

The Impact of SMEs on the Economic Development of Pakistan

Nooreen Mujahid* & Muhammad Noman**

Abstract

Pakistan is a country where the expansion of the industrial sector is necessary, and in this process, the relative significance of the Small and Medium Enterprises (SMEs) sector cannot be overstated. SMEs comprise approximately 90% of total businesses in Pakistan; nearly 80% of the workforce other than the agriculture sector is employed by the SMEs; and approximately 40% of GDP is contributed by the SMEs.¹ Though, the growth of SMEs is constrained by financial and other resources that is not faced by Large Scale Manufacturing (LSM) sector. From the facts and figures presented in this paper, it can be concluded that SMEs perform a dynamic role in the growth of all the related sectors of the economy. This study empirically analyzes the effect of innovation and activities of SMEs on economic growth of Pakistan over the span of 1973-2017. The study concludes that the activities of SMEs do influence the economic development of Pakistan.

Introduction

Developed and technologically advance SMEs sector is necessary for flourishing and emerging economy. SMEs performs a vital part in the improvement of an economy.² No doubts that SMEs promotes economic growth and other sectors of the economy by providing jobs to the rural as well as urban labour force; by reducing poverty and so on. It is

* Dr Nooreen Mujahid, Associate Professor, Department of Economics, University of Karachi, Karachi.

** Muhammad Noman, Senior Lecturer, Department of Finance and Economics, Mohammad Ali Jinnah University, Karachi.

¹ https://smeda.org/index.php?option=com_content&view=article&id=7:state-of-smes-in-pakistan&catid=15

² L.S., Feeney and A.L. Riding, "Business owners' fundamental tradeoff: Finance and the vicious circle of growth and control", *Canadian Business Owner*, November (1997).

established in many studies that directly or indirectly vast number of individuals depends on the SMEs.³

SMEs are viewed best in accomplishing financial, social as well as economic objectives, along with reduction in poverty.⁴ An enhancement in the living standard of the general population is the primary objective of any growth procedure. If the advantages of economic growth remain in the hands of very few people, then there is no advancement.⁵ The economic growth of the world which had been affected adversely from the financial crunch of 2008, destabilized the financial conditions of individuals across the world. These financial circumstances however, also paved the way for SMEs and LSMs to improve their job creation capacities.⁶ An all-around bolstered and upgraded SME sector is probably going to keep adding to the economic improvement process along with LSMs.⁷

Pakistan is being blessed with natural resources such as gas, coal, gold, and oil with an extremely important geographical position; comparatively low-cost land for establishing industrial ones with a market of about 207.77 million individuals.⁸ As an agricultural based nation, the GDP growth rate of Pakistan is around 5.8 % during 2017-18. The agricultural, industrial, and services sector growth rates were 3.81%, 5.8%, and 6.43% during 2017-18. The LSMs sector growth rate was 6.13% in the same period. Besides, the manufacturing sector growth was 6.24%, highest in last 11 years and SME sector is growing above 8%. The aggregate work force of Pakistan is around 61.04 million out of which an expected (5.9 %) 3.62 million workers are jobless. The farming area remains the prevalent basis of business providing food for around 24.27 million (42.3 %) of the aggregate work in Pakistan.⁹

³ B.A. Fida, "The Importance of Small and Medium Enterprises (SMEs) in economic development", <https://www.thevillager.com.na/articles/1973/The-Importance-of-Small-Medium-Enterprises--SMEs--in-the-economy/>, The Free Library (2008).

⁴ P. Cook and F. Nixon, "*Finance and small and medium-sized enterprise development*", Manchester: Institute for Development Policy and Management, University of Manchester (2000).

⁵ M. Todaro and S. Smith, "Development Economics", (2003).

⁶ N.Y. Barakat, "The Role of Small and Medium Enterprises in the Economy", *Middle East News Online* (2001).

⁷ Diane Abrahams, "Local Economic Development in South Africa: A Useful Tool for Sustainable Development", *Local Economic Development in the Changing World*, Routledge, 2018, 131-45.

⁸ Pakistan Bureau of Statistics 2018.

⁹ *Economic Survey of Pakistan, 2017-18*

“Innovation is the process of making changes, large and small, radical and incremental, to products, processes and services that results in the introduction of something new for the organization that adds value to customers and contributes to the knowledge store of the organization”.¹⁰

In Pakistan technical and innovational advancement of SMEs needs a lesser amount of capital as contrast with LSMs and there is a huge need to rebuild the industrial segment. It is a common assumption that innovation and improvement in development processes as well as economic recovery is more appropriate for those countries which are in the beginning phases of their growth, for the purpose of economic revival the process of innovation is necessary.¹¹

In Pakistan, SMEs contribute nearly 90% of the manufacturing sector and it has sufficient opportunities for its procedure advancements and improvement.¹² In addition, this part likewise has an impact on tax revenue, income distribution, job opportunities and productive use of assets. SMEs utilize almost 78 % of the non-farming work force.¹³ They add more than 40% to GDP and record 25% of manufactured products exports. SMEs contribute 35% in manufacturing goods value addition¹⁴. Because of its noteworthiness, SMEs promotion has turned into a point of convergence of government strategies for restoration and revival of the economy, generating of employment opportunities and reduction of poverty.

SMEs faces some covered up and clear impediments in the way of development in Pakistan. The most vital are absence of coordination among SMEs, administrative changes, energy shortages, and financial limitations, general data exchange system among organizations, peace circumstance, political unsteadiness, tax assessment issues, workers' issues, and so forth. Considering the significant progress of the innovations in SMEs, this study incorporates the Patent Applications to observe the contribution of SME on the growth of Pakistan over a timeframe from 1973 to 2017.

The remaining study is composed as: literature review; data and methodology depiction segment III, discussion of outcomes segment IV.

¹⁰ D.O Sullivan and L. Dooley, *Applying Innovation* (Thousand Oaks, Calif. USA: Sage Publications, 2008).

¹¹ A.S Bhalla, "Can High Technology Help Third World Take-Off?", *Economic and Political Weekly* 22, 27 (1987): 1082-1086.

¹² Q.A Subhan, T. Mahmood and A. Sattar. "Innovation and economic development: A Case of Small and Medium Enterprises in Pakistan." *Pakistan Economic and Social Review* 52, 2 (2014): 1-16.

¹³ Ibid.

¹⁴ Ibid.

Last segment presents conclusion and the policy recommendations of the study.

Literature Review

SMEs is viewed like a support for local resource utilization. Few studies have looked at the requirement and significance of innovation and development of SMEs on economic growth to fortify the related countries.¹⁵ With the assistance of modern innovation, improved skills, knowledge and by the employing skilled workers, a business visionary can accomplish economies of scale with the development of their organizations. The item development cannot be conceived without process innovation.

Given the importance of SMEs in economic growth, various examinations have evaluated the SMEs role in the light of different exercises fortifying growth. Such as, Bello, Jibir, and Ahmed¹⁶ studied the association between the SMEs share in GDP and economic growth rate for the year 1986-2016. They found a positive and strong association among the SMEs share in GDP and economic growth rate. Nagaya¹⁷ examined the association between economic development and SMEs utilized the data for India and detected that there is a direct association between economic development and SMEs by different ways similar as poverty reduction and job creation. Similarly, Aremu and Adeyemi¹⁸ found corresponding proof that SMEs is essential in poverty reduction and job creation.

In a study in 2005, the authors collected the sample size of 45 nations led by Beck, Dunt and Levine¹⁹ checked the association between output growth and SMEs activity. They found a compact positive

¹⁵ H. Ohashi, "How to Measure the Outcome of Innovations: Application to Product Innovations" (paper presented in conference in 2007); Soriano, Domingo Ribeiro, and Salvador Roig Dobon, "Linking Globalization of Entrepreneurship in small Organizations", *Small Business Economics* 32, 3 (2009): 233-39.

¹⁶ A. Bello, A. Jibir and I. Ahmed, "Impact of Small and Medium Scale Enterprises on Economic Growth: Evidence from Nigeria", *Global Journal of Economics and Business* 4, 2 (2018): 236-44.

¹⁷ N. Nagaya, "SME Impact on Output Growth, Case Study of India", *Palma Journal* 16, 13 (2017): 11-170.

¹⁸ M.A Aremu and S.L Adeyemi, "Small and Medium Scale Enterprises as a Survival Strategy for Employment Generation in Nigeria", *Journal of Sustainable Development* 4, 1 (2011): 25-37.

¹⁹ T. Beck, A. Demircuc-Kunt and R. Levine, *SMEs, growth, and poverty* (National Bureau of Economic Research, 2005), w11224.

association between these two variables. This infers that for economic growth SMEs are fundamental instrument. On the other hand, no connection is found among income inequality, poverty reduction and SMEs activity. Taiwo, Ayodeji and Yusuf²⁰ investigated part of SMEs in advancing the economic growth of Nigeria. It was found that there is a significant connection between economic and SMEs activities. In addition, the investigation established that there are numerous hurdles in which high level of corruption, financial limitations, capacity building, lack of training and etc. are faced by SMEs in Nigeria.

In a similar way, Motilewa, Ogbari and Aka²¹ built up that the activities of SMEs are far more important for development in Nigeria. They likewise express that SMEs work with different difficulties comprising capital related and administrative imperatives. Subhan, Mahmood and Sattar²² studied the association among innovation, SMEs share in GDP and economic growth rate in the case of Pakistan for the year 1980-2013. They found a positive and strong association between SMEs share in GDP and economic growth rate, but they failed to find an association among innovation, SMEs share in GDP and economic growth rate.

Accessibility of the fund has been generally seen as an issue in the development and improvement of the activities of SMEs especially in developing nations. Bekele and Zekele²³ have looked at the role of availability of finance in the growth of SMEs and determined that fluent financing plays a vital role in the operation and development of SMEs and can help their activities.

Besides, there are a few examinations that determined no noteworthy effect of SMEs on economic growth. Such as, Vijayakumar²⁴

²⁰ M.A. Taiwo, A.M. Ayodeji and B.A. Yusuf, "Impact of Small and Medium Enterprises on Economic Growth and Development", *American Journal of Business and Management* 1, 1 (2012): 18-22.

²¹ B.D. Motilewa, M. Ogbari and D.O. Aka, "A Review of the Impacts SMEs as Social Agents of Economic Liberations in Developing Economies", *International Review of Management and Business Research* 4, 3 (2015): 903-14.

²² Q.A Subhan, T. Mahmood and A.Sattar, 159-174.

²³ E. Bekele and W. Zeleke, "Factors That Affect the Long-Term Survival of Micro, Small and Medium Enterprises in Ethiopia", *South African Journal of Economics* 76, 3 (2008): 1-33.

²⁴ S. Vijayakumar, "The Trend and Impact of Small and Medium Enterprises on Economic Growth in Sri Lanka", *International Journal on Global Business Management & Research* 2, 1 (2013): 39-47.

utilized time series data, found no association amongst economic growth and SMEs on the economy of Sri Lanka.

Afolabi²⁵ assessed the impact of financing of SMEs in the development and economic growth in Nigeria in the range of 1980 and 2010. The investigation utilized OLS technique to evaluate models.

Kadiri²⁶ looked at the commitments of SMEs to job creation in Nigeria. The binomial strategic regression examination was utilized as instruments for econometric investigation. The outcomes demonstrated that Small Medium Enterprises has not affected directly on economic development somewhat because of inadequate financing and responsibility for the administration. Iyigun and Owen²⁷ demonstrated an indirect connection between the economic advancement and the independent workforce. Carree, Van Stel, Thurik and Wennekers²⁸ discovered a non-direct connection between economic advancement and SMEs output.

Likewise, Beck, Demircuc-Kunt, and R. Levine²⁹ appraised the standard development regression containing the SMEs' relative size as far as work and locate a direct yet not strong effect on economic development for a cross-section of nations. Utilizing a relative approach, Audretsch and Keilbach³⁰ and Mueller³¹ acquired a direct effect of business enterprise measures for economic development with regards to developed nations.

²⁵ M.O. Afolabi, "Growth Effect of Small and Medium Enterprises (SMEs) Financing in Nigeria", *Journal of African Macroeconomic Review*, 3, 1 (2013): 193-205.

²⁶ I.B. Kadiri, "Small and Medium Scale Enterprises and Employment Generation in Nigeria: The Role of Finance", *Kuwait Chapter of Arabian Journal of Business and Management Review* 1, 9 (2012): 79-94.

²⁷ M.F. Lyigun and A.L. Owen, "Risk, Entrepreneurship, and Human-capital Accumulation", *The American Economic Review* 88, 2 (1998): 454-57.

²⁸ M.A. Carree, A.J. Van Stel, A.R.Thurik and A.R.M. Wennekers, "Economic Development and Business Ownership: An Analysis Using Data of 23 OECD Countries in the Period 1976–1996", *Small Business Economics* 19, 3 (2002): 271-90.

²⁹ T. Beck, A.D. Kunt and R. Levine, "SMEs, Growth, and Poverty", [full information in note # 19].

³⁰ A. David and M. Keilbach, "Entrepreneurship Capital and Economic Performance", *Regional Studies* 38, 8 (2004): 949-59.

³¹ P. Mueller, "Exploiting Entrepreneurial Opportunities: The Impact of Entrepreneurship on Growth", *Small Business Economics* 28, 4 (2007): 355-62.

Moreover, there are few panel data analyzes that explore the SMEs' role in advancing economic growth. In such manner, Andre, Carree and Thurik³² researched the association of aggregate entrepreneurial output in Gross Domestic Product development for a sample size of thirty six nations and examine whether this association relies upon the level of economic growth calculated as Gross Domestic Product per capita. The outcome demonstrated that entrepreneur activities through incipient business people and proprietor/directors of youthful organisations influences economic development, however, the impact relies on the level of per capita wage.

Hence, it can be detected that reviews of research on the effect of SMEs on economic growth still stay uncertain in term of regression technique and association. There are blended discoveries on the topic. On account of Pakistan, other than the uncertainty of the outcomes, the greater part of the investigations utilized descriptive statistics. Not many investigations have used good and related econometric systems and they have not appropriately determined the properties of time series data. They also utilized small size sample which influenced the consistent quality of their findings. In this way, this investigation intends to enhance the shortcomings recognized in the previous writings through expanding the examination timeframe and utilizing powerful econometric methods.

Methodology

Gross Domestic Product growth rate in annual percentage is employed as dependent variable (Y). Share of SMEs in GDP is employed as proxy variable for the impact of SMEs on economic growth rate (X1), which has expected positive association with GDP growth rate. Patent applications, nonresidents is employed as a proxy variable for capturing innovation (X2) which also has expected positive association with GDP growth rate. Goods and services exports (% of GDP) is employed as a proxy variable for checking the impact of exports of SMEs (X3), which has expected positive association with GDP growth rate. GDP per capita growth (annual %) is also employed (X4), which has expected positive association with GDP growth rate. Government expenditure on education, total (% of GDP) is employed as a proxy variable to determine the impact of investment on human capital on economic growth rate (X5), which has expected positive association with GDP growth rate. Inflation, consumer prices (annual %) is employed as a

³² A.J Van Stel, M.A. Carree and A.R. Thurik, "The effect of Entrepreneurship on National Economic Growth: An Analysis Using the GEM Database", *Papers on Entrepreneurship, Growth and Public Policy*, No. 3404 (2004).

proxy variable to define the impact of inflation on economic growth rate (X6), which has expected positive association with GDP growth rate.

The data is taken from the website of the World Bank data bank for the time period of 1973 to 2017.

Autoregressive Distributed Lag (ARDL) Model: ARDL model is standard least squares regression that includes lags of both the dependent variable and explanatory variables as regressors.³³ The ARDL model by Pesaran and Shin³⁴ and Pesaran, Shin and Smith³⁵ has been employed in Econometrics. However, it has gained high acceptance in recent years as it examines the cointegration between variables.

Error Correction Model (ECM): ECM fits in the class of multivariate models and it is employed for time series data where the cointegrated variables show random trend and thus presents better long run association or cointegration. ECM is used for calculating both short and long run impacts of one series on another. The model deals with the concept that last-period deviates from its long-run equilibrium due to the shock or the error, which affects its short-term dynamics. Therefore, ECM instantly calculates the pace at which a regressand variable brings back to long run equilibrium after shocks in other regressor variables.

Empirical Results and Analysis

To evaluate the order of integration of the variables PP Unit Root Test is used.

Table 1: Philips-Perron Unit Root Test

Variables	Calculated value	5% Tabulated value	10% Tabulated value	Prob.*
Y(2)	-4.781539	-3.515523	-3.188259	0.0020**
Δ(Y)(10)	-15.33425	-3.515523	-3.188259	0.0000**
X1(2)	-1.904418	-3.515523	-3.188259	0.6354

³³ W.H. Greene, "The Econometric Approach to Efficiency Analysis", *The Measurement of Productive Efficiency and Productivity Growth* 1, 1 (2008): 92-250.

³⁴ M.H. Pesaran and Y.Shin, "An Autoregressive Distributed-lag Modelling Approach to Cointegration Analysis", *Econometric Society Monographs*, 31 (1998): 371-413.

³⁵ M.H. Pesaran, Y.Shin and R.J. Smith, "Bounds Testing Approaches to the Analysis of Level Relationships", *Journal of Applied Econometrics* 16, 3 (2001): 289-326.

$\Delta(X1)(10)$	-6.299642	-3.515523	-3.188259	0.0000**
$X2(0)$	-2.325720	-3.515523	-3.188259	0.4119
$\Delta(X2)(2)$	-6.265917	-3.515523	-3.188259	0.0000**
$X3(0)$	-0.718798	-3.515523	-3.188259	0.9652
$\Delta(X3)(2)$	-5.929915	-3.515523	-3.188259	0.0001**
$X4(1)$	-4.987347	-3.515523	-3.188259	0.0011**
$\Delta(X4)(11)$	-17.11996	-3.515523	-3.188259	0.0000**
$X5(4)$	-3.692293	-3.515523	-3.188259	0.0334**
$\Delta(X5)(18)$	-13.56758	-3.515523	-3.188259	0.0000**
$X6(1)$	-3.263502	-3.515523	-3.188259	0.0858***
$\Delta(X6)(2)$	-7.467867	-3.515523	-3.188259	0.0000**

Source: Summarized and Calculated by Authors

“Note: *MacKinnon (1996) one-sided p-values., ** = 5% significance level and *** = 10% significance level. [Y: The Level form of the variable Y] [Δ (Y): The first change of the variable Y]”

The above table represent the result of the Philips-Perron Unit Root Test for all the selected variables. With the help of graphical analysis. It is observed that all the selected variables have trend and intercept so Philips-Perron Unit Root Test estimate accordingly for all the seven variables. X1, X2, X3, and X6 are stationary at the first difference at the 10% level of significance. Y, X4, and X5 is stationary at levels. All the variables are integrated at level and order one, i.e. is $I(0)$ & $I(1)$, so it is justified to use Autoregressive Distributed Lag Model F-statistic at the next stage to find whether the long run association among the chosen variables exists or not for the span of 1973-2017 in case of Pakistan. The results of the above mentioned Autoregressive Distributed Lag model is reported in Table 2.

Table 2: The ARDL Co-integration Analysis

Estimated Model	$Y = f(X1, X2, X3, X4, X5, X6)$	
Optimal lags structure	(3, 2, 4, 1, 3, 4, 0)	
F-statistics	4.459528*	
Significant level	Critical values ($T = 41$) [#] ($K=6$)	
	Lower bounds, $I(0)$	Upper bounds, $I(1)$
1%	2.88	3.99
2.5%	2.55	3.61
5%	2.27	3.28

10%	1.99	2.94
R^2 0.999983, $Adj - R^2$ 0.999963, F-statistics 43282.47, DW Test 1.946163		
χ^2_{NORMAL} 3.92 (0.141) χ^2_{SERIAL} 0.404 (0.81) χ^2_{ARCH} 0.32 (0.57) χ^2_{WHITE} 19.3 (0.63)		

Source: Summarized and Calculated by Author

The outcomes of the ARDL Cointegration Analysis specify that the calculated F-statistic which is 4.459528 is greater than upper critical bounds at the 1% significance level once we used X1, X2, X3, X4, X5, and X6 are employed as explanatory variables. The outcomes confirm the presence of long run association or cointegration among the selected variables. This shows that there is a long run association between growth rate of GDP (Y) and Share of SMEs in GDP (X1), patent applications, nonresidents (X2), goods and services exports (% of GDP) (X3), GDP per capita growth (annual %) (X4), government expenditure on education, total (% of GDP) (X5), and inflation, consumer prices (annual %) (X6) for the span of 1973-2017 in case of Pakistan. Additionally, this ARDL model bounds testing approach has fulfilled the assumptions of the CLRM, for example the error term of this model follow a normal distribution. The ARDL model does not suffer from serial correlation between the error term and variables. It can be observed that heteroskedasticity has not being found in this model that can be depicted by ARCH and white heteroskedasticity test.

Table 3: Estimated Long Run Coefficients using the ARDL Approach

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	0.321754	0.078386	4.104744	0.0007
X2	-6.77E-05	0.000357	-0.189442	0.8520
X3	-0.077283	0.050543	-1.529074	0.1446
X4	1.002705	0.068337	14.67287	0.0000
X5	-0.909281	0.416560	-2.182833	0.0434
X6	0.071671	0.028445	2.519627	0.0220
C	4.005118	1.456731	2.749388	0.0137

Source: Summarized and Tabulated by Author

Table 3 explains that all selected variables have long run association. If there is a 1% increase in the share of SMEs in GDP, the growth rate of GDP is increased by 0.321754%. Variable X2, and X3 are statistically insignificant to explain the growth rate of GDP. If there is a 1% increase in the goods and services exports (% of GDP), the growth rate of GDP is increase by 1.002705%. The sing of GDP per capita growth (annual %) is not according to the theory. The variable inflation is included for removing the impact on inflationary pressures.

$$\text{Cointegration Equation} = Y - (0.3218 * X1 - 0.0001 * X2 - 0.0773 * X3 + 1.0027 * X4 - 0.9093 * X5 + 0.0717 * X6 + 4.0051)$$

Above equation explains the long run equilibrium association between all the selected variables. The sign of the coefficient is according to the economic theory except GDP per capita growth (annual %). The growth rate of GDP has strong and positive association with the share of SMEs in GDP, the coefficient is significant at the 1% level.

Table 4: Error Correction Representation for the Selected ARDL Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(Y(-1))	0.500240	0.146818	3.407223	0.0034
D(Y(-2))	0.368908	0.139796	2.638907	0.0172
D(X1)	-0.004891	0.003844	-1.272313	0.2204
D(X1(-1))	-0.014771	0.004257	-3.469740	0.0029
D(X2)	4.35E-08	1.45E-05	0.003007	0.9976
D(X2(-1))	-1.86E-05	1.51E-05	-1.232190	0.2346
D(X2(-2))	-7.89E-06	1.29E-05	-0.609556	0.5502
D(X2(-3))	-4.18E-05	1.13E-05	-3.698945	0.0018
D(X3)	0.002632	0.001857	1.417551	0.1744
D(X4)	1.028442	0.001070	960.7404	0.0000
D(X4(-1))	-0.515748	0.150832	-3.419349	0.0033
D(X4(-2))	-0.378193	0.144232	-2.622111	0.0178
D(X5)	0.003000	0.008017	0.374267	0.7128
D(X5(-1))	0.035912	0.009780	3.672182	0.0019
D(X5(-2))	0.045157	0.008599	5.251434	0.0001
D(X5(-3))	0.024314	0.009298	2.614889	0.0181
ECTt-1	-0.052716	0.007428	-7.096932	0.0000
R-squared	0.999986	Durbin-Watson stat		1.946163
Adjusted R squared	0.999976	Akaike info criterion		-5.859101
(F-Bounds Test) Null Hypothesis:		No levels association		
Test Statistic	Value	Significanc.	I(0)	I(1)
F-statistic	4.459528	10%	1.99	2.94

K	6	5%	2.27	3.28
		2.5%	2.55	3.61
		1%	2.88	3.99

Source: Summarized and Tabulated by Author

Error Correction Representation for the selected ARDL Model clarify that the ECT_{t-1} is negative and significant at the 1% level. Error correction term explains model will converge to the equilibrium with time. The value of the error correction term is 0.052716 which shows that the disequilibrium is corrected 5.2716% in one year and model will achieve equilibrium 18.97 years.

Figure 1: Plot of Cumulative Sum and Cumulative Sum Square of Recursive Residuals

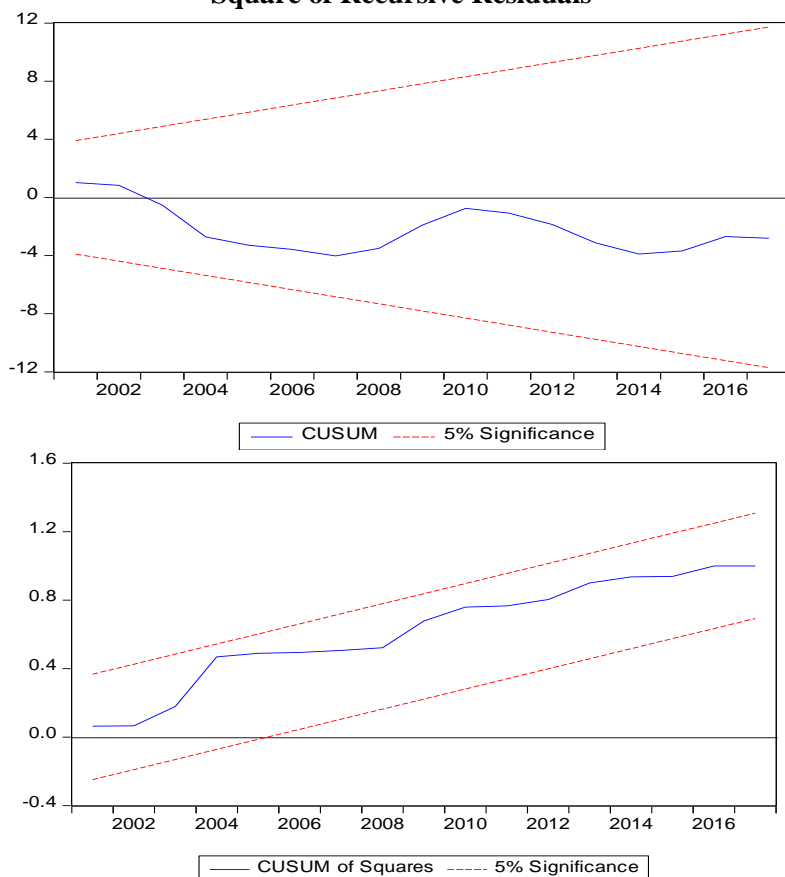
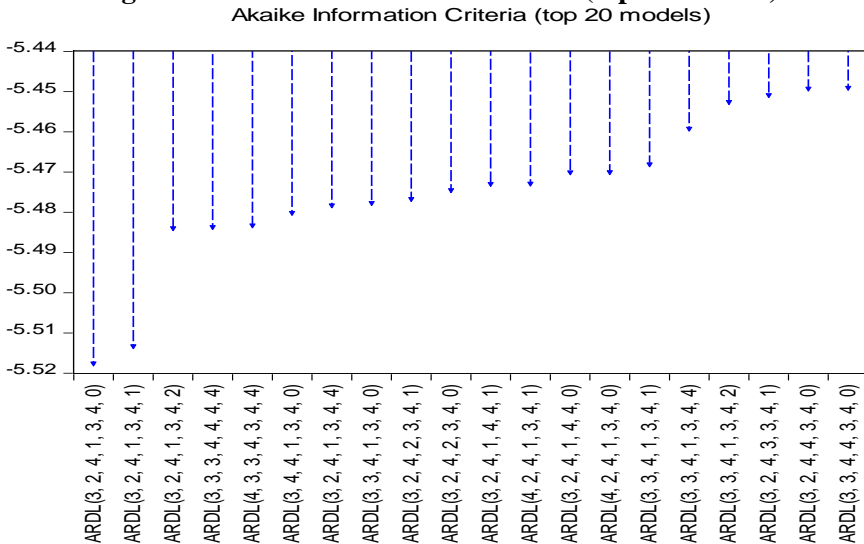


Figure 2: Akaike Information Criteria (top 20 Models)

The result of CUSUM and CUSUM Square are reported in Figures 1 and 2. The plot of the CUSUM and CUSUM of square test does not cross upper or lower critical limit so it can be established that this model is steady.

Conclusion

No country has denied the prominence of SMEs for economic development. Industrial nations in the world used SMEs in different ways to expand their industrial base to attain the high and stable economic growth and observe the unemployed labour force.

This analysis is performed to study the effect of share of SMEs in GDP, patent applications, nonresidents, goods and services exports, GDP per capita growth, government expenditure on education, and inflation on economic growth in the case of Pakistan. The data employed in this research is secondary in nature. ARDL bound testing approach is utilized to examine and infer the result. It is established from the outcomes that SMEs positively influenced economic growth in Pakistan. Creation of job opportunities and resource mobilization for the people of Pakistan. It is identified to everybody that SMEs dominates the manufacturing base of the economy of Pakistan. SMEs are far more important for the country's industrial sector which is highly dependent on the SMEs' activities. On the basis of the results analyzed above following recommendations are suggested:

- Attempt must be made to make sure that sufficient facilities of infrastructure are ready for appropriate processes of SMEs in the economy of Pakistan. Accessibility of sufficient power as well as well-organized transportation system is very crucial for the growth, survival, and expansion in Pakistan.
- Economic and commercial policies must be announced in Pakistan to stop huge imports of foreign goods, mainly those that our domestic manufacturing sector can produce locally with the objective to defend the domestic SMEs versus inflexible competition with foreign producers.
- To address the financial restrictions and constraints of SMEs institutions, particularly banks, should to be urged to enhance their advances/ loans to SMEs in Pakistan. This will help SMEs to run the operations and also help in survival of SMEs in Pakistan.
- Conference, training, as well as workshop ought to be organized occasionally for directors as well as managers of SMEs with the objective of enhancing their managerial and technical abilities for improved functioning and operation from such organizations.

The government of Pakistan should take revolutionary steps to support SMEs. Key policy arrangements are urged to give both specialized and monetary help to the SMEs. Projects that empower local community in low as well as middle income regions to encourage SMEs are likewise required. Generally speaking, policies must focus on the making of favorable condition and help with which SMEs can extend its activities. This kind of advancement must be accomplished by expanded productivity limit that advantage SMEs and business people in different means. Nevertheless, furthermore examination is required to evaluate the SMEs' comparative advantage at the provincial and countrywide levels respectively.