

# Chapter 9

## SMEs in Service Industries – Development Opportunities and Strategies

Following the adjustments that have taken place in Taiwan's industrial structure, the service sector has come to play an increasingly important role in economic development, and the main focus of the government's efforts to promote economic growth in Taiwan is now being placed on encouraging the development of service industries that are competitive in global terms. In 2004, the Council for Economic Planning and Development (working in collaboration with other ministries and agencies) promulgated the Guidelines and Action Plans for Service Industry Development, along with individual flagship plans. It was anticipated that, by ensuring that the individual plans were mutually supporting, it would be possible to gradually move from point-by-point development to linear and ultimately across-the-board development of Taiwan's service sector.

In the past, Taiwan's competitive advantage was based on its strength in manufacturing and on economies of scale. These, combined with low labor costs, first-rate engineering capabilities and responsiveness to change, created Taiwan's "economic miracle." However, the advantages that served Taiwan so well in the past have largely ceased to apply. Today, countries all over the world are aggressively promoting the development of the service sector. With international competition growing increasingly intense, Taiwan needs to abandon outdated models and strive to develop new opportunities and renewed vitality.

The service sector is involved in the production and sale of intangible, non-physical products. It covers an enormous scope, and the industries that make it up display an immense degree of variation. The provision and consumption of services take place simultaneously, and the roles played (in terms of supply and demand) vary over time. If a service provider is to succeed in providing first-class service, it must

respect its customers, and seek to put itself in the customer's shoes, thereby adopting the customer's attitudes towards service quality. The value of services is difficult to measure accurately, but the creation of value-added is clearly derived from respect for the customer; only when this respect is present can a service provider hope to build up the trust and word-of-mouth reputation that are needed to achieve perpetual operations.

Today, when the government's economic policy seeks to achieve both high economic growth and low unemployment, it is no longer sufficient merely to promote industrial upgrading; what is also needed is an improvement in the living standards and quality of life of Taiwan's citizens. Small and medium enterprises (SMEs), which account for nearly 94% of all enterprises in Taiwan's emerging service industries, need to engage in long-range planning to identify business areas with significant growth potential. By formulating the plans the need to transform and upgrade themselves, service sector SMEs in Taiwan can move up to a higher level of development.

## I The Scope of the Service Sector, and the Availability of Government Resources

The service sector covers a wide range of different industries. New service industries are emerging all the time, making it that much more difficult to classify the different categories of industry. Furthermore, different classification schemes may be needed to meet the needs of different research topics, leading to a further increase in complexity. The discussion in this report focuses mainly on the government's strategies for the development of SMEs in the service sector, while also considering the government resources that are available to assist service sector SMEs in their development.

### 1. Government Policies and the Scope of the Service Sector

#### (1) Vigorous Policies to Support SME Development in the Service Sector

Responding to the changes in Taiwan's industrial structure and the emergence of the knowledge economy, on March 31, 2004 the Executive Yuan approved the Guidelines and Action Plans for Service Industry Development formulated by the Council for Economic Planning and Development (in collaboration with other ministries and agencies), and decided to hold a National Service Industry Development Conference

to raise awareness of the importance of the service sector and build consensus with regard to the development of the various individual service industries. In 2002, the Executive Yuan began to implement the Cultural and Creative Industry Development Plan, which aims to develop the core sources of growth for the service sector. To encourage investment in industries that are of great significance for Taiwan's economic development but which are also characterized by a high level of risk, in 2000 the government began to formulate new tax breaks for "important emerging strategic industries." The Commerce Department of the Ministry of Economic Affairs (MOEA) has undertaken intensive research on the current state of development of the service sector, while the MOEA's Bureau of Foreign Trade has been drawing up concrete plans for the internationalization of Taiwan's service sector in line with the requirements of World Trade Organization (WTO) negotiations regarding trade in services. The active involvement of so many government agencies in devising measures to support the growth of the service industries is combined with wider recognition of the importance of SMEs, the main prop for Taiwan's economic development.

## **(2) The Scope of the Service Sector**

### **a. Government Agencies' Definitions of the Service Sector**

There is a general lack of agreement as to how the boundaries of the service sector should be defined. In recent years, individual government agencies have tended to develop their own definitions of the service sector in line with their own areas of responsibility; these definitions are presented in Table 9-1-1.

### **b. The Definition of the Service Sector Used in this Chapter**

All Taiwanese government data uses the ROC Industry Classification system. In its discussion of service industry SMEs, this chapter employs both the definition of service industries used by the Directorate General of Budget, Accounting and Statistics (DGBAS) and the definition used by the Council for Economic Planning and Development in the Guidelines and Action Plans for Service Industry Development; however, the "public administration industry" is excluded from the discussion. The definition of emerging service industries is based on that used by the OECD, as described in the *Report on the Service Sector in Taiwan in 2001* published by the Commerce Department, MOEA.

**Table 9-1-1 The Definitions of Service Industries Adopted by Individual Government Agencies in Taiwan**

Source	Scope and explanation
Directorate General of Accounting, Budget and Statistics, Executive Yuan – ROC Industry Classification	<ol style="list-style-type: none"> <li>1. The service industries included in the 16 industry categories of the ROC Industry Classification (Seventh Revision) promulgated in January 2001 by the Directorate General of Accounting, Budget and Statistics, Executive Yuan.</li> <li>2. 11 service industries: Wholesaling and retailing; accommodation and eating-drinking places industry; transportation, warehousing and communications; finance and insurance industry; real estate and rental industry; professional, scientific and technical services industry; educational services industry; medical, healthcare and social welfare services industry; cultural, sports and leisure services industry; other services industries; public administration industry.</li> </ol>
Council for Economic Planning and Development, Executive Yuan – Guidelines and Action Plans for Service Industry Development	<ol style="list-style-type: none"> <li>1. Based on the Guidelines and Action Plans for Service Industry Development approved by the Council for Economic Planning and Development, Executive Yuan in November 2004.</li> <li>2. 12 service industries: Finance; distribution; communications and media services; medical and healthcare; manpower cultivation, manpower services and property management services; tourism, sports and leisure; culture and creative industries; design services; information services; R&amp;D services; environmental services; engineering consulting.</li> </ol>
Executive Yuan – Important Emerging Strategic Industries	<ol style="list-style-type: none"> <li>1. During the period 2000–2001 the Executive Yuan formulated various new tax breaks (in accordance with the provisions of the Statute for Upgrading Industries) to encourage investment in important emerging strategic industries that were of particular significance for Taiwan's economic development but which were characterized by a high level of risk.</li> <li>2. Three main sets of tax incentives were formulated and implemented: the Incentive Measures for Important Emerging Strategic Industries Classed as Manufacturing or Technical Services Industries, drawn up by the Ministry of Economic Affairs; the Incentive Measures for Important Emerging Strategic Industries Classed as Agricultural Industries, drawn up by the Council of Agriculture, Executive Yuan; the Incentive Measures for Important Emerging Strategic Industries Classed as Film Industry Digitalization and Post-production Industries, drawn up by the Government Information Office, Executive Yuan.</li> <li>3. In 2002 the Executive Yuan began implementation of the Cultural and Creative Industries Development Plan, a sub-plan of the Challenge 2008 National Development Plan. It was anticipated that, through the introduction of new regulations and revision of existing regulations, the scope of "important emerging strategic industries" could be expanded to include enterprises involved in culture and the arts.</li> </ol>
Commerce Department, Ministry of Economic Affairs – Emerging Service Industries	<ol style="list-style-type: none"> <li>1. This definition of "emerging service industries" is based on the <i>Report on the Service Sector in Taiwan in 2001</i> published by the Commerce Department of the Ministry of Economic Affairs; given the close relationship between emerging service industries and knowledge-based service industries, knowledge-based service industries are treated as emerging service industries.</li> <li>2. Those "hi-tech, knowledge economy industries" (as defined by the OECD) falling under the category of service industries would include: the posts and express delivery industry; the telecommunications industry, the banking and supporting industries; the securities and futures industry; the insurance industry; the legal and accounting services industry; the construction and engineering services industry; the specialist design services industry; the computer system design services industry; the data processing and data provision service industry; the consulting services industry; the R&amp;D services industry; the advertising industry; other professional, scientific and technical industries; the educational services industry; the medical and healthcare services industry.</li> </ol>

Source: The Executive Yuan and Individual Ministries and Agencies.

## **2. Financing, Incentive and Guidance Measures Implemented by the Government**

### **(1) Financing Tools and Tax Breaks Provided by the Government**

#### **a. Project Financing for Service Industry SMEs**

Working through the SME Financing Guidance System, the government implements various project financing initiatives and provides credit guarantees through the SME Credit Guarantee Fund, thereby helping SMEs to secure access to financing.

#### **b. Tax Breaks for Companies in Important Emerging Strategic Industries**

During the period 2000–2001, the Executive Yuan formulated tax breaks for newly established enterprises in the manufacturing sector, the technical services industry and the film industry in accordance with the provisions of the Statute for Upgrading Industries. In the last two years, in which implementation of the Cultural and Creative Industries Development Plan has begun, the Executive Yuan has been seeking to expand the scope of application of these tax incentives to help companies with enterprise transformation, the formation of cross-industry alliances and the development of new technologies.

#### **c. The Provision of New Financing Tools under the Challenge 2008 National Development Plan**

In 2002, the Executive Yuan began implementation of the Challenge 2008 National Development Plan. In 2003–2004, as part of the implementation of Challenge 2008 sub-plans including the e-Taiwan Construction Plan and the Cultural and Creative Industry Development Plan, new regulations were introduced regarding financing methods, and revisions were made to existing regulations in this area, so as to promote the growth of the digital content industry and the cultural and creative industries. The most important of the new and revised financing regulations and guidelines include the MOEA's Measures Governing Loans for the Promotion of R&D in Industry (which are applicable to the cultural and creative industries) and Outlines for the Provision of Preferential Loans to Encourage the Development of the Digital Content Industry and the Cultural and Creative Industries, and the loan interest subsidies for cultural and artistic enterprises provided by the Council for Cultural Affairs,

Executive Yuan in accordance with the provisions of the Statute for Encouraging the Development of Culture and the Arts.

## **(2) Guidance Measures Implemented by the Government**

### **a. The SME Guidance System**

In accordance with the provisions of the SME Development Statute, the Small and Medium Enterprise Administration of the MOEA has worked to build an environment conducive to the establishment and growth of SME start-ups. A five-pronged strategy has been adopted, emphasizing the strengthening of the business management guidance function, the integration of financing mechanisms, strengthening SMEs' technology and information application capabilities, building incubation platforms for start-ups, and creating a first-rate business development environment. Planning in all of these areas has been made as in-depth and comprehensive as possible. The SME Guidance System has developed into Taiwan's most complete enterprise guidance system; the strategic planning behind the System is outlined in Table 9-1-2.

### **b. Guidance Window for the Cultural and Creative Industries**

In order to further the development of the cultural and creative industries and ensure that more attention is given to these industries in the formulation of economic policy, a Cultural and Creative Industry Promotion Office has been established under the framework of the Cultural and Creative Industry Development Plan. The Office will seek to coordinate the operations of the MOEA, Council for Cultural Affairs, Ministry of Education and Government Information Office in this area. Besides working to integrate cultural and creative industry resources (both in Taiwan and overseas), the Office will also be promoting the inclusion of cultural and creative enterprises within the SME Guidance System. Details can be found in Chapter 10.

### **c. The Digital Content Industry Guidance Window**

To help Taiwan's digital content industry establish a dominant position within the global Chinese-language content market, thereby stimulating the growth of the knowledge economy as a whole, the government has designated the digital content industry as one of the "Two Trillion, Twin Star" industries whose growth it is seeking to promote in the new century, and the Executive Yuan has approved a Plan to

Promote the Development of the Digital Content Industry. In line with the government's policy in this regard, the Industrial Development Bureau of the MOEA has set up a Digital Content Industry Promotion Office to provide a "single window" for industry promotion and guidance.

## II The Current State of SMEs in Taiwan's Service Sector

This section presents an overview of the overall state of development of Taiwan's service sector, the changes that have taken place in the structure of SMEs within the service sector, and the current state of development of strategic service industries, focusing on the overall environment, enterprise size, the employment structure and sales performance, with the aim of analyzing the performance of Taiwan's service industry SMEs in recent years.

For the purposes of this section, the term "service industries" is defined as including the following 10 categories from the ROC Industry Classification: the wholesaling and retailing industry; the accommodation and eating-drinking places industry; the transportation, warehousing and communications industry; the banking and insurance industry; the real estate and rental industry; the professional, scientific and technical services industry; the educational services industry; the medical, healthcare and social welfare services industry; the cultural, sports and leisure services industry; and other service industries. The definition of "emerging service industries" is based on the OECD's list of "knowledge economy industries," including: the posts and express delivery industry; the telecommunications industry; banking and supporting industries; the securities and futures industry; the insurance industry; the legal and accounting services industry; the construction and engineering services industry; the specialist design services industry; the computer system design services industry; the data processing and data provision services industry; the consulting services industry; the R&D services industry; the advertising industry; other professional, scientific and technical service industries; the educational services industry; and the medical and healthcare services industry.

The discussion of "strategic service industries" in this section focuses on the 12 strategic service industries listed in the Guidelines and Action Plans for Service

Industry Development: finance; distribution; communications and media services; medical and healthcare; manpower cultivation, manpower services and property management services; tourism, sports and leisure; cultural and creative industries; design services; information services; R&D services; environmental services; and engineering consulting services.

The definition of SMEs adopted is that used by the MOEA: In service industries, an SME is defined as an enterprise that posted total operating revenue of less than NT\$100 million in the previous year, or that has fewer than 50 regular employees. Any enterprise that does not meet these conditions is classed as a large enterprise. The sources for this section include secondary sources published by various ministries and agencies. Data regarding the number of enterprises and sales performance are taken from business tax data compiled by the Ministry of Finance Tax Data Center; employment data are taken from the Taiwan Region Manpower and Employment Survey conducted by the DGBAS.

## 1. Overview of the Development of Taiwan's Service Sector

Overall, the performance of Taiwan's service industries in 2004 was quite impressive. Positive growth was achieved in terms of the number of enterprises, the number of people working in the service sector, the number of employees, total sales, domestic sales and export sales (Table 9-2-1).

**Table 9-2-1 Overview of Taiwan's Service Sector in 2004**

Units: enterprises; thousand persons; NT\$ million; %

Enterprise type	No. of enterprises	No. of employees	No. of directly employed persons	Total sales	Domestic sales	Export sales
All service sector enterprises	973,497	5,325	3,651	18,424,926	15,040,840	3,384,085
As % of all service sector enterprises	100.00	100.00	100.00	100.00	100.00	100.00
Annual growth rate	3.08	2.92	3.66	11.10	11.19	10.69
SMEs in the service sector	952,122	4,103	2,431	4,993,108	4,520,500	472,608
As % of all service sector enterprises	97.80	77.05	66.60	27.10	30.05	13.97
Annual growth rate	2.94	2.67	3.64	7.24	8.04	0.18
Large enterprises in the service sector	21,375	679	676	13,431,818	10,520,340	2,911,477
As % of all service sector enterprises	2.20	12.74	18.51	72.90	69.95	86.03
Annual growth rate	9.63	6.13	6.09	12.61	12.60	12.61

Note: Totals for the number of employees and the number of directly employed persons both include persons employed by the government.

Sources: 1. Ministry of Finance Tax Data Center, Business Income Tax Data for 2003–2004.

2. Directorate General of Budget, Accounting and Statistics, Executive Yuan, *Monthly Bulletin of Manpower Statistics, Taiwan Area*, original data, 2003–2004.



## **(1) The Number of Enterprises in the Service Sector and Their Scale of Operation**

In 2004, Taiwan's service sector included a total of 973,497 enterprises, representing an increase of 29,054 (or 3.08%) compared to 2003. SMEs account for the vast majority of enterprises in the service sector; over the last three years, 97.8% or more of all service sector enterprises have been SMEs. As of 2004, more than 60% of service sector enterprises had been in existence for at least five years; nearly 40% had been in existence for over 10 years. Enterprises that were more than 10 years old accounted for a particularly high share of large enterprises in the service sector. In 2004, there were approximately 95,981 newly established service sector enterprises that had been in existence for less than one year, accounting for nearly 10% of all service sector enterprises; of these, 99.67% were small enterprises.

In 2004, there were 61,985 enterprises in emerging service industries in Taiwan, representing an annual growth rate of 2.49%. Enterprises in emerging service industries accounted for 6.37% of all service industry enterprises. Large enterprises in emerging service industries accounted for 5.56% of all enterprises in emerging service industries; SMEs accounted for 94.44%. Enterprises that had been in existence for 5–10 years constituted the largest share of all enterprises in emerging service industries, or 23.03%; nearly 50% were more than five years old. 34.46% had been in existence for less than three years; these were mainly SMEs. Of those enterprises in emerging industries that were less than one year old, 99.58% were SMEs. Overall, the last three years have seen rapid growth in the number of SMEs in Taiwan's emerging service industries.

## **(2) The Number of Employees and Number of Directly Employed Persons Working in the Service Sector**

As of 2004, there were a total of 5,325,000 people working in the service sector in Taiwan; this figure represented an increase of 151,000 (2.92%) over 2003. 77.05% of these people were working in SMEs, 12.74% were working in large enterprises, and 10.21% were employed by the government. The number of directly employed persons working in the service sector in 2004 was 3,651,000 (including government employees); this total represented an annual increase of 3.66% compared to 2003. SMEs accounted for 66.60% of all directly employed persons working in the service

sector; 18.51% were working for large enterprises, and 14.89% were working for the government. 1,587,000 people were working in emerging service industries, 3.79% up from 2003. Those working in emerging service industries accounted for 29.81% of all people working in the service sector in Taiwan. The number of directly employed persons working in emerging service industries was 1,447,000 (including government employees), representing an annual increase of 3.52%, and accounting for 39.62% of all directly employed persons working in the service sector as a whole (Table 9-2-2).

**Table 9-2-2 Employment Structure in the Service Sector as a Whole and in Emerging Service Industries in 2004**

Item	All service industries	Emerging service industries
Age	Large service sector enterprises have a younger workforce than service sector SMEs.	Younger workers account for the bulk of employees in emerging service industries.
Sex	Female employees outnumber male employees in large service sector enterprises; in service sector SMEs, the reverse is true.	Women outnumber men in emerging service industries, regardless of enterprise size.
Education	The workforce in large service sector enterprises is generally better educated than in service sector SMEs.	89% of those working in emerging service industries are educated to at least the senior vocational school level.
Dominant industries	Those working in large service sector enterprises are mainly employed in the banking and insurance sector; those working in service sector SMEs are mainly employed in the wholesaling and retailing business.	The banking and insurance sector continues to account for the largest share of those working in large enterprises in emerging service industries; the professional, scientific and technical service industries account for the largest share of those working in SMEs in emerging service industries.
No. of employees	Large service sector enterprises generally have in the range of 50–200 employees; enterprises with 10 or fewer employees account for the largest share of service sector SMEs.	Large enterprises in emerging service industries generally have in the range of 50–200 employees; enterprises with 30 or fewer employees account for the largest share of SMEs in emerging service industries.
Geographical distribution	Regardless of enterprise size, the largest share of those employed in service sector enterprises are working in Northern Taiwan.	The largest share of those employed in emerging service industries are working in Northern Taiwan.
Occupation	A high percentage of those working in large service sector enterprises are performing skilled or specialist work; the percentage of those working in service sector SMEs who are performing skilled or specialist work is increasing.	Demand for skilled and specialist workers is higher among large enterprises in emerging service industries than in SMEs in such industries.

Source: Directorate General of Budget, Accounting and Statistics, Executive Yuan, *Monthly Bulletin of Manpower Statistics, Taiwan Area*, original data.

### **(3) The Taiwanese Service Sector's Domestic Sales and Export Sales Performance**

In 2004, the Taiwanese service sector as a whole achieved total sales of NT\$18,424.9 billion, representing an increase of NT\$1,840.8 billion (11.10%) compared to 2003. Domestic sales accounted for 81.63% of total sales, or NT\$15,040.8 billion; this figure represented an increase of NT\$1,513.9 billion (11.19%) compared to 2003. Export sales accounted for 18.37% of total sales, at NT\$3,384.1 billion; this figure represented an increase of NT\$326.9 billion (10.69%) compared to 2003. Over the last three years, domestic sales have continued to account for by far the largest share of the service sector's total sales, and this share has gradually been increasing, climbing from 77.95% in 2002 to 81.63% in 2004.

The emerging service industries (i.e. those industries that the OECD classes as belonging to the knowledge economy) achieved total sales of NT\$3,784.2 billion in 2004, representing annual growth of 27.93%. Not only have the total sales of these industries increased steadily over the past three years, but their share of total sales for the service sector as a whole has also risen, climbing to 20.54% in 2004.

In 2004, newly established service sector enterprises (those that had been in existence for less than one year) achieved total sales of NT\$289.7 billion. Newly established SMEs accounted for 67.99% of this total; newly established large enterprises accounted for 32.01%. Newly established enterprises in emerging industries posted total sales of NT\$25.3 billion, accounting for 8.74% of the total sales of all newly established service sector enterprises. Domestic sales for newly established service sector enterprises totaled NT\$262.6 billion; SMEs accounted for 71.08% of this total, while large enterprises accounted for 28.92%. Export sales for newly established service sector enterprises totaled NT\$27.1 billion; SMEs accounted for 38.06% of this total, while large enterprises accounted for 61.94%.

## **2. Changes in the Structure of Service Sector SMEs**

In 2004, Taiwan's service sector included 952,122 SMEs, accounting for 97.80% of all service sector enterprises, and representing an annual increase of 2.94% compared to 2003. There were 58,538 SMEs in emerging service industries, accounting for 94.44% of enterprises in emerging service industries, and representing an annual

increase of 2.4% compared to 2003. Table 9-2-3 shows the number of enterprises, number of employees, number of directly employed persons, total sales, domestic sales and export sales for SMEs in individual industries in 2004, and Table 9-2-4 compares the enterprise structure, employment structure and sales structure of SMEs in service sector and in emerging service industries.

**Table 9-2-3 The Status of SMEs in Individual Service Industries in 2004**

Units: enterprises; thousand persons; NT\$ million; %

Industry	No. of enterprises	No. of employees	No. of directly employed persons	Total sales	Domestic sales	Export sales
Total	952,122	4,103	2,431	4,993,108	4,520,500	472,608
Wholesaling and retailing	627,123	1,621	812	3,643,404	3,225,249	418,154
Accommodation and eating-drinking places	91,963	578	267	195,178	193,361	1,817
Transportation, warehousing and communications	41,425	321	198	338,317	301,350	36,967
Banking and insurance	10,935	199	196	176,245	175,937	308
Real estate and rental	24,357	67	50	139,741	138,955	785
Professional, scientific and technical services	45,215	241	170	230,295	218,255	12,040
Educational services	458	171	143	1,860	1,843	16
Medical, healthcare and social welfare services	378	141	102	1,351	1,342	8
Cultural, sports and leisure services	28,020	130	100	81,097	80,363	734
Other service industries	82,248	632	393	185,622	183,844	1,779
<b>Annual growth rate</b>						
Total	2.94	2.67	3.64	7.24	8.04	0.18
Wholesaling and retailing	2.54	1.57	3.46	7.72	8.37	2.99
Accommodation and eating-drinking places	7.94	3.06	5.92	10.11	10.43	-16.23
Transportation, warehousing and communications	-7.54	2.55	3.21	-5.30	-2.48	-23.33
Banking and insurance	3.99	-0.79	-0.53	6.78	6.74	42.70
Real estate and rental	6.76	12.47	18.76	13.63	13.74	-2.98
Professional, scientific and technical services	2.01	6.75	4.48	9.79	10.24	2.15
Educational services	-0.22	6.16	6.47	-1.68	0.02	-66.55
Medical, healthcare and social welfare services	2.72	6.10	8.80	10.76	10.71	19.29
Cultural, sports and leisure services	4.88	1.88	-1.01	6.90	7.04	-6.30
Other service industries	5.27	2.44	1.82	14.33	14.44	4.24

Sources: 1. Ministry of Finance Tax Data Center, Business Income Tax Data for 2003–2004.

2. Directorate General of Budget, Accounting and Statistics, Executive Yuan, *Monthly Bulletin of Manpower Statistics, Taiwan Area*, original data, 2003–2004.

**Table 9-2-4 The Comparison of SMEs in Service Sector and in Emerging Service Industries**

Item	Service sector SMEs	SMEs in emerging service industries
<b>Enterprise structure</b>		
Number of enterprises	There were 627,123 SMEs in the wholesaling and retailing industry, far more than in any other service industry; they accounted for 65.87% of all service sector SMEs in Taiwan. The service industry in which the number of SMEs grew the most rapidly in 2004 was the accommodation and eating-drinking places industry, with an annual growth rate of 7.94%	There were 45,215 SMEs in the professional, scientific and technical services industry, accounting for 77.24% of all SMEs in emerging service industries in Taiwan in 2004. The service industry in which the number of SMEs grew the most rapidly was the finance and insurance industry, with an annual growth rate of 3.99%.
Location	The largest share of SMEs in Taiwan's service sector were in Northern Taiwan; there were a total of 454,892 service sector SMEs in this region, accounting for 47.78% of the national total.	Northern Taiwan's share of SMEs in emerging service industries was at 61.75%.
Organizational type	The sole proprietorship was the most common form of organization for SMEs in Taiwan's service sector, accounting for 61.99% of all SMEs in the sector. The next most common form of organization was the limited corporation, with 25.05%.	Limited corporations were in the majority, with 39.13% of SMEs, while sole proprietorships accounted for only 29.06% of the total.
Capitalization	49.97% of SMEs in Taiwan's service sector had total capitalization of NT\$100,000 or less; 83.53% had capitalization of NT\$5 million or less.	Enterprises with capitalization in the range of NT\$1 million to NT\$5 million accounted for the largest share of emerging service sector SMEs, at 32.11% of the total, while 25.26% had capitalization in excess of NT\$5 million.
<b>Employment structure</b>		
Total employment	The total number of people working in SMEs in Taiwan's service sector in 2004 was 4,103,000 (or 77.05% of all people working in the service sector); this figure represented an annual growth rate of 2.67%. 99% of service sector employers are running SMEs, and 66% of directly employed persons in the service sector are working in SMEs.	The total number of people working in SMEs in emerging service industries was 751,000, this figure represented an annual growth rate of 4.01%, accounting for 18.31% of the total in service sector. The number of self-employed persons working in SMEs in emerging service industries continues to increase.
Number of paid employees	2,431,000 persons, accounted for 59.26%, were paid employees in the SME service sector.	611,000 persons, accounted for 25.12% were paid employees in service sector.
<b>Sales structure</b>		
Sales Value	1. Total sales of NT\$4,993.1 billion, representing an annual growth rate of 7.24% compared to 2003. SMEs accounted for 27.1% of total service sector sales. 2. SMEs in the wholesaling and retailing industry had combined annual sales of NT\$3,643.4 billion in 2004, accounting for 72.97% of the total sales of all service sector SMEs, and representing an annual growth rate of 7.72%. The second largest share was in the transportation, warehousing and communications industry, which accounted for just 6.78% of total service sector SME sales.	1. Total sales of NT\$424.3 billion, representing an annual growth rate of 8.37%; SMEs accounted for 11.21% of total emerging service industry sales. 2. Scientific and technical services industry held the highest share of total emerging industry SME sales in 2004 with annual sales of NT\$230.3 billion, or 54.28% of the total, representing an annual increase of 9.79%.
Domestic Sales Value	SMEs in the wholesaling and retailing industry accounted for 71.35% of total service industry SME domestic sales; domestic sales in this industry grew by 8.37% compared to 2003.	The professional, scientific and technical services industry accounted for the largest share of total emerging service industry SME domestic sales, or 53.02%.
Export Sales Value	The wholesaling and retailing industry accounted for 88.48% of total service sector SME exports, with annual exports of NT\$418.2 billion, representing an annual growth rate of 2.99%.	SMEs in the professional, scientific and technical services industry posted total exports of NT\$230.3 billion, accounting for 95.28% of total emerging service industry SME exports.

Sources: 1. Ministry of Finance Tax Data Center, VAT data for consecutive years.  
2. Directorate General of Budget, Accounting and Statistics, Executive Yuan, *Monthly Bulletin of Manpower Statistics, Taiwan Area* (original data).

### 3. The Current Status of SMEs in Strategic Service Industries

#### (1) Overview of the 12 Strategic Service Industries

The Guidelines and Action Plans for Service Industry Development identify 12 strategic service industries. However, the original data from the DGBAS manpower surveys use a two-digit classification of industries and occupations, which in some cases means that the DGBAS employment data cannot be broken down into these 12 industries; in these cases, the nearest equivalent is used. An additional problem is that some of the 12 industries include more than one of the ROC Industry Classification sub-categories, creating a risk of duplication.

Table 9-2-5 presents data for SMEs in Taiwan's strategic service industries in 2004, including the number of enterprises, number of employees, number of directly employed persons, total sales, domestic sales and export sales. Figure 9-2-1 shows the number of enterprises as a percentage of the total for service sector SMEs as a whole, and the rates of increase or decrease.

**Table 9-2-5 The Status of SMEs in Taiwan's Strategic Service Industries in 2004**

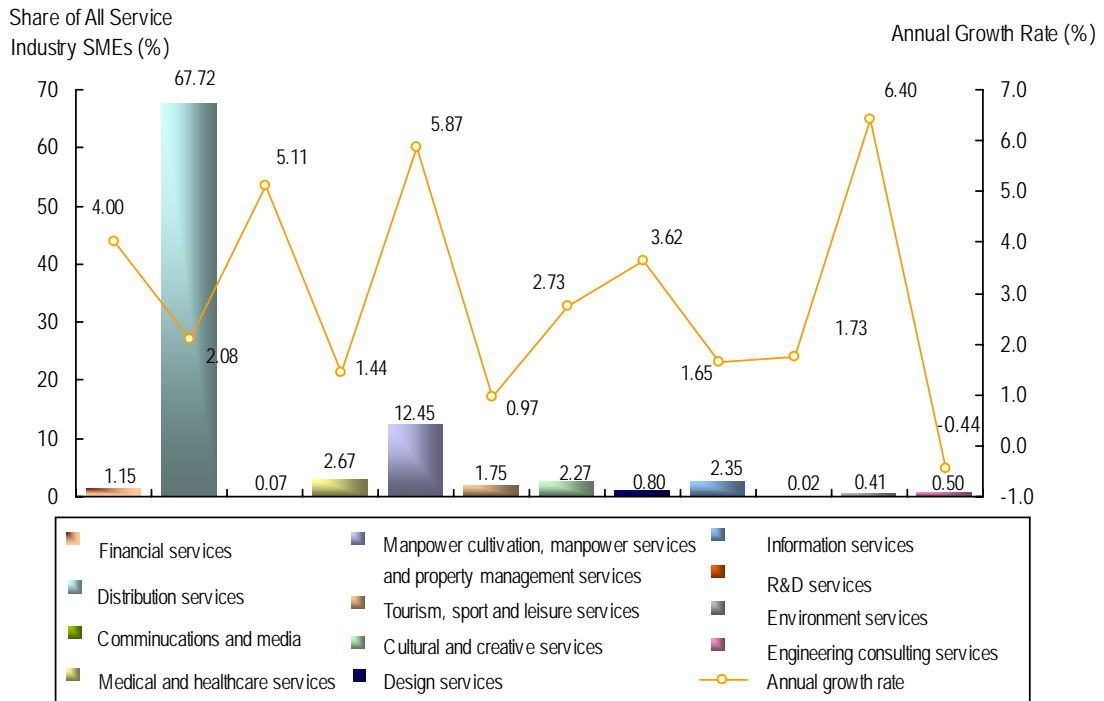
Units: enterprises; thousand persons; NT\$ million

Industry	No. of enterprises	No. of employees	No. of directly employed persons	Total sales value	Domestic sales	Export sales
Financial services	10,933	199	196	176,237	175,930	308
Distribution services	644,810	1,937	1,005	3,897,175	3,444,426	452,748
Communications and media services	679	18	17	5,789	5,537	252
Medical and healthcare services	25,442	141	102	87,297	84,838	2,459
Manpower cultivation, manpower services and property management services	118,503	238	187	514,194	433,919	80,274
Tourism, sports and leisure services	16,677	111	80	78,263	67,680	10,583
Cultural and creative services	21,599	106	83	90,106	84,919	5,187
Design services	7,617	60	40	41,457	39,592	1,865
Information services	22,419	52	45	177,187	156,111	21,077
R&D services	176	2	2	1,066	999	67
Environmental services	3,875	16	13	40,329	39,262	1,067
Engineering consulting services	4,768	24	19	30,398	30,084	315

Sources: 1. Ministry of Finance Tax Data Center, Business Income Tax Data for 2003–2004.

2. Directorate General of Budget, Accounting and Statistics, Executive Yuan, *Monthly Bulletin of Manpower Statistics, Taiwan Area*, original data, 2003–2004.

**Figure 9-2-1 SMEs in the Strategic Service Industries – Share of All Service Industry SMEs, and Annual Rate of Increase**



Source: Ministry of Finance Tax Data Center, Business Income Tax Data for 2003–2004.

## (2) The Number of Enterprises in the 12 Strategic Service Industries

In terms of the rate of growth in the number of enterprises, while the engineering consulting services industry experienced negative annual growth of -0.44%, all other strategic service industries posted positive growth in 2004. Three industries – the environmental services industry, the manpower cultivation, manpower services and property management services industry – achieved positive growth rates of more than 5%.

## (3) Employment in the 12 Strategic Service Industries

In 2004, two of the strategic service industries experienced a decline in the number of employed persons working in those industries; the negative growth rates were -0.79% in the case of the financial services industry, and -37.36% in the case of the R&D

services industry. All of the other strategic service industries achieved positive growth rates; in the environmental services industry and the communications and media service industry the annual growth rate exceeded 10%. The rate of growth in the number of paid employees tended to be lower than the rate of growth in the number of employed persons; this was true in the communications and media services industry, the manpower cultivation, manpower services and property management services industry, the tourism, sport and leisure services industry, the cultural and creative services industry, the design services industry and the information services industry. These industries thus saw an increase in the number of employers or self-employed persons.

#### **(4) The Sales Performance of the 12 Strategic Service Industries**

While the R&D services industry posted a 10.04% decline in total annual sales in 2004, the other 11 strategic service industries all achieved positive growth rates of at least 5%; in both the environmental services industry and the design services industry, the growth rate exceeded 10%. As all 12 strategic service industries are heavily oriented towards the Taiwanese domestic market, the growth rates for domestic sales were very similar to those for total sales. Besides the environmental services industry and the design services industry, the manpower cultivation, manpower services and property management services industry also achieved a growth rate of over 10% in domestic sales. The picture with export sales was more mixed. In the financial services industry, export sales rose by 42.70%; the next highest growth rates were found in the medical and healthcare services industry (20.54%) and in the environmental services industry (17.81%). The R&D services industry and engineering consulting services industries both experienced negative growth rates of more than 40%. Overall, the steady growth in domestic sales that characterized SMEs in the strategic service industries in 2004 was less apparent in the area of export sales.

### **III Challenges Facing the Taiwanese Service Sector**

Service industries are, by their very nature, people-centered industries. On the one



hand, they provide services; at the same time, they also need services themselves. Government policy with respect to service industries must be adjusted in line with the overall business environment in Taiwan, the population and employment structure, the cultural background of Taiwanese society and developments in international markets. The government needs to undertake comprehensive planning covering all sectors to ensure that the policies that it adopts will make a meaningful contribution to economic development. The main challenges that Taiwan's service sector is facing today are outlined below:

### **1. SWOT Analysis With Respect to Service Sector Development in Taiwan**

As part of its efforts to ensure the smooth development of the service sector in Taiwan, the Council for Economic Planning and Development incorporated Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis of the development prospects for Taiwanese service industries into its Guidelines and Action Plans for Service Industry Development. This analysis can facilitate the formulation of strategies that will help Taiwan's service industries to turn crises into opportunities (Table 9-3-1).

### **2. The Importance to Taiwan of Developing the Service Sector**

In the Guidelines and Action Plans for Service Industry Development, the Council for Economic Planning and Development points out that the service sector is the new driver of growth for the Taiwanese economy as a whole, and that, in light of various issues (including the emergence of the knowledge economy, the high unemployment rate, the new business opportunities being created by outsourcing, the development of global business networks and the importance of improving the quality of life of Taiwan's citizens), Taiwan needs to focus on the development of knowledge-intensive, specialist and compound service industries (Table 9-3-2).

### **3. The Changing Population Structure**

At a time when the government is seeking to promote the development of knowledge-intensive, specialist and compound service industries, Taiwan's population

**Table 9-3-1 SWOT Analysis for Taiwan's Service Sector**

Strengths	Weaknesses
<ol style="list-style-type: none"> <li>1. Taiwan has a strong IT and electronics industry, with comprehensive supply chains integrating up, mid and downstream production, and is well integrated into the global supply chain.</li> <li>2. Taiwan occupies a central geographical location within East Asia. The average flying time between Taipei and other major cities in the region is just three hours; average journey time for marine shipping is only 53 hours.</li> <li>3. Taiwanese companies have operations all over the world, creating a trans-national market for the Taiwanese service sector that can stimulate the growth of knowledge-intensive service industries.</li> <li>4. Internationalization has enabled Taiwanese enterprises to accumulate significant experience of operation in China and in international markets, creating the potential for strategic alliances with transnational corporations.</li> <li>5. Taiwan has many other advantages, including a high-quality workforce, abundant capital, a highly developed venture capital sector, strong entrepreneurial spirit, etc.</li> </ol>	<ol style="list-style-type: none"> <li>1. The government's attitude towards the service sector can be excessively restrictive, for example in the permit system imposed on certain service industries. Lack of coordination between government agencies has also been an obstacle to the development of the service sector.</li> <li>2. Many service industries are concentrated in the larger cities. The zoning restrictions imposed by government authorities in these areas can make it difficult for service sector enterprises to develop new business areas or cause them to lose business opportunities.</li> <li>3. In some cases, the definitions and classifications applied to service industries are insufficiently precise, particularly in the case of new industries that have emerged out of cross-industry collaboration between companies in existing industries. This makes it difficult to compile accurate data and establish useful databases.</li> <li>4. The supply of human talent is insufficient to meet demand. Employee turnover in Taiwan's service sector is very high, both for managers and front-line employees; this tends to inhibit the transmission of experience from one employee to another.</li> <li>5. Awareness of intellectual property rights is still too limited in Taiwan; neither the mechanisms needed for the appraisal of intellectual property rights or an appropriate regulatory framework are in place.</li> <li>6. Other weaknesses include: insufficient emphasis on providing service to others; difficulty in securing financing in some industries; stunted development of certain industries due to lack of coordinated development.</li> </ol>
Opportunities	Threats
<ol style="list-style-type: none"> <li>1. Taiwan's industrial structure is currently going through a period of transformation. Taiwan needs to focus on the development of the service sector and on introducing new mechanisms for innovation, so as to further the process of industrial upgrading and create jobs.</li> <li>2. Taiwanese companies have been collaborating with leading foreign multinationals for many years. This should make it relatively easy to acquire the techniques and capabilities needed for successful development of knowledge-intensive service industries.</li> <li>3. China is currently still in the process of developing its manufacturing sector, while Taiwan's industrial structure is being reoriented towards the service sector. Taiwan should take advantage of its lead over China in this respect and seek to extend it.</li> </ol>	<ol style="list-style-type: none"> <li>1. Among the "Four Little Dragons" of Asia, both Singapore and Hong Kong possess service sectors that have developed greater depth and breadth than Taiwan's. Start-ups in Singapore and Hong Kong also tend to display greater flexibility in management than those in Taiwan.</li> <li>2. China's financial sector is developing rapidly, and the Chinese government is seeking to promote the development of other service industries (e.g., by relaxing the restrictions on foreign investment in the logistics sector and in chain store operation, and by introducing Hong Kong-style property management systems). This may have a negative impact on Taiwan's ability to attract foreign investment.</li> <li>3. Formulation of standards in the service sector is dominated by the large international corporations. This situation, together with the frequency of mergers and strategic alliance formation among leading international IT and communications companies, will tend to limit the development potential of Taiwanese industry.</li> </ol>

Source: Council for Economic Planning and Development, Executive Yuan, Guidelines and Action Plans for Service Industry Development, 2004.

**Table 9-3-2 The Importance to Taiwan of Developing the Service Sector**

Factor	Explanation
Responding to the emergence of the knowledge economy	<ol style="list-style-type: none"> <li>1. There is a global trend towards the development of the knowledge economy. Countries all over the world are working to stimulate the growth of knowledge-intensive service industries, encourage innovation and cultivate the necessary human talent. The emergence of the knowledge economy in Taiwan will lead to the development of industries with higher value-added and help boost the global competitiveness of Taiwanese industry.</li> <li>2. Thinking in terms of the “smile curve,” it is the two “ends” of the industry value chain – R&amp;D and design at one end, and distribution and marketing at the other – that are the areas where the largest amount of value-added is created. To a large extent, these areas overlap with the service sector.</li> </ol>
Reducing unemployment	<ol style="list-style-type: none"> <li>1. The transformation in Taiwan’s industrial structure that has taken place in the last few years has created “structural unemployment.” The service sector has the potential to create large numbers of new jobs to absorb the surplus labor thrown out by the manufacturing sector and reduce unemployment. To take just one example, there are already more than 560,000 people in Taiwan working in franchise operations.</li> <li>2. To help solve Taiwan’s unemployment problem, the government has taken vigorous steps to stimulate the development of the service sector. In October 2003, the government began implementation of the Care Service Welfare and Industry Plan, which was expected to create 20,000 new jobs by 2006. In May 2002, the government introduced the Plan to Double Tourist Arrivals; this was expected to create 110,000 new jobs by 2008. The property management industry involves the provision of maintenance and management services for office buildings, apartment buildings and residential communities, covering both the “hardware” of the buildings themselves and the “software” of the community living environment. This new, “compound” service industry already employed 240,000 people in 2003, a figure that was expected to rise by 100,000 by 2008.</li> </ol>
Exploiting the potential of outsourcing	<p>As globalization progresses and the division of labor becomes finer, the need to strengthen competitiveness, cut costs and enhance service quality may force companies to outsource some activities that were previously undertaken in-house. This expansion of the industry value chain also stimulates the rapid growth of specialist and knowledge-intensive services.</p>
Encouraging Taiwanese and international corporations to locate global logistics activities in Taiwan	<ol style="list-style-type: none"> <li>1. If Taiwan is to keep pace with the trend towards liberalization in the global economy as a whole and the internationalization of business enterprise operations, economic activity in Taiwan – including money flow, materials flow, information flow, technology flow and the flow of human talent – will need to be more closely integrated with global economic networks; this will involve the development of specialist financial, investment, legal, accounting and management services.</li> <li>2. More emphasis will need to be placed on the cultivation of specialist talent in the areas of financial, investment, legal, accounting and management services, so as to meet the needs of Taiwanese enterprises’ global operations and of foreign companies’ operations in Taiwan.</li> <li>3. Not only will the development of the service sector help to encourage Taiwanese and international corporations to undertake a wide range of economic activity in Taiwan, it will also help Taiwan to avoid being marginalized and relegated to the fringes of the global economy.</li> </ol>
Enhancing the quality of life of Taiwan’s citizens	<p>The underlying objective of economic development is to improve the quality of life of the nation’s citizens. This enhancement of quality of life can be achieved through the development of the medical and healthcare service industries, the tourist, sports and leisure services industries, the cultural and creative industries, the environmental services industries and the property management services industries.</p>

Source: Council for Economic Planning and Development, Executive Yuan, *Guidance and Action Plans for Service Industry Development*.

is aging, increasing the burden that the working population has to bear. There is an urgent need to develop new mechanisms for mutual assistance and collaboration, as well as new types of service industries that use simple, easily replicated production processes, are easy to manage and are not too physically demanding for employees.

## **(1) The Population Structure and the Employed Population**

### **a. Smaller Families and an Aging Population**

The aging of Taiwan's population is evidenced by the increase in the share of the total population accounted for by those aged 65 or over, and by the steadily falling birth rate. By 2003, the over-65s already accounted for 9.24% of Taiwan's population; the World Health Organization (WHO) defines an aging society as one in which at least 7% of the population are aged 65 or over. The trend towards smaller families is a global one, and Taiwan is no exception; in 2003, women in Taiwan aged between 15 and 49 had, on average, 1.2 children each, giving Taiwan the second lowest fertility rate in the world.

### **b. An Increased Burden for the Working Population**

With the increases in the number of middle-aged unemployed, the number of students (of working age) and the number of members of disadvantaged groups, the burden on the working population has increased. During the period 2001–2004, the number of unemployed in the 40–59 age group increased by 13%, while the number of students in the 20–29 age group rose by 9%. At the same time, improved survival rates due to advances in medical technology have led to an increase in the number of mentally- and physically-handicapped persons, while the higher levels of stress that people are under today have caused the number of mentally ill people to rise; society has been forced to allocate more resources to cope with these increases.

## **(2) “Self-help” Service Industries**

Although cutting-edge, specialist service industries are the main focus of attention worldwide, supporting “self-help” type service industries also offers significant latent business opportunities. There is increasing emphasis on getting elderly people to look after other elderly people, and on helping the mentally and physically handicapped to

earn a living for themselves. The range of industries encompassed by the service sector will become increasingly diverse, and the importance of the service sector to the economy as a whole will rise still further.

## **4. The Impact of the International Environment on the Service Sector**

The transformation of the global economy has already begun to have an impact on the Taiwanese economy, and this impact has been felt most keenly in the service sector. Faced with the global trend towards the integration of trade and services in order to create higher levels of value-added, Taiwan's service industries must be ready to make adjustments, and must ensure that their products are distinctive enough to survive in the new international competitive environment.

### **(1) The Impact of International Trade Agreements**

On November 29, 2004, the Association of Southeast Asian Nations (ASEAN) and China signed a historic trade pact in Vientiane, Laos. In the future, it is hoped to extend the scope of this free trade agreement to include Japan and South Korea, creating an "ASEAN + 3" free trade zone that would be the third largest free trade zone in the world after NAFTA and the European Union; the participant nations would have a combined GDP of US\$180 trillion. The signing of the free trade pact between the 10 ASEAN member nations and China represents the first step towards the establishment of a comprehensive free trade agreement – which would incorporate free trade in services – by 2010.

In the case of IT products, which account for the largest share of Taiwan's exports, Taiwan has already signed information technology agreements (ITAs) with more than 70% of the world's leading markets for IT products, giving Taiwan-made products tariff exemptions and other advantages in these markets. In the future, however, if the ASEAN-China free trade agreement is expanded to include Japan and South Korea, then, given the fact that Japan and South Korea are at roughly the same level as Taiwan in terms of technology, and that they export to more or less the same markets as Taiwan, Taiwanese manufacturers may find themselves being squeezed out by their rivals in Japan and South Korea.

## **(2) WTO Negotiations**

Taiwan became a member of the WTO on January 1, 2002. The opening up of the service sector in Taiwan has proceeded much further than it has in most other WTO member nations. Faced with an international business environment in which other countries provide export subsidies to their own domestic corporations, establish restrictions on foreign ownership, impose onerous residency restrictions on the managers of foreign companies operating in their country, or make the qualifications that foreign specialists are required to possess excessively rigorous, in June 2004 Taiwan proposed a further opening up of the service sector to 34 WTO members with which Taiwan has particularly close trading relations. WTO negotiations on trade in services take as their foundation the initial request lists submitted by each WTO member. In accordance with WTO requirements, Taiwan submitted its initial request list in late March, calling for further opening of the computer, telecommunications, audiovisual and marine transportation services markets. In July 2004, the WTO called for members to submit revised request lists by May 2005; Taiwan had complied with this request before the end of May 2005, reflecting its commitment to active participation in the new round of WTO negotiations. In both APEC and the WTO, Taiwan has repeatedly appealed to other members to submit meaningful request lists – initial or revised – as soon as possible, so as to speed up the liberalization of global trade in services.

## **(3) The Impact on Taiwan of Service Sector Opening in China**

As part of its efforts to stimulate the development of the regional economy, in June and October of 2003, China signed “Closer Economic Partnership Arrangement” (CEPA) agreements with Hong Kong and Macao. These agreements, which came into effect on January 1, 2004, cover the relaxation of regulations governing market entry, bringing forward the timetable for market opening and the dismantling of entry barriers, etc. As the service sector accounts for nearly 90% of Hong Kong’s industry, it is anticipated that the CEPA will have a major impact on Hong Kong. The CEPA will make Hong Kong based service sector enterprises much more competitive than international enterprises when it comes to developing the China market; Taiwanese companies operating in China will also find themselves at a disadvantage. Taiwan will thus need to focus on those industries where it possesses an advantage in key technology.

Taiwanese companies may also wish to consider acquiring Hong Kong enterprises so that they can take advantage of the CEPA to enter the China market more easily or collaborate with local Chinese companies; by leveraging these advantages, Taiwanese firms will significantly increase their chances of success in China.

#### **(4) Recent Developments in the Service Sector in South Korea and Singapore**

##### **a. South Korea**

In recent years, various aspects of Korean popular culture – including TV series, films and computer games – have attracted a great deal of interest in other parts of Asia. Recognizing the potential for growth in the “cultural industries,” the Korean government has been working to support the growth of the TV, film, entertainment, computer game and Internet-related industries. Considerable resources have been allocated to establish a solid foundation for the development of the cultural industries. It is estimated that the growing popularity of Korean culture overseas has added 39 trillion won (approximately NT\$1.3 trillion) to the annual production value of Korean industry, and that the cultural industries now account for around 6.57% of South Korea’s GDP. The success of Korean popular culture exports in overseas markets has stimulated export growth for other Korean products, such as pickles. At the same time, the exporting of Korean soap operas, music, etc. has helped to create a positive image of Koreans overseas – an image of Koreans as being hard-working and having close family relationships. However, it remains to be seen how long the “Korea boom” will continue; marketing strategy will be the key factor here.

##### **b. Singapore**

The Singaporean government attaches great importance to the labor market and to the cultivation of human talent. The service sector (which accounts for over 80% of jobs in Singapore) is a particular focus of attention. In an address given in February 2004, Singapore’s Premier Lee pointed out that, in their efforts to boost labor productivity per worker, multinational corporations were adopting a high value-added strategy, and this move away from labor-intensive production would mean that these transnational corporations would be employing fewer workers. Premier Lee said that, in response to this changing environment, the Singaporean government would be focusing on the

development of Singapore's existing service industries, including international trade, logistics, information technology, financial services and tourism, while working to stimulate the growth of new industries such as education-related industries, healthcare-related industries etc., so as to boost job creation.

## IV The Prospects for Service Sector SME Development

### 1. Development Strategies for Service Sector SMEs

#### (1) Improvement and Deepening of Business Strategy

The fundamentals of business administration include not only persistence, hard work and attention to detail, but also constant effort to achieve improvements in terms of management philosophy, technology and quality upgrading, manpower quality and funding. The chief foundations on which competitiveness rests are brand development and the encouragement of creativity and innovation. Enterprises need to implement effective quality management systems, build up a reputation for trustworthiness, emphasize standardization and systematic operation (with respect to personnel, operations and material), and ensure that the company's products have a reputation for reliability. They need to focus on the transmission of skills, the cultivation of expertise and technology exchange, so that new vitality is constantly being injected into the technical side of the enterprise's operations. At the same time, the company must ensure that a reasonable rate of return on investment is being maintained.

#### (2) Collaboration on Marketing

For service sector SMEs, successful market development requires the following: The enterprise needs to focus on building up a strong brand and the related logos; it also needs to establish an effective corporate identification system that can strengthen the company's image. E-enablement of marketing and the establishment of a well-designed company website can be useful both for advertising and for securing on-line purchase orders, thereby giving the company much greater geographical reach. Frequent participation in community activities can strengthen the company's brand



and its intangible assets, while helping to boost visibility. Taking part in competitions and award activities can also strengthen name recognition, while also enhancing the company's reputation within the industry, or even internationally. Cross-industry alliances, where an enterprise collaborates with companies in other industries, can also play an important role in market development. Control over distribution channels facilitates access to the market; distributors and franchise operations can help smaller enterprises to grow by leveraging the brands and training that they provide, and enabling the enterprise to concentrate on serving the customer. By making effective use of these opportunities, smaller enterprises can keep the risk involved in business start-ups to a minimum.

## **2. How Government Policy Can Create an Environment Conducive to the Growth of Service Sector SMEs**

### **(1) Relaxation and Adjustment of the Legal Framework**

With respect to the 12 “Strategic Service Industries,” the Council for Economic Planning and Development (working in collaboration with other government agencies) has embarked on the formulation or revision of 34 items of legislation, including 13 relating to the financial services industry, 2 relating to the distribution sector, 9 relating to the communications and media sector, 5 relating to the manpower cultivation, manpower services and property management industries, 3 relating to the tourism, sports and leisure sector, and 1 each relating to the cultural and creative industries and the engineering consulting industry. It is anticipated that this work of relaxing and adjusting the legal framework will give Taiwan's service industries more room to develop.

### **(2) Promoting the Adoption of e-Enablement Tools and the Widespread Acquisition of Foreign Language Skills**

According to the 2001 *Survey of the Manufacturing and Service Sectors in the Taiwan and Fukien Region*, 31.14% of service sector SMEs in Taiwan were using computers, and 2.97% were using e-commerce. The Small and Medium Enterprise Administration has been encouraging SMEs to implement e-enablement, to make use of e-learning, broadband access and information management applications and to leverage the

government's network building initiatives, with the aim of strengthening SMEs' overall IT capabilities. As regards the cultivation of foreign language capabilities, Taiwan's performance in the "Test of English as a Foreign Language" (TOEFL) examinations has recently been rather unsatisfactory. Although exam performance is not necessarily a good measure of English language capabilities, the government clearly needs to do more to encourage the regular use of foreign languages, so as to boost the competitiveness of Taiwanese industry.

### **(3) Educating Enterprises Regarding the Importance of CSR**

According to the 2005 Survey of Corporate Social Responsibility conducted jointly by *Global Views Monthly* magazine and the Industrial Development and Investment Center, Ministry of Economic Affairs, 92% of stock market-listed companies in Taiwan were interested in acquiring a more in-depth understanding of CSR. 85% of enterprises felt that their greatest responsibility was to their shareholders and employees; there is thus a significant disparity between attitudes in Taiwan and attitudes in other countries. By implementing CSR, enterprises can turn pressure into competitiveness; it is clear that, regardless of industry or enterprise size, CSR is set to become a shared "standard" that all enterprises will need to conform to in the future.

### **(4) Encouraging the Development of "Mutual Assistance Enterprises"**

In 2003, the government introduced the "Job Creation Through Expansion of Public Services" plan, with the aim of reducing the unemployment rate in Taiwan. The idea was to leverage large-scale public service provision to create large numbers of temporary jobs that would ease the problem of structural unemployment. In 2001, the Council of Labor Affairs began implementation of the "Diversified Employment Creation Plan," providing support for 4,284 individual job creation schemes and creating 53,000 new jobs. Members of disadvantaged groups were given priority in the allocation of these jobs, with particular emphasis on helping the middle-aged unemployed to develop new careers.

### **(5) Seeking to Gain a Clearer Picture of the Pace of Change in the Service Sector as a Whole**

The service sector covers an enormous range of industries. Given the current emphasis

on “adding service to manufacturing and stepping up the commercialization of services” and “bringing industry into culture and culture into industry,” it has become increasingly difficult to agree on a precise definition of the term “service industry.” Several government ministries and agencies are involved in the supervision of service sector operations, making it difficult to achieve unified planning or effective integration of resources, and hindering vertical and horizontal communication. With the rapid increase in the number of different service industries and the fluid boundaries between them, the government needs to introduce more flexibility into the categories it employs for the production of statistics, so that these statistics can reflect the changes taking place in Taiwanese industry as rapidly and comprehensively as possible.

#### **(6) Helping Taiwanese Industry to Overcome Barriers to Free Competition**

In its participation in WTO negotiations regarding the opening up of the service sector, Taiwan needs to focus on what is actually achievable, identifying those areas where market opening would be both feasible and beneficial to Taiwan. With China leveraging the Closer Economic Partnership Agreement (CEPA) to open up the service sector, Taiwan needs to concentrate on the development of key technologies to strengthen those industries in which it has the potential to remain competitive and fight off the challenge from China. Given the possibility that an “ASEAN + 3” free trade zone may be formed, bringing together the ASEAN member nations, China, Japan and South Korea in a free trade bloc, Taiwan will need to work hard to avoid becoming marginalized. If Japan and South Korea come to enjoy preferential tariff treatment, then Taiwanese manufacturers may find themselves being squeezed out of overseas markets. This is an area to which close attention should be paid.