244 billion in 2014 to more than \$ 300 billion in 2017. 2.5% annual economic growth rate expected till 2030[12]. CPEC will also enhance highways and motorways of Pakistan. Roads play an important part in transporting goods from one place to another better roads mean better and fast transportation of goods. All four provinces of Pakistan will be connected via roads under this project. Railway lines will also be laid to further facilitate the traders.

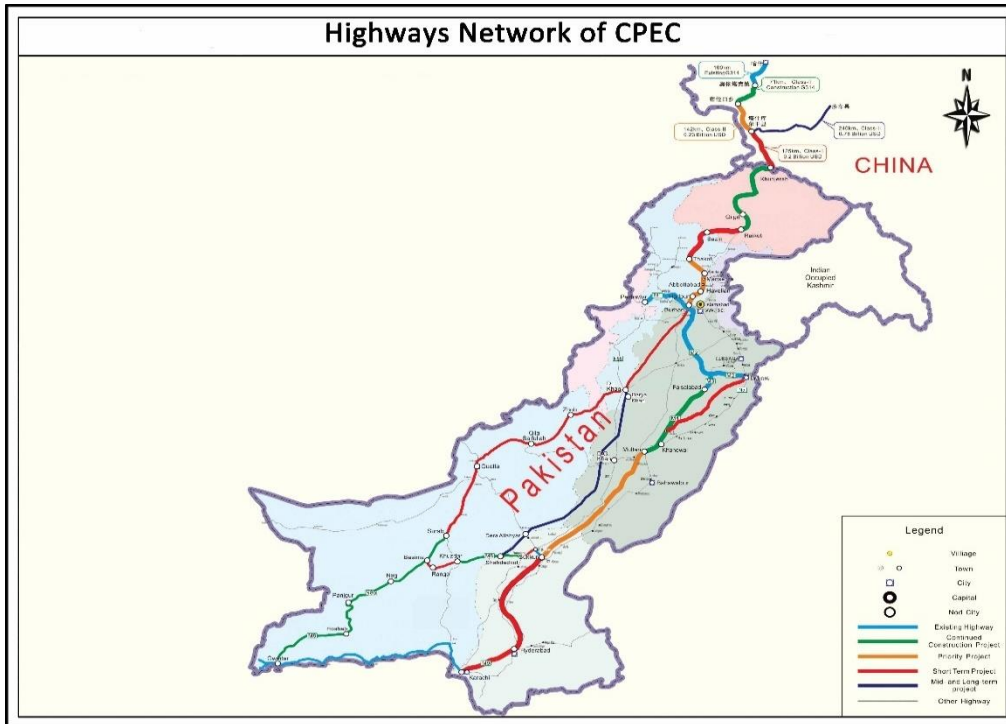


Figure 3(Literature Review): Highways Network under CPEC [18]

### 2.2.1 Impact of China Pakistan Economic Corridor on Local Business Community

As Government claims that CPEC is “Game Changer” for Pakistan and for entire region. It will boast annual GDP of Pakistan and will bring various job opportunities for Pakistanis. There is a point which Pakistan needs to understand, China’s ambition to be World power. China wants to spread its strategic reach in Central Asia, Europe and Africa using Pakistan’s sea routes and ports. In short China is the main beneficiary in this project. CPEC will bring huge sums of business and all businessmen of China now want to invest in Pakistan, which means they will bring their own raw material and their own manufactured goods in Pakistan. Since we know that Pakistan already has very weak industrial structure and Pakistan is already suffering in industrial exports to other countries. Pakistan’s industry has faced problems like energy crisis, heavy taxes and other issues. Pakistan cannot afford to have any other set back as far as its industrial production is concerned. Poor management, low skilled workers, less production and other problems can be found in abundance in our industry. On the other hand, we have China whose industrial production and techniques have already brought the World to its

kneel[19].China's mass production already has huge impact on the whole World. Almost all the industrial nations have been affected negatively by massive Chinese industrial production[20]. Pakistan must take some serious steps in order to protect its industry from Chinese influence. Necessary measures should be taken and implemented so that industrial sector of Pakistan can be protected. One example Government can see is that when Japanese Motor Bike Manufacturers like Honda, Yamaha and Kawasaki came with the idea of heavy bikes and started exporting them to United States of America the future of Harley Davidson seems doomed because Japanese bikes were faster, stylish and have very low cost as well as less repair and have better fuel efficiency. In order to protect Harley Davidson President of USA Ronald Regan came with economic reforms and put huge tariffs on imported bikes. These reforms helped Harley Davidson to compete with the Japanese manufacturers. While there are many aspects of CPEC that require immediate Government's attention, a major issue which needs to be addressed is how this project will impact Pakistan's local business community. In 2017 Pakistan imported 806,544.13(Million Rs) goods from China which is 26.54% of total imports of Pakistan[21]. This means that there is huge business community which helps in importing these goods, which further means that this business community creates a lot of job opportunities for Pakistanis. Since CPEC will bring all the Chinese exports to Pakistan and they will have all the perks and privileges by Government what will be the future of this huge local business community of Pakistan? What will be the effects this business community will suffer due to presence of Chinese? How this sector needs to react in order to face this changing business environment in Pakistan? Are there any steps or legislation done by the Government to protect this sector, the sector which provides job opportunities to huge population of Pakistan? This research will investigate the effects of CPEC on local business community of Pakistan and will bring suggestions and recommendations to both Government and importing sector on what needs to be done to protect this sector from changing business environment due to CPEC and how they can get benefits from this project.

## **2.3 Conceptual Framework**

Conceptual framework is a group of interrelated goals and basics. The destinations distinguish the objectives and reasons for monetary detailing and the essentials are the hidden ideas that help accomplish those goals. Those ideas give direction in choosing exchanges, occasions and conditions to be represented, how they ought to be perceived and estimated and how they ought to be condensed and detailed [22].

### **2.3.1 Tariffs and non-tariff barriers**

Tariffs is a form of tax imposed by government on imported items or goods. The concept behind imposing tariffs is to make foreign made goods or products expensive for the consumers, which helps in driving consumers to buy alternative domestically produced goods or products which are cheaper than the imported ones. This concept boosts the economy of that country or “tariffs are taxes or duties (customs duties) that are levied on imported goods. The aims are either to increase the prices of the imported products to at least the level of the current domestic prices, or raise revenue for the government” [23].

Non-tariff barriers are the restrictions in trade between the countries. They do not include tax or tariffs, but they cause a lot of issues for the trading business community. Non-tariff barriers are defined as “A non-tariff barrier is any measure, other than a customs tariff, that acts as a barrier to international trade.” [24]. Non-tariff barriers include regulations, rules of origin and quotas.

#### **2.3.1.1 Reduction of tariffs and non-tariff barriers and its impact SMEs growth**

Small medium enterprises are known as SMEs. They play a vital role in country's economic success. Strong SME structure leads to better and stable economy. They are also called as backbone of any country's economy. Tariffs are the customs duties imposed by the government on imported goods or items. Reducing these tariffs will surely have some impact on local SMEs specially the SMEs of a developing country. Reducing or lowering tariffs and non-tariff barriers increases competition in the domestic market. “This is expected to encourage inefficient or unproductive local firms to try to improve

their productivity by eliminating waste, exploiting external economies of scale and scope, and adopting more innovative technologies” [25]. Since it helps to motivate local SMEs to perform better it can also lead to their closure if they were not able to perform under these new business conditions. Lowering tariffs also helps local industry to get cheaper imported inputs which leads to higher productivity. “This allows them to compete more effectively in domestic markets against imports and in export markets” [25]. Lowering tariffs makes exports opportunities for local SMEs due to higher productivity. Study shows that lowering tariffs and non-tariffs barriers under Korea-China free trade agreement (FTA) will have significant effect on Korea’s economy. “It will bring economic growth of 1.7 to 2.1% and add 40.3 billion dollars to Korea’s GDP by the year 2025 and 76.7 billion dollars by 2033” [26]. Since it will bring fruitful results to Korea’s economy it will also negatively impact electric, electronics, machinery, chemical, steel, construction and transportation equipment manufacturing SMEs of Korea.

Removing tariff and non-tariffs barriers under trade liberalization or economic agreements develops the economy of both developed and developing countries and have positive impacts on SMEs of developing country but sometimes it leads to a disaster for SMEs of developing country. Studies show that positive or negative impacts depends upon the knowledge of SME owners and how they react and make new plans for their business under new business environment. It also depends upon the government that how they plan, help and protect their local SMEs.

### **2.3.2 New Market or Business Opportunities**

A new market or business opportunity can be described as a newly identified need that a firm can provide to its customers. It’s basically a problem or need which is not addressed by firm’s other competitors. It can also be explained as “an opportunity refers to the intersection of firm capability and customer need. Established firms apply existing and incremental technologies to meet known customer needs, but radical changes in technologies or evolving customer requirements can create new market opportunities” [27].



### **2.3.2.1 New Market or Business Opportunities and its impact on SMEs growth**

A newly identified problem is always an opportunity for the local companies, if they can provide the solution to their customers. If they provide solution in time, they can earn huge amount of profits but here is a thing which needs to be understood. In trade liberalization countries allow foreign companies to trade their goods duty free or with very less duties. If those foreign companies provide solution to the problem before local companies than this can lead to a huge problem for local companies and can result in their closure. Foreign companies of developed countries have better R&D, more financial and technical resources than the companies of a developing countries. This gap of technology and other resources can result into a disastrous problem for the local SMEs of developing countries.

Here we can conclude that new market opportunities can be both fruitful and damaging for the local SMEs of the developing country. Proper planning and accurate, and timely execution of the plan can give advantages to the local SMEs but if not properly planned it can lead to a disaster in many cases the complete closure of the local SMEs.

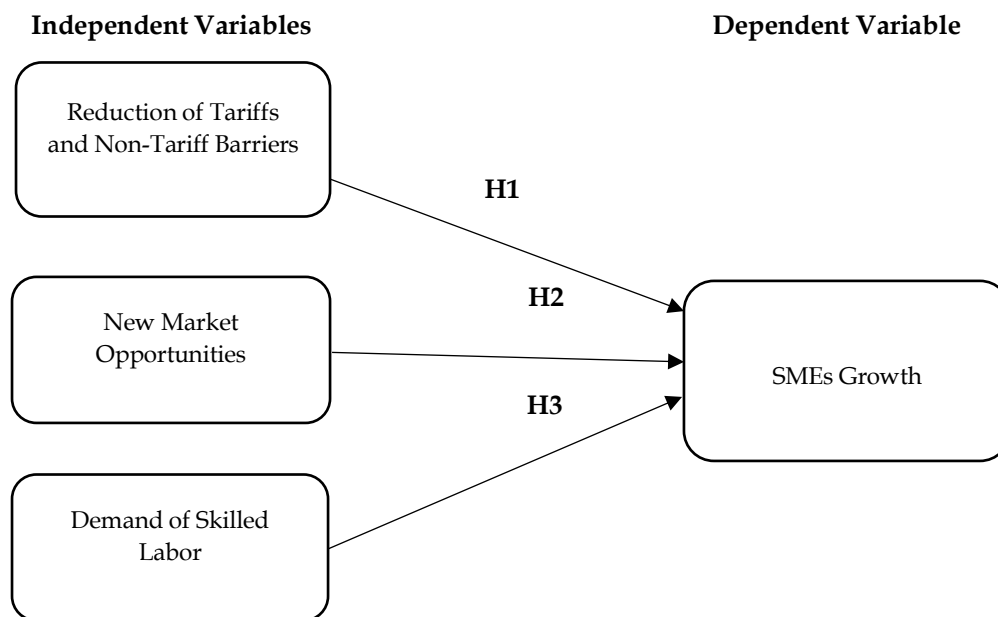
### **2.3.3 Skilled Labor**

In order to understand what skilled labor is, first we need to understand what the meaning is of skilled. A skilled is the one “who has acquired mastery of or skill in something (such as a technique or a trade)” [28]. Skilled labor are the people who are master in their respective fields. To run a business successfully skilled labor is the need of the day. They fill the gap between unskilled labor and high-level managers or professionals.

#### **2.3.3.1 Demand of skilled labor and its impact on SME's growth**

Skilled labor is the backbone of all the businesses. They play a vital role in the economic success of a country. Skilled labor plays an important role in trade or economic agreements. It's because when a developed country makes a trade agreement with developing country all the manufacturing industry of developed country moves to developing country to reduce its cost of production. They need skilled labor who can run the industries effectively and

efficiently. Skilled labor plays a vital role in increasing the productivity of any industry. In absence of skilled labor industries from developed countries will not move to developing countries. Moreover, local SMEs also require skilled labor for their new ventures. Mostly these new ventures are started due to trade liberalization. Local SMEs also need skilled labor to compete with foreign companies' products. Skilled labor plays highly important part in saving local SMEs from the adverse effects of foreign manufactures. Demand of skilled labor is surely increased due to trade liberalization and it plays a vital role in SMEs growth.



**Figure 4(Literature Review): Conceptual model of the study**

The conceptual framework provides variables regarding the impact of trade agreements or liberalization which are elaborated as reduction of tariffs and non-tariff barriers, new market or business opportunities and demand of skilled labor. On the other hand, the SMEs growth variables are profitability, survival and customer satisfaction.

## 2.4 Operationalization of Variables

*Table 1(Literature Review): Operationalization of Variables*

Variables	Definitions	Relationship with SME Growth
Reduction of Tariffs and Non-Tariff Barriers	<p>Tariffs are taxes or duties that are levied on imported goods.[23]</p> <p>A non-tariff barrier is any measure, other than a customs tariff, that acts as a barrier to international trade.”[24]</p>	<p>Reducing T&amp;NTB is expected to encourage inefficient or unproductive local firms to try to improve their productivity. It also allows them to compete more effectively in domestic markets against imports and in export markets [25]</p>
New Market or Business Opportunities	<p>An opportunity refers to the intersection of firm capability and customer need. Established firms apply existing and incremental technologies to meet known customer needs, but radical changes in technologies or evolving customer requirements can create new market opportunities” [27]</p>	<p>A newly identified problem is always an opportunity for the local companies, if they can provide the solution to their</p>

		<p>customers, they can earn huge amount of profits but in trade liberalization countries allow foreign companies to trade their goods duty free or with very less duties. If those foreign companies provide solution before local companies than this can lead to a huge problem for local companies and can result in their closure</p>
<p>Demand of Skilled Labor</p>	<p>Skilled labor are the people who are master in their respective fields</p>	<p>Skilled labor plays a vital role in increasing the productivity of any industry.</p>

## 2.5 Theoretical Bases for Variables

A couple of growth models have been created in industrial financial matters however principally to clarify the conduct of huge firms. For instance, in their original book on mechanical financial matters[29] present the part worried about the development of firms by contending that the hypothesis of development of firms ought to be increasingly 'practical' and that the power of multiproduct firms of exceptionally extensive size "proposes that there might be no restriction to the span of a firm over the long haul. Just if there is an imperative on how quickly a firm can extend would there then be any farthest point on its size and afterward just in the short run". Measure is, subsequently, just a component of development; it isn't conceptualized as an impact upon the development rate. A formal incorporated hypothesis of development of firms has been created by Marris[30], and the therefore changed model[31] has turned into the standard one for the investigation of the authoritatively controlled firm. The Marris model is an unflinching state one – in other words it is detailed as far as a consistent state framework where all qualities of the firm (resources, work, deals, benefit, and so forth) are attempted to develop at a similar steady exponential rate after some time[32]

Tariff obstructions today are little by and large, recommending just constrained welfare gains from their evacuation[33]. This segment contends, in any case, that the present age of standard exchange models has missed a significant wellspring of additions from exchange by ignoring the more perplexing instance of a world with generation linkages and numerous areas. Under monopolistic challenge, the impacts of firm passage might be powerful to the point, that ideal duties are not positive but rather negative. Indeed, even the expulsion of little positive levies could subsequently deliver huge welfare gains. New promoting chances and interest for gifted works are general variables identifying with SME's development and a pursuit on these recommended that no significant speculations have not been created. And every single worldwide market has their own various elements and a thorough hypothesis does not exist.

### **3. METHODOLOGY**

#### **3.1 Research Design**

Descriptive research based on cross sectional design was adopted for analysis using quantitative method because it involves opinions of the respondents in a structured way so that we can produce statistics for proper analysis. This research study used deductive approach because it involves developing hypotheses and then testing those developed hypotheses with the help of some research strategy.

#### **3.2 Survey Instrument**

Questionnaire for the purpose of survey was adopted from “Researcher 2013” [34]. Researcher also did a pilot study and collected data from 20 small businesses from twin cities of Rawalpindi and Islamabad. Pilot study revealed that the questionnaire was valid and reliable. Actual questionnaire had three parts. The first part includes questions regarding designation, gender, age, education level. In the second part of the questionnaire respondents were asked about their businesses. Questions regarding business establishment, duration of company in business, size of business and total number of employees working in the company. The third part was focused on the respondent’s opinions and experiences about their business growth in the context of CPEC. Target population for the conducted study was mobiles and automobile spare parts importers based in Rawalpindi and Islamabad.

#### **3.3 Research Strategy and Population**

Almost 100 questionnaires were distributed among the small business importers in twin cities. There are almost 230 importers of accessories, mobiles and cards in Rawalpindi and Islamabad, and every 3<sup>rd</sup> importer and small business was selected. Researcher received 82 filled questionnaires and there were 70 useable questionnaires which were complete and were used for analysis purposes.

### **3.4 Sample Size and Sampling Technique and Data Collection Method**

Non-probability convenience sampling technique was adopted to gather data from respondents. This technique was adopted due to restriction of time and limited availability of resources. Convenience sampling is also known as availability sampling, since the members of the population will be conveniently available to provide it [35].

### **3.5 Data Analysis**

Statistical Package for Social Sciences (SPSS) was used to carry out statistical analysis of the data gathered. Demographic information, standard deviation and mean were calculated using descriptive statistics. Reliability test was applied to check the reliability of the scales used to collected data. Correlation analysis was conducted to check the relationship between the dependent and independent variables. Regression analysis was also applied.

## 4. RESULTS AND FINDINGS

### 4.1 Demographic Characteristics

Descriptive statistics, correlation and regression are used in the analysis of the study. Questionnaire was divided into two parts. The first part shows demographic section while the second part includes variable items. Table 1 shows the demographic information of the respondents. It was revealed in the descriptive analysis that 60% of the respondents were chairman/presidents while 40% were CEOs of their respective businesses. Descriptive studies further revealed that 82.9% of respondents were males whereas 17.1% were female business owners. It was observed that 44.3% of the respondents were below 30 years of age, 27.1% were between 31-40 years, 18.6% were between 41-50 years, 7.1% were in the age of 51-60 years while remaining 2.9% were above 60 years of age. The studies further reveal about the education or qualification of the business owners. As per data 11.4% have SSC/O Levels certificates. 27.1% possess HSSC/A Levels certificates while 52.9% had bachelor's degree which is a very positive sign for a country like Pakistan that its qualified human resource is trying to create jobs rather than trying to get a job. 5.7% had master's degree while remaining 2.9% had other qualifications.

*Table 2(Results and Findings): Demographics*

<b>Characteristics</b>	<b>Categories</b>	<b>Frequency</b>	<b>Percent</b>
<b>Designation</b>	Chairman/Presidents	42	60
	CEO	28	40
<b>Gender</b>	Male	58	82.9
	Female	12	17.1
<b>Age</b>	Below 30 Years Old	31	44.3
	31-40 Years Old	19	27.1
	41-50 Years Old	13	18.6
	51-60 Years Old	5	7.1
	Above 60 Years Old	2	2.9



<b>Highest Education Level</b>	SSC/O Levels	8	11.4
	HSCC/A Levels	19	27.1
	Bachelors	37	52.9
	Masters	4	5.7
	Other (Please Specify)	2	2.9

Table 2 shown below enlightens us about information regarding their specific businesses. 67.1% businesses were self-established, 17.1% were inherited while 15.7% were purchased. The questionnaire further tells us about the duration of companies in business since they were established. 2.9% were established less than 1 year ago, 41.4% had 1-3 years since established, 25.7% were in business between 4-6 years while 30% were established for 6 years or more. When asked about the size of their businesses 80% of respondents had small businesses, 15.7% had medium businesses while 4.3% business were operating on large scale. When asked about total number of employees working in those businesses 75.7% had 1-10 employees, 11.4% had 11-20 employees, 4.3% had 21-35 employees, 4.3% had 36-99 employees, 2.9% had employees between 100-250 while 1.4% poses 251 or more employees.

*Table 3(Results and Findings): Questions*

<b>Characteristics</b>	<b>Categories</b>	<b>Frequency</b>	<b>Percent</b>
<b>Your business is</b>	Self-Established	47	67.1
	Inherited	12	17.1
	Purchased	11	15.7
<b>Duration of company in business since establishment</b>	Less than 1 Year	2	2.9
	1-3 Years	29	41.4
	4-6 Years	18	25.7
	6 Years or more	21	30
<b>Size of Business</b>	Small	56	80
	Medium	11	15.7
	Large	3	4.3

<b>Total number of employees working in the company</b>	1-10	53	75.7
	11-20	8	11.4
	21-35	3	4.3
	36-99	3	4.3
	100-250	2	2.9
	251 or more	1	1.4

### 3.2 Descriptive Statistics

Table 3 shows the descriptive statistics of the study by calculating the means and standard deviations of the items of all variables. In order to find the center of the data and to check how much data was spread out the means and standard deviations of all variables were calculated separately. The mean of SME success was turned out to be 1.2957 while the mean of tariff, new market opportunities and skilled labor were 1.1476, 1.2857 and 1.3257 respectively. The standard deviation of SME success was 0.20672 while the standard deviation of skilled labor, new market opportunities and tariff was 0.31424, 0.34653 and 0.26397 respectively. Standard deviations of the variables show the dispersion of data from their respective means.

*Table 4(Results and Findings): Descriptive Statistics*

<b>Variable</b>	<b>Mean</b>	<b>Standard Deviation</b>
<b>SME Success</b>	1.2957	0.20672
<b>Tariffs and non-Tariff barriers</b>	1.1476	0.26397
<b>New Market Opportunities</b>	1.2857	0.34653
<b>Demand of Skilled Labor</b>	1.3257	0.31424

### 4.3 Reliability Test

Reliability test is applied before any other statistical tool because of its importance. This test is used to check the reliability of the data collected from the respondents. Checking relationship between scores which are acquired from application of the scales is done. The association in between scores tells about the consistency of results produced by the scale. Cronbach's alpha " $\alpha$ " is the method which is extensively applied for this purpose. Cronbach's alpha is the measure of internal consistency. It is measure of scale reliability. A "high" value for alpha means the scale is reliable[36]. The value of Cronbach's alpha lies between 0 to 1. Values greater than or equal to 0.6 are acceptable. If the value of alpha is less than 0.6 than it is not reliable [37]. The Cronbach alpha test was used to check or measure the reliability of one dependent and three independent variables. The test results show that the Cronbach's alpha value of all ten items of the dependent variable "SME Growth" was 0.678. The alpha value of three items of independent variable "Reduction of tariffs and non-tariff barriers" was 0.617. "Demand of Skilled Labor" was measured by five items and its alpha value was 0.716. "New Market Opportunities" was measured by three items and its alpha value was turned out to be 0.640. Reliability test results show that values of all variables based on Cronbach alpha were greater than 0.6 indicating a good and reliable measurement. Thus, the measurement scales used in the study for data collection and analysis were reliable.

*Table 5(Results and Findings): Reliability Analysis*

Variable	No. of items	Cronbach alpha ( $\alpha$ )
SME Growth	10	0.678
Reduction of Tariffs and non-Tariff barriers	3	0.617
New Market Opportunities	5	0.640
Demand of Skilled Labor	3	0.716

#### 4.4 Correlation Matrix

To find out the relationship between dependent variable and independent variables i.e. SME growth, reduction of tariffs and non-tariff barriers, new market opportunities and demand of skilled labor. Pearson correlation was used to find out the strength of relationship between dependent and independent variables. Pearson correlation value ranges from -1 to +1 [38]. If the value is 0 “zero” it means that there is no relationship between the variables. If the value is greater than 0 than it means that there is positive relationship between the variables on the other hand if the value is less than zero it indicates a negative relationship between variables. Table 5 shown below describes the Pearson correlation at 0.01 and 0.05 significance level. The results depict that there is positive relationship between SME growth and reduction of tariffs and non-tariff barriers with correlation coefficient of 0.074. New market Opportunities was also significantly positively correlated with SME growth with the value of 0.402 at 0.01 significance level. However, it was indicated by the analysis that SME growth had negative relationship with demand of skilled labor with the value of -0.286 at 0.05 significance level. The analysis of the data collected indicates that all variables are correlated.

*Table 6(Results and Findings): Correlation Matrix*

Variable	Relation	SG	RTNTB	NMO	DSL
SG	Pearson correlation	1			
RTNTB	Pearson correlation	0.074*	1		
NMO	Pearson correlation	0.402**	0.025*	1	
DSL	Pearson correlation	-0.286*	0.029*	-0.255*	1

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

- SG = SME growth
- RTNTB = Reduction of Tariffs and non-Tariff barriers
- NMO = New Market Opportunities
- DSL = Demand of Skilled Labor

#### 4.5 Regression Analysis

To determine the extent of degree to which SME growth can anticipate on Reduction of Tariffs and non-Tariff Barriers, New Market Opportunities and Demand of Skilled Labor regression analysis was conducted. Regression analysis is a method which is used to associate one dependent variable to a linear combination of one or more independent variables. [39]. It identifies how much the value of dependent variable alters with an alteration in each independent variable.  $R^2$  "Correlation Coefficients" are computed in linear regression analysis.  $R^2$  determines the degree of variance in dependent variable that has brought in by the independent variable. The value of regression coefficients is always between 0 to 100%.

Table 6 shown below indicates the values of regression coefficients. Dependent variable SME Growth has regression coefficient value "R<sup>2</sup>" of 0.202 with independent variables Reduction of Tariffs and non-Tariff barriers, New Market Opportunities and Demand of Skilled Labor. This means that there will be 20.2% variability in SME Growth with all other independent variables i.e. Reduction of Tariffs and non-Tariff barriers, New Market Opportunities and Demand of Skilled Labor.

*Table 7(Results and Findings): Regression Analysis of SME Growth with NMO, RTNTB & DSL*

Model	R	R Square	Adjusted R Square	Std. Error the Estimate
1	0.450	0.202	0.166	0.18876

*Table 8(Results and Findings): Multiple Regression Analysis*

Model	B	Std. Error	Beta	t	Sig.
(Constant)	1.138	0.176		6.478	0.000
Tariff	0.055	0.086	0.071	0.643	0.522
New Market	0.208	0.068	0.349	3.070	0.003
Skilled Labor	-0.131	0.075	-0.199	-1.751	0.085

## 5. DISCUSSIONS AND CONCLUSION

### 5.1 Findings and Discussion

The purpose of this study was to determine or analyze the impact of trade agreements on the growth of SME's in Pakistan in the context of China Pakistan Economic Corridor, (CPEC). In order to achieve this purpose, we studied the impacts of other economic corridors on the SMEs of developing countries. To conduct this study, we took four variables in which "SME Growth" was declared as dependent while Reduction of Tariffs and Non-Tariff Barriers, Demand of Skilled Labor and New Market Opportunities were taken as independent variables. Three hypotheses were formulated or proposed in order to examine or study the relationship of dependent variable with three independent variables. After complete analyses of collected data detailed results were formulated. All purposed hypotheses are discussed below.

**Hypothesis 1:** "Reduction of Tariffs and Non-Tariff Barriers effect SME's Growth".

To test this hypothesis different tests were conducted but before conducting any test we applied reliability test on the scales of both dependent and independent variables. The results of reliability test show that Cronbach's Alpha value of Reduction of Tariffs and Non-Tariff Barriers was 0.617 and SME Growth had 0.678 value. Both these values were greater than 0.6 so we can say that the scales were reliable. The second test conducted on this hypothesis was "Correlation Analysis". The Pearson correlation value was 0.074 which indicates a positive correlation between these two variables. After correlation analysis we applied regression analysis to further check the hypothesis. Variance of 0.5% was observed between Reduction of tariffs and Non-Tariff Barriers and SME Growth. Studies conducted in turkey also indicate that trade barriers do impact the SMEs growth.[40]. Administration necessities and rivalry in abroad markets are the best factors in fare obstructions. Thus, related variables with organization must perceive and endeavor to achieve productive fare obstructions[41]. Keeping all results of the tests in observation hypothesis 1 is accepted.

**Hypothesis 2:** “New Market Opportunities created by trade agreements have positive relation with SME Growth”.

In order to test hypothesis 2, we applied reliability test on the scales of both dependent and independent variables. Results of reliability test show that value of New Market Opportunities was 0.640 while SME Growth had 0.678 value. These results indicate that the scale we used was reliable because both values were greater than 0.6. After reliability test, we applied correlation analysis. The Cronbach’s Alpha value or Pearson value of New Market Opportunities with SME Growth was 0.402 which indicates a highly positive correlation between these two variables. To further analyze this hypothesis, we applied regression analysis. Variance of 16.1% was calculated between these two variables. Digital technologies which are brought due to economic or trade agreements created new business opportunities which strengthens SME’s. Research conducted by Edinburgh research group indicates that SME’s when internationalized under trade agreements show significant growth[43]. In Pakistan, SMEs development has been moderate for which CPEC can go about as a cure. Through CPEC, the nearness of Chinese ability alongside winning open doors in Pakistan. CPEC has just pulled in different financial specialists from the nation over just as the globe. CPEC is a route forward for the monetary recovery of Pakistan and speculation prospects are exceedingly good for the nearby and global SMEs in the nation[44]. So, in the light of obtained results and other research studies hypothesis 2 has been accepted.

**Hypothesis 3:** “As SMEs grow, so does the Demand of Skilled Labor”.

Before applying any test to check this hypothesis we applied reliability test on the scales of both dependent and independent variables. Results show that these scales were reliable because the value of Demand of Skilled Labor was 0.716 while SME Growth's value was 0.678 these both values were greater than 0.6 hence, we can conclude that these scales were reliable. Now to analyze hypothesis 3 we applied correlation analysis. Pearson value of Demand of Skilled Labor with SME Growth was -0.286 which indicates a negative correlation between them. Regression Analysis was also performed on hypothesis 3. Variance of 8.2% was obtained using regression analysis. Keeping in observation the value of correlation analysis we conclude that as SMEs grow the demand of skilled labor decreases. Studies conducted in Australia indicate that demand of skilled labor increases when SMEs grow the demand of skilled labor increases to increase productivity[45]. Study conducted by Siobhan Pangerl also enlightens us that skilled labor helps in the positive growth of SMEs[46]. Other studies and surveys also indicate that SMEs grow when they have skilled labor. A working paper published by World Bank shows that when hurdles are removed and there is ease of doing business SMEs grow which results in increase in demand of skilled labor[47]. **On contrary our research study** shows completely opposite result. This may be due to **respondent's nature of business**. They will be importing finished goods or products rather than parts which are assembled domestically. Another factor which has influenced our research is **the common believe or culture in business community of Pakistan**. Community believes that if SME's grow, they will adapt new technologies e.g. robotics, automatic machines or plants. Thus, it will decrease the demand of skilled labor. Moreover, there is a common practice in Pakistan's business community that they prefer **cheap labor over skilled labor**. Most of business owners in Pakistan do not care about efficiency, effectiveness and productivity of skilled labor. Our study also reflects the same mind set of Pakistan's business community. Keeping our research result in consideration **hypothesis 3 is rejected**.



## 5.2 Limitations and Recommendations

Research study conducted has limitations and needs these limitations to be acknowledged. This research study included Pakistani importers specifically targeting mobiles/gadgets, toys and automobile spare parts sectors. Almost 90% of the importers were importing from China. Study also included some construction companies as well as education providers of Pakistan. All the questions asked from the respondents were in context of China Pakistan Economic Corridor "CPEC". Future studies can target areas like large manufacturing industries specially in the fields of mechanical and electrical engineering. Oil and gas companies can also be included to further expand the scope of research. Addition of agriculture sector and textile sector of Pakistan can further broaden the scope of the research since Pakistan has agriculture-based economy and textile industry has major contribution in exports. This research study was conducted in Islamabad and Rawalpindi which means that it includes the responses of SMEs of these two cities only due to inadequate resources. However future researches can include other cities like Faisalabad, Gujranwala, Gujrat, Sialkot, Lahore and Karachi. These cities are known for their manufacturing industries. Induction of Gwadar in future research will surely add some amazing information and facts in the results.

The undergoing research had four variables out of which SME Growth was taken dependent variable while Reduction of Tariffs and Non-Tariff Barriers, New Market Opportunities and Demand of Skilled Labors were taken as independent variables. Impact of independent variables was used to study how it will affect SME Growth in Pakistan. All scales used were designed in context of China Pakistan Economic Corridor. All the respondents gave information in context of China Pakistan Economic Corridor.

The findings of the research study show that reduction of tariffs and non-tariff barriers positively effect SME growth under China Pakistan Economic Corridor. This means that business environment flourishes when tariffs are reduced by the government. Reducing non-tariff barriers increases ease of doing business. The results recommend Government of Pakistan to reduce tariffs and non-tariff barriers in order to make business friendly environment under China Pakistan Economic Corridor. Study also shows that new market

opportunities created under China Pakistan Economic Corridor will help SMEs to grow. Now it's the responsibility of the Government to educate SME owners on how to get maximum benefits from the new business opportunities created under China Pakistan Economic Corridor. This research also enlightens us that demand of skilled labor decreases if SMEs grow. Now this is a very shocking result for a developing country like Pakistan. The reason behind this result is that workers or labor in Pakistan believe that when SMEs grow, they adopt new technologies and those new technologies reduce the use of manpower hence it decreases the demand of skilled labor.

### **5.3 Conclusion**

Research study shows that economic and trade agreements have impacts specially on the economy of a developing country. Since China Pakistan Economic Corridor is also a trade agreement it will affect the economy of Pakistan. Results depict that reduction of tariffs and non-tariff barriers under China Pakistan Economic Corridor will positively impact SME's growth in Pakistan. Government of Pakistan should reduce these barriers in order to create business friendly environment. China Pakistan Economic Corridor has created new business opportunities which will help in SME's growth. Government should encourage SME's owners to gather more information on this trade agreement so that they can get benefits from China Pakistan Economic Corridor. Demand of skilled labor will decrease when SMEs grow because of the induction of new technologies and designs. Government of Pakistan must understand this issue and should develop a mechanism to adjust this skilled labor. Objectives of the research were achieved, and two hypotheses were accepted while one was rejected. It is concluded by the researcher that China Pakistan Economic Corridor will help Pakistan's SMEs to grow but more proper and structured planning is required to get maximum benefits of China Pakistan Economic Corridor.

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## APPENDICES

### APPENDIX I: Questionnaire

Dear Respondent, I am student of MS Engineering management at Bahria University Islamabad and doing research on, "Impact of trade and economic agreements on small business of Pakistan in context of CPEC". Kindly fill this questionnaire, it will just take 10 minutes from your precious time to complete it and be assured that all information is for academic purpose only.

Thank You  
Aanis Kamal

#### Section A: About Yourself

Please tick (✓) the appropriate box which is best applicable to you

- Title Designation:** - Chairman/President  Chief Executive Officer (CEO)
- Gender:** - Male  Female
- Age:** - Below 30 Years old  31-40 Years old  41-50 Years old   
51-60 Years old  Above 60 Years old
- Highest Education Level:** - SSC/ O Level  HSSC/ A Level   
Bachelors  Masters   
Other (Please specify): \_\_\_\_\_

#### Section B: About Your Company

Please tick (✓) the appropriate box which is best applicable about your company

- Your business is:** - Self- Established  Inherited  Purchased
- Duration of company in business since establishment:** - Less than 1 Year   
1-3 years  4-6 Years  6 years or More
- Size of Business:** - Small    Medium  Large
- Total number of Employees working in the company:** - 1-10  11-20   
21-35  36-99  100-  250  251 or more



**Please respond to all questions**

**SME SUCCESS**

**New Market Opportunities**

No	Type	Yes	No
1	We must lower production cost to compete cheaper imported inputs		
2	CPEC has provided relative increase in export opportunities		
3	I think CPEC has created market opportunities for my business		
4	I think CPEC has generated capital accessibility		
5	I think small business can further grow with information accessibility		
6	Small business need implementing policy and regulatory environment for entrepreneurs		
7	Due to increase in Chinese imports small businesses need governmental assistance to strengthen their credit standing.		
8	Small businesses need access to new and better technology		
9	Small businesses need access to inputs and intermediate goods		
10	Quality imports in way force inefficient domestic firms to try to improve their productivity		
No	Type	Yes	NO
1	Due to CPEC small business have ability to exploit benefits of globalization		
2	I think foreign investments can help access and absorb new technology and adapt it to local conditions		
3	Local SMEs have started to adopt more efficient technology management, organization and production methods		

**Demand of Skilled Labor**

No	Type	Yes	No
1	My SME is Lacking qualified human resources		
2	Our human resource has inadequate training on marketing issues		
3	Our SME's Lack know how of information technology		
4	Our business is vulnerable to external shocks due to global competition		
5	My SME has weak marketing and distribution capacity		

**Reduction of tariffs and non-tariff barriers**

No	Type	Yes	No
1	We are facing difficulties in procuring raw materials		
2	We are facing high transportation costs		
3	We are facing problems caused by cumbersome and costly bureaucratic procedures		

Thank You