

# Chapter 2

## An Overview of SME Development

In this Chapter, we have compiled and processed the original information from the business tax collection data released by the Tax Data Center, Ministry of Finance (MOF) and information published in the *Monthly Bulletin of Manpower Statistics*. The related statistical results are presented in Sections I to V so that we may observe and compare the development and evolution of Taiwanese enterprises over the years, including the development and structural change of SMEs and their role in the economy as a whole.

Unless otherwise noted, the following apply to the statistics presented in this chapter:

- (1) Indicators studied: The main indicators used in this Chapter are the number of enterprises, number of employed persons, number of paid employees, sales value, domestic sales value and export value.
- (2) Industry classification: In 2003, the classification of industries was revised according to the ROC Standard Industry Classification, 7th Revision. When comparing data for different years, the changes in the classification system must be taken into account.
- (3) Definition of SMEs: According to the latest version of the Definition of SMEs, revised in May 2000, enterprises in the manufacturing, construction and mining and quarrying sectors with paid-in capital of less than NT\$80 million or less than 200 regular employees are classed as SMEs. For other industries, those enterprises that had annual operating revenue of less than NT\$100 million in the previous year or that have fewer than 50 regular employees are classed as SMEs.
- (4) Data for the number of enterprises and operational data are based on paid-in capital or revenue as defined by the said revised criteria. For the number of people employed and the number of employees on the payroll, the definition of

SMEs is based on the number of regular employees.

- (5) Newly-established enterprise: This refers to a new business that has been in operation for less than one year. The original statistical data comes from the Tax Data Center, MOF.

## **I SMEs' Role in the Economy**

This section reviews the major indicators for Taiwanese business enterprises in 2004 and the development of Taiwanese enterprises as a whole and of SMEs in recent years, so as to understand the role that SMEs have played in Taiwan's economy.

### **1. Operational Performance in 2004**

Compared to 2003, the indicators for Taiwanese business enterprises as a whole in 2004 showed that the number of enterprises increased by 1.57%, the number of employed persons and the number of employees on the payroll increased by 2.23% and 3.38%, respectively, sales value increased by 10.45%, and export value increased massively by 15%, indicating that Taiwan's businesses had turned the corner with the continuing global economic rebound (Table 2-1-1).

In 2004, various observation indicators for SMEs all showed positive growth. The number of enterprises increased by 1.54%; the number of employed persons increased by 1.72%, and total sales value, domestic sales value and export value increased by 7.41%, 7.41% and 7.42%, respectively. However, the annual growth rate for various indicators for large enterprises and the rate of increase in the growth rates were all larger than those for SMEs. As a result, the SMEs' shares of various indicators were lower in 2003 (Table 2-1-2).

### **2. Overview of SME Development in Recent Years**

This section examines the development of Taiwanese business enterprises over the period 2000–2004. By 2000, the impact of the Asian financial crisis was gradually receding, and the economies that had been affected by the crisis were starting to recover. With the global economy obviously expanding, the business operating environment in Taiwan turned out to be particularly favorable, resulting in massive

**Table 2-1-1 Enterprise Performance in 2004 – by Size**

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

Index \ Size	All enterprises	Large enterprises	SMEs
Number of enterprises	1,190,176	26,167	1,164,009
Share	100.00	2.20	97.80
Annual growth rate	1.57	2.91	1.54
Number of employed persons	9,786*	1,238	7,553
Share	100.00	12.65	77.18
Annual growth rate	2.23	6.82	1.72
Number of paid employees	7,131*	1,234	4,903
Share	100.00	17.31	68.74
Annual growth rate	3.38	6.75	3.13
Sales value	30,561,185	21,208,708	9,352,477
Share	100.00	69.40	30.60
Annual growth rate	10.45	11.84	7.41
Domestic sales Value	22,128,280	14,202,164	7,926,116
Share	100.00	64.18	35.82
Annual growth rate	8.80	9.60	7.41
Export value	8,432,906	7,006,544	1,426,362
Share	100.00	83.09	16.91
Annual growth rate	15.00	16.68	7.42

Note: The asterisk \* in the table represents the total number of employed persons in Taiwan, including 995,000 government employees.

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).

**Table 2-1-2 Overview of Enterprise Development in Taiwan, 2000–2004**

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

Index \ Year	2000	2001	2002	2003	2004
Number of enterprises	1,091,245	1,098,185	1,130,525	1,171,780	1,190,176
Annual growth rate	0.54	0.64	2.94	3.65	1.57
Number of employed persons	9,491	9,383	9,454	9,573	9,786
Annual growth rate	1.08	-1.09	0.76	1.26	2.23
Number of paid employees	6,746	6,727	6,771	6,898	7,131
Annual growth rate	1.76	-0.22	0.66	1.88	3.38
Sales value	26,112,489	24,108,790	25,395,635	27,670,606	30,561,185
Annual growth rate	9.48	-7.67	5.34	8.96	10.45
Domestic sales value	19,271,937	17,812,606	18,387,558	20,337,864	22,128,280
Annual growth rate	6.03	-7.57	3.23	10.61	8.80
Import value	6,840,552	6,296,729	7,008,076	7,332,742	8,432,906
Annual growth rate	20.53	-7.95	11.30	4.63	15.00

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).

growth of all indicators. In particular, export value grew by 20.53%, the largest increase in recent years. In 2001, the rapid downturn of the global hi-tech industry and the 911 terrorist attacks on the US had made the business operating environment in Taiwan less desirable. With the exception of the number of enterprises that showed a slight increase of 0.64%, sales value, domestic sales value and export value all exhibited negative growth, declining by 8 percentage points compared to 2000. A rare negative growth rate was observed in the number of employed persons, a reduced rate of 1.09% being recorded. In 2002, Taiwan formally acceded to the World Trade Organization (WTO) and the global economy slowly rebounded. As a result, the business operating environment in Taiwan stabilized, and emerged from the shadows of recession. Meanwhile various indicators resumed their growth path, with the export value that increased by 11.30% being the highest of all the indicators. The number of employed persons also began to register positive growth. In 2003, despite the US-Iraqi war and the outbreak of SARS in the first half of the year, the second half of the year saw a strong global economic rebound. In Taiwan, the various indicators for business, apart from the index for export growth that exhibited a slight decline, all registered significant growth. In 2004, despite the impact of the earlier bullish world economy and the slow pace later both in the first half and the second half of the year, the number of employed persons and the number of employees on the payroll in Taiwan registered the largest growth in recent years with the export value showing a 15% increase, the second highest recorded since 2000 (Table 2-1-2).

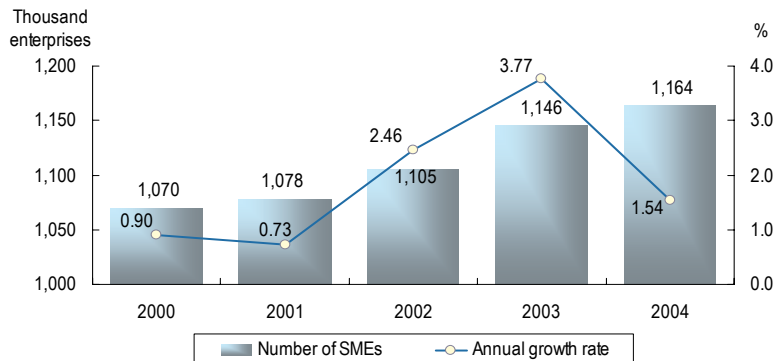
### 3. Overview of SME Development in Recent Years

If we further observe and compare the development of SMEs in the most recent five years (2000–2004), we note that the number of enterprises had increased with each year, especially in 2003 when the growth rate of 3.77% was the largest during the 5-year period. At the same time, the ratio of SME enterprises as a percentage of all businesses remained at an average of over 97%, with 2001 being the highest at 98.18% and 2002 the lowest at 97.72% (Figure 2-1-1 and Table 2-1-3).

As regards the number of employed persons and paid employees, a rare negative growth was seen in 2001 with -1.58%. In 2004, the number of employed persons and paid employees exhibited the largest increases in recent years, respectively, at 1.72% and 3.13%. However, the rate of increase was far lower than that found among large

enterprises; the SMEs' share of all employed persons and all paid employees in 2004 was the lowest since 2000 (77.18% and 68.74%, respectively) (Figure 2-1-2 and Table 2-1-3).

**Figure 2-1-1 Number of SMEs from 2000 to 2004, and Annual Growth Rate**



Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

**Table 2-1-3 Overview of SME Development, 2000–2004**

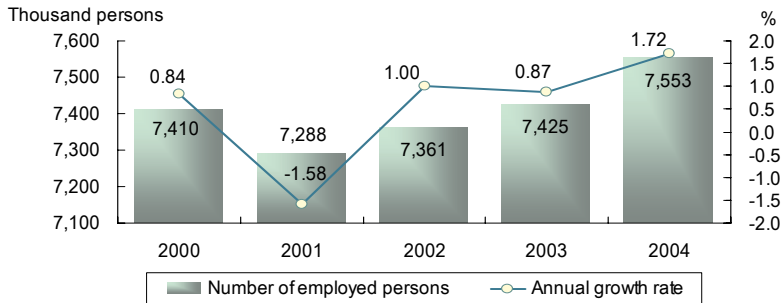
Units: Enterprises; thousand persons; NT\$ million; %

Index \ Year	2000	2001	2002	2003	2004
Number of enterprises	1,070,310	1,078,162	1,104,706	1,146,352	1,164,009
Share	98.08	98.18	97.72	97.83	97.80
Annual growth rate	0.90	0.73	2.46	3.77	1.54
Number of employed persons	7,410	7,288	7,361	7,425	7,553
Share	78.06	77.67	77.86	77.56	77.18
Annual growth rate	0.84	-1.58	1.00	0.87	1.72
Number of paid employees	4,668	4,636	4,682	4,754	4,903
Share	69.19	68.93	69.15	68.92	68.74
Annual growth rate	1.67	-0.59	0.99	1.54	3.13
Sales Value	7,566,617	6,841,565	7,495,287	8,707,060	9,352,477
Share	28.98	28.38	29.51	31.47	30.60
Annual growth rate	9.58	-9.58	9.56	16.17	7.41
Domestic sales value	6,196,680	5,541,613	6,144,404	7,379,224	7,926,116
Share	32.15	31.11	33.42	36.28	35.82
Annual growth rate	8.57	-10.57	10.88	20.10	7.41
Export value	1,369,937	1,300,385	1,350,884	1,327,836	1,426,362
Share	20.03	20.65	19.28	18.11	16.91
Annual growth rate	14.37	-5.08	3.88	-1.71	7.42

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).

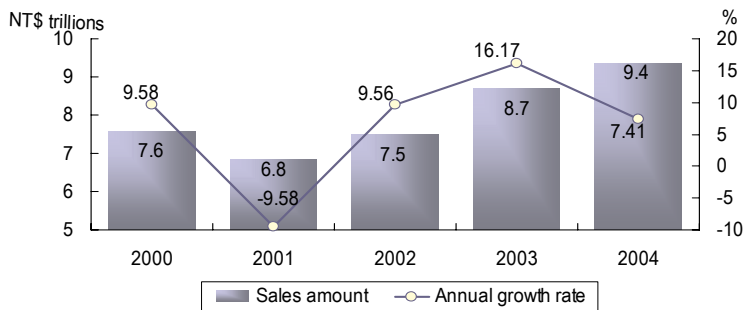
**Figure 2-1-2 Number of Persons Working in SMEs from 2000 to 2004, and Annual Growth Rate**



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

In terms of sales value, 2001 saw the largest reduction, exhibiting a decrease of 9.58%, the lowest in the 5-year period. In 2003, the annual growth rate reached its highest rate of 16.17%. In 2004, the annual sales value continued to grow, although at a slow pace (Figure 2-1-3). As for the shares of sales value, SMEs registered 31.47% in 2003 as a percentage of all businesses, the highest in the 5-year period, and 28.38% in 2001, the lowest over the same period (Table 2-1-3).

**Figure 2-1-3 Total Annual Sales of SMEs from 2000 to 2004, and Annual Growth Rate**

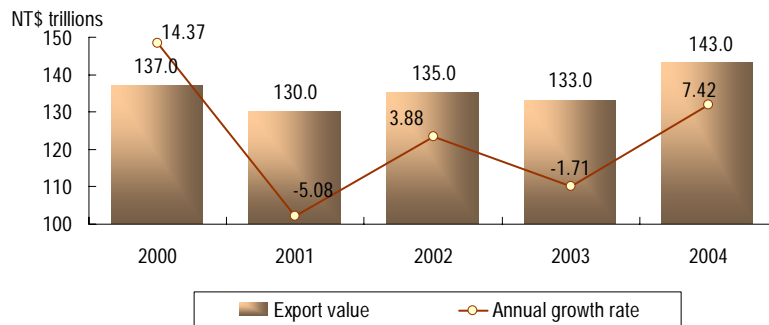


Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

In regard to domestic sales in the most recent 5 years, 2001 saw the largest decrease of 10.57%. For the other years, each year exhibited positive growth with 2003 being the highest with an increase of 20.10%. As for the shares of domestic sales accounted for by SMEs among all businesses, 2001 recorded the lowest share, accounting for 31.11% while 2003 had the highest share of 36.28% (Table 2-1-3).

In terms of the export value of SMEs, 2000 saw the largest increase of 14.37% during the 5-year period while 2001 and 2003 both registered negative growth of 5.08% and 1.71%, respectively. In 2004, the export value growth rate was 7.42%, the second largest increase in recent years (Figure 2-1-4). However, the export value of large enterprises increased relatively significantly in recent years, which made the share of exports accounted for by SMEs gradually diminish each year, falling to 16.91% in 2004, the lowest level in recent years (Table 2-1-3).

**Figure 2-1-4 Annual Export Values of SMEs from 2000 to 2004, and Annual Growth Rates**



Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

According to the information mentioned above, we note that the business operating environment in Taiwan has undergone considerable changes in the last five years. In 2001 when the global economy rapidly nosedived, the economic growth rate in Taiwan went down by comparison, registering a negative -2.2%. In the same year, sales value, domestic sales value, and export value declined by 9.58%, 10.57% and 5.08%, respectively, compared to 2000, although the number of SMEs increased slightly by 0.73%. Surprisingly, the number of employed persons and the number of paid employees fell by 1.58% and 0.59% respectively. Beginning in 2002, the economy both at home and abroad gradually rebounded and the various observation indicators mostly turned from negative to positive with each passing year, with the exception of 2003 when the annual export growth rate exhibited a negative -1.71%. The number of SMEs as a proportion of all businesses remained at the 98% level while employment and the number of employees on the payroll exceeded 77% and 68%, respectively. In relation to social stability and the protection of the people's livelihood, SMEs indeed contributed to a certain degree.

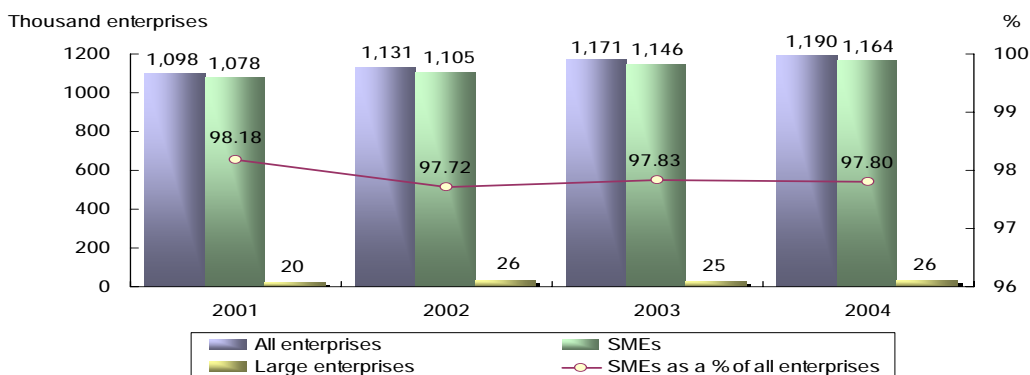
## II The Structure of the SME Sector

In this Section, we shall consider the number of business enterprises in Taiwan in terms of enterprise size, sector, age of enterprise, form of organization, industry, geographical distribution, etc., so as to obtain a clearer picture of the overall structure of the SME sector.

### 1. Number of Enterprises – by Enterprise Size

In 2004, Taiwan had a total of 1,190,000 business enterprises, representing an increase of 18,000 enterprises, or 1.57%, compared to 2003. This total included 1,164,000 SMEs, representing an increase of 18,000 enterprises, or 1.54%. As a percentage of all enterprises, SMEs fell slightly from 97.83% in 2003 to 97.80% in 2004. The number of large enterprises rose by just over 700 to 26,000, representing an increase of 2.91%; large enterprises accounted for 2.20% of all enterprises in Taiwan in 2004 (Figure 2-2-1).

**Figure 2-2-1 Number of Enterprises, 2001–2004**



Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

### 2. Number of Enterprises – by Sector

For both large enterprises and SMEs, the service sector accounted for the largest share of enterprises in 2004, followed by the manufacturing sector; the agricultural sector accounted for less than 1% of enterprises among both large enterprises and SMEs (Table 2-2-1).



**Table 2-2-1 The Number of Enterprises in 2003 and 2004, by Sector**

Units: Enterprises; %

Year/Industry	Size	All enterprises		Large enterprises		SMEs	
		Number of enterprises	Percentage of total	Number of enterprises	Percentage of total	Number of enterprises	Percentage of total
2003	Total	1,171,780	100.00	25,428	100.00	1,146,352	100.00
	Agriculture	10,751	0.92	33	0.13	10,718	0.93
	Manufacturing	217,307	18.55	5,900	23.20	211,407	18.44
	Service	943,722	80.54	19,495	76.67	924,227	80.62
2004	Total	1,190,176	100.00	26,167	100.00	1,164,009	100.00
	Agriculture	10,679	0.90	29	0.11	10,650	0.91
	Manufacturing	219,995	18.48	5,942	22.71	214,053	18.39
	Service	959,502	80.62	20,196	77.18	939,306	80.70

Note: The Agricultural sector in the Table above refers to the farming, forestry, fishing and livestock raising industries; the Manufacturing sector includes mining and quarrying, the manufacturing industry, the utilities industry, and the construction industry; the Service sector includes the wholesale and retail industries, the accommodation and eating-drinking places industry, the transportation, warehousing and communications industries, the finance and insurance industries, the real estate industry and leasing industry, the professional, scientific and technical service industries, the educational service industry, the medical service and health care and social welfare service industries, the cultural, sporting and entertainment industries, and other service industries.

Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

There were 939,000 SMEs in the service sector in 2004, accounting for 80.70% of all SMEs in Taiwan. This figure represented an increase of 15,000 enterprises, or 1.63%, over 2003. There were 214,000 SMEs in the manufacturing sector, accounting for 18.39% of all SMEs in Taiwan, and representing an increase of 2,600, or 1.25%, over 2003. There were 11,000 SMEs in the agricultural sector, accounting for 0.91% of all SMEs in Taiwan; this figure represented a decline of 0.63% compared to 2003. As regards large enterprises, the service sector accounted for 77.18% of all large enterprises in Taiwan, with the manufacturing sector accounting for 22.71% and the agricultural sector for 0.11%. It can thus be seen that, regardless of enterprise size, the rate of growth in the number of enterprises in the service sector was higher than that in the manufacturing sector or in agriculture; as a result, the share of all enterprises in Taiwan accounted for by the service sector has risen, while the shares accounted for by the manufacturing and agricultural sectors have both fallen (Table 2-2-1).

### 3. Number of Enterprises – by Enterprise Age

In 2004, those enterprises that had been in existence for 10–20 years accounted for the largest share of all enterprises in Taiwan, at 24.15%, followed by enterprises that had been in existence for 5–10 years, at 20.61%, and enterprises that had been in existence for over 20 years, at 18.35%. A total of 63.11% of enterprises had been in existence for at least 5 years, and 42.5% had been in existence for at least 10 years (Table 2-2-2).

**Table 2-2-2 The Number of Enterprises in 2004 – by Enterprise Age**

Units: Enterprises; %

Years in business	All enterprises		Large enterprises		SMEs	
	Number of enterprises	Percentage of total	Number of enterprises	Percentage of total	Number of enterprises	Percentage of total
Total	1,190,176	100.00	26,167	100.00	1,164,009	100.00
Less than 1 year	108,610	9.13	375	1.43	108,235	9.30
1-2 years	110,649	9.30	1,213	4.64	109,436	9.40
2-3 years	87,612	7.36	1,410	5.39	86,202	7.41
3-4 years	70,895	5.96	1,362	5.21	69,533	5.97
4-5 years	61,321	5.15	1,380	5.27	59,941	5.15
5-10 years	245,280	20.61	5,871	22.44	239,409	20.57
10-20 years	287,444	24.15	8,443	32.27	279,001	23.97
Over 20 years	218,365	18.35	6,113	23.36	212,252	18.23

Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

Just over a quarter (26.11%) of SMEs had been in existence for 3 years or less; 62.77% had been in existence for over 5 years, and 42.20% had been in existence for over 10 years. Some 9.3% of SMEs had been in existence for less than one year, compared to just 1.43% for large enterprises. These figures show that large numbers of SMEs are able to remain in business over an extended period, while at the same time SMEs still retain considerable flexibility in terms of market entry and exit (Table 2-2-2).

#### 4. Number of Enterprises – by Form of Organization

In 2004, the three most common forms of organization for business enterprises in Taiwan were the sole proprietorship, limited corporation and corporation limited by shares. A total of 1.15 million enterprises used one of these forms of organization, accounting for 96.38% of all enterprises in Taiwan. Sole proprietorships accounted for 57.91% of the total, followed by limited corporations with 27.48% and corporations limited by shares with 10.98% (Table 2-2-3).

The three most common forms of organization for SMEs in 2004 were, in order: the sole proprietorship, the limited corporation and the corporation limited by shares. A total of 1.12 million SMEs used one of these forms of organization; these SMEs accounted for 96.54% of all SMEs in Taiwan. There were 689,000 sole proprietorships, representing 59.2% of all SMEs in Taiwan, 321,000 limited corporations (27.57%) and 114,000 corporations limited by shares (9.77%). The situation with large enterprises was markedly different; 64.99% of large enterprises in Taiwan were corporations limited by shares, 23.53% were limited corporations, and 8.41% were branches of

another enterprise. Between them, these three forms of organization accounted for 96.93% of all large enterprises in Taiwan in 2004 (Table 2-2-3).

**Table 2-2-3 The Number of Enterprises in 2004 – by Form of Organization**

Units: Enterprises; %

Form of Organization	Size	All enterprises		Large enterprises		SMEs	
		Number of enterprises	Percentage of total	Number of enterprises	Percentage of total	Number of enterprises	Percentage of total
Total		1,190,176	100.00	26,167	100.00	1,164,009	100.00
Corporation limited by shares		130,693	10.98	17,005	64.99	113,688	9.77
Limited corporation		327,094	27.48	6,158	23.53	320,936	27.57
Unlimited corporation		47	0.00	2	0.01	45	0.00
Unlimited corporation with limited liability shareholders		26	0.00	0	0	26	0.00
Partnership		16,382	1.38	48	0.18	16,334	1.40
Sole proprietorship		689,257	57.91	149	0.57	689,108	59.20
Foreign company		2,947	0.25	577	2.21	2,370	0.20
Representative office of foreign company		137	0.01	27	0.10	110	0.01
Branch office		23,593	1.98	2,201	8.41	21,392	1.84

Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

## 5. Number of Enterprises – by Industry

The three industries with the largest number of enterprises in 2004 were: the wholesale and retail sector, with 633,000 enterprises (accounting for 53.22% of all enterprises in Taiwan), the manufacturing industry with 137,000 (11.52%), and the accommodation and eating-drinking places industry with 92,000 (7.69%) (Table 2-2-4). Among the large enterprises, the industries with the largest number of enterprises were: the wholesale and retail sector (52.91% of all large enterprises), manufacturing (16.5%) and finance and insurance (8.12%) (see Appended Table A-1).

Of the 15 major industry categories, those that accounted for less than 1% of all SMEs in Taiwan were: agriculture, forestry, fishing and animal husbandry (0.91%), finance and insurance (0.88%), mining and quarrying (0.12%), water, electricity and gas (0.04%), educational services (0.03%), and medical, health care and social welfare services (0.02%) (Table 2-2-4).

In comparison with 2003, although the total number of SMEs in Taiwan rose by 1.54%, nevertheless, as can be seen from Table 2-2-4, there were eight industry categories in which the number of SMEs fell. The decline was greatest in absolute terms in the transportation, warehousing and communications industry, and greatest in

percentage terms (a decline of 29.97%) in the medical, healthcare and social welfare services industry. The wholesale and retail sector had the greatest increase in the number of SMEs in absolute terms, at 8,200 SMEs (representing an increase of 1.34%). In percentage terms, the accommodation and eating-drinking places industry had the greatest increase, with 7.28% (6,200 SMEs in absolute terms). The next largest increase in absolute terms was posted by the construction industry, with an increase of 3,500 SMEs (4.55%).

**Table 2-2-4 The Number of SMEs in 2003 and 2004 – by Industry**

Units: Enterprises; %

Industry	Year	2003 (A)	2004 (B)	Percentage of total		
				Percentage of total	(B) – (A)	Annual growth rate
Total		1,146,352	1,164,009	100.00	17,657	1.54
Agriculture, forestry, fishing and animal husbandry		10,718	10,650	0.91	-68	-0.63
Mining and quarrying		1,393	1,381	0.12	-12	-0.86
Manufacturing		133,560	132,840	11.41	-720	-0.54
Water, electricity and gas		593	520	0.04	-73	-12.31
Manufacturing		75,861	79,312	6.81	3,451	4.55
Wholesale and retail		611,339	619,525	53.22	8,186	1.34
Accommodation and eating-drinking places		85,061	91,252	7.84	6,191	7.28
Transportation, warehousing and communications		44,721	40,385	3.47	-4,336	-9.70
Finance and insurance		10,513	10,240	0.88	-273	-2.60
Real estate and leasing		22,803	23,773	2.04	970	4.25
Professional, scientific and technical services		44,298	44,867	3.85	569	1.28
Educational services		459	403	0.03	-56	-12.20
Medical, health care and social welfare services		367	257	0.02	-110	-29.97
Cultural, sports and leisure services		26,612	27,654	2.38	1,042	3.92
Other service industries		78,054	80,950	6.95	2,896	3.71

Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

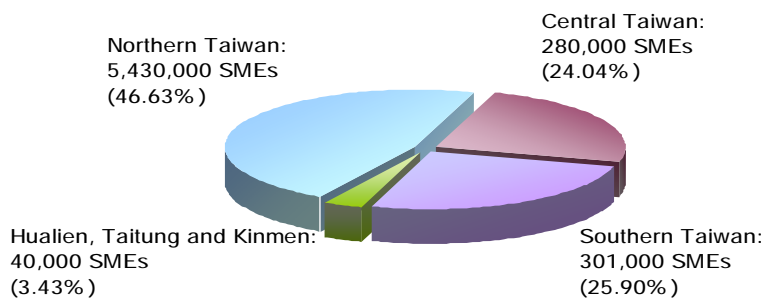
## 6. Geographical Distribution of Enterprises

In 2004, there were 560,000 enterprises in Northern Taiwan (accounting for 47.09% of all enterprises in Taiwan), 306,000 in Southern Taiwan (25.71%), 240,000 in Central Taiwan (23.84%), and 40,000 in Hualien, Taitung and Kinmen (3.37%). Large enterprises were heavily concentrated in Northern Taiwan; 67.28% of them were located in that region, compared to 17.22% in Southern Taiwan, 14.82% in Central Taiwan and 0.67% in Hualien, Taitung and Kinmen.

As regards the geographical distribution of SMEs, in 2004 there were 543,000 SMEs in Northern Taiwan, accounting for 46.63% of all SMEs in Taiwan, and

representing an increase of 8,600 (or 1.6%) compared to 2003; there were 301,000 SMEs in Southern Taiwan, accounting for 25.9% of all SMEs in Taiwan, and representing an increase of 6,900 (2.34%) compared to 2003; there were 280,000 SMEs in Central Taiwan, accounting for 24.04% of all SMEs in Taiwan, and representing an increase of 2,500 (0.89%); there were 40,000 SMEs in Hualien, Taitung and Kinmen, accounting for 3.43% of all SMEs in Taiwan, and representing a decrease of 0.64% (Figure 2-2-2).

**Figure 2-2-2 Geographical Distribution of SMEs in 2004**



Note: Northern Taiwan includes Taipei City, Taipei County, Keelung City, I-lan County, Taoyuan County, Hsinchu City, and Hsinchu County; Central Taiwan includes Taichung City, Taichung County, Miaoli County, Changhua County, Nantou County and Yunlin County; Southern Taiwan includes Chiayi City, Chiayi County, Tainan City, Tainan County, Kaohsiung City, Kaohsiung County, Pingtung County and Penghu County; the Hualien, Taitung and Kinmen region includes Hualien County, Taitung County and Kinmen County.

Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

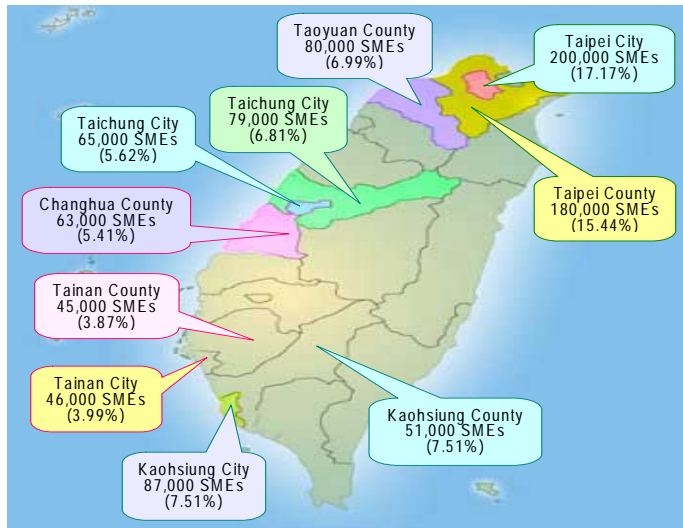
## 7. Counties and Cities with the Largest Number of Enterprises

In 2004, Taipei City (with 210,000 enterprises) and Taipei County (with 184,000) were the only two counties or cities in Taiwan that were home to more than 100,000 enterprises. Penghu County had the fewest enterprises, with approximately 6,000.

Taipei City had more SMEs than any other county or city in Taiwan in 2004, with approximately 200,000 (or 17.17% of all SMEs in Taiwan). This figure represented a decrease of 900 SMEs (or 0.45%) compared to 2003. Taipei County had the next largest number of SMEs, with approximately 180,000 (or 15.44% of all SMEs in Taiwan), representing an increase of 5,800 (3.34%) compared to 2003; it was followed by Kaohsiung City, with 87,000 SMEs (7.51% of all SMEs in Taiwan), representing an increase of 2,000 (2.3%). Four counties and cities experienced a decline in terms of the number of SMEs: Taipei City (-0.45%), Keelung City (-0.62%),

Hsinchu City (-0.55%), Yunlin County (-0.59%) and Taitung County (-3.69%) (Figure 2-2-3). As can be seen from Figure 2-2-3, Taiwan's SMEs are heavily concentrated in the major metropolitan areas and their satellite towns on the western side of Taiwan.

**Figure 2-2-3 Counties and Cities with the Largest Numbers of SMEs in 2004**



Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

### III Overview of the Employment

With both the Taiwanese economy and the global economy as a whole growing steadily, the number of employed persons in Taiwan continued to grow in 2004; the rate of increase was the highest for several years. Although the agriculture, forestry, fishing and animal husbandry sector experienced a decline in the number of employed persons, every other industry saw an increase. The following section provides an overview of the changes in the number of employed persons and the number of paid employees.

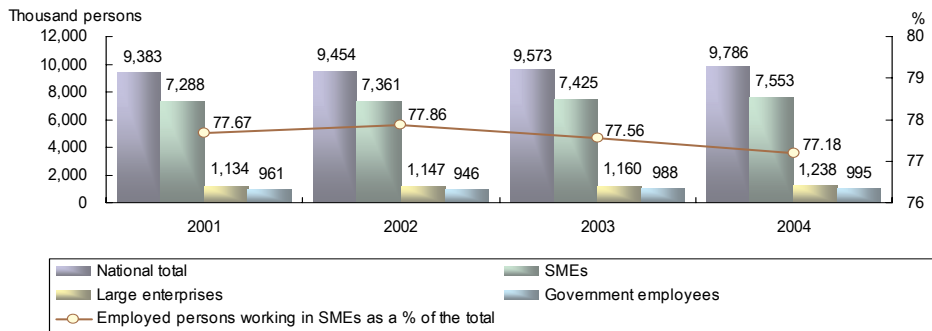
#### 1. Number of Employed Persons

##### (1) Number of Employed Persons – by Size of Enterprise

The average number of employed persons in Taiwan in 2004 was 9,786,000,

representing an increase of 213,000 (2.23%) over 2003. This total included 995,000 government employees, accounting for 10.17% of all employed persons, and representing an increase of 6,000 (0.61%). 1,238,000 employed persons were working in large enterprises; they accounted for 12.65% of all employed persons in Taiwan. The number of employed persons working in large enterprises increased by 79,000 (6.82%) compared to 2003. 7,553,000 employed persons were working in SMEs; they accounted for 77.18% of all employed persons in Taiwan. The number of employed persons working in SMEs increased by 128,000 (1.72%) compared to 2003 (Figure 2-3-1).

**Figure 2-3-1 Number of Employed Persons in Taiwan, 2001–2004**



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

## (2) Number of Employed Persons – by Industry

In 2004, the manufacturing industry accounted for the largest share of employed persons in Taiwan, or 27.3%; there were a total of 2,671,000 employed persons working in manufacturing enterprises, representing an increase of 82,000 (3.16%) over 2003. The wholesale and retail sector accounted for the next highest share of employed persons, at 17.65%; there were 1,727,000 employed persons working in wholesale and retail enterprises, representing an increase of 29,000. The construction industry was in third place, with 7.48% of all employed persons in Taiwan. There were 732,000 employed persons working in the construction industry in 2004; the upturn in the real estate market helped to stimulate an increase of 30,000 in the number of employed persons working in this industry. For large enterprises, the three industries that accounted for the largest shares of employed persons were the manufacturing industry (44.15% of all employed persons working in large enterprises),

the finance and insurance industry (12.72%), and the medical, healthcare and social services industry (8.29%) (see Appended Table A-5).

The manufacturing industry accounted for the largest share of those employed persons working for SMEs, or 27.73%; there were 2,095,000 employed persons working in SMEs in the manufacturing industry, representing an increase of 44,000 (2.16%) over 2003. The next largest share was accounted for by the wholesale and retail sector, with 1,621,000 employed persons working in SMEs, accounting for 21.47% of all employed persons working in SMEs; the number of employed persons working in SMEs in the wholesale and retail sector had increased by 25,000 (1.57%) compared to 2003. The construction industry was in third place, with 9.44% of all employed persons working in SMEs; there were 713,000 employed persons working in SMEs in 2004, representing an increase of 32,000 (4.71%) over 2003 (Table 2-3-1).

**Table 2-3-1 The Number of Employed Persons Working in SMEs in 2003 and 2004 – by Industry**

Units: thousand persons; %

Industry	Year	2003 (A)	2004 (B)	Units: thousand persons; %		
				Percentage of total	(B) – (A)	Annual growth rate
Total		7,425	7,553	100.00	128	1.72
Agriculture, forestry, fishing and animal husbandry		688	635	8.40	-54	-7.83
Mining and quarrying		7	6	0.08	-1	-13.94
Manufacturing		2,051	2,095	27.73	44	2.16
Water, electricity and gas		2	2	0.02	0	-10.54
Construction		681	713	9.44	32	4.71
Wholesale and retail		1,596	1,621	21.47	25	1.57
Accommodation and eating-drinking places		561	578	7.66	17	3.06
Transportation, warehousing and communications		313	321	4.25	8	2.55
Finance and insurance		201	199	2.64	-2	-0.79
Real estate and leasing		60	67	0.89	7	12.47
Professional, scientific and technical services		226	241	3.19	15	6.75
Educational services		161	171	2.27	10	6.16
Medical, health care and social welfare services		133	141	1.86	8	6.10
Cultural, sports and leisure services		128	130	1.72	2	1.88
Other service industries		617	632	8.37	15	2.44

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

In comparison with 2003, the manufacturing industry experienced the largest increase in the number of employed persons working in SMEs, followed by the construction industry, with the wholesale and retail sector in third place. Four industry



categories experienced a decline in the number of employed persons working in SMEs: mining and quarrying (-13.94%), water, electricity and gas (-10.54%), agriculture, forestry, fisheries and livestock raising (-7.83%), and finance and insurance (-0.79%) (Table 2-3-1).

### **(3) The Number of Employed Persons – by Sector**

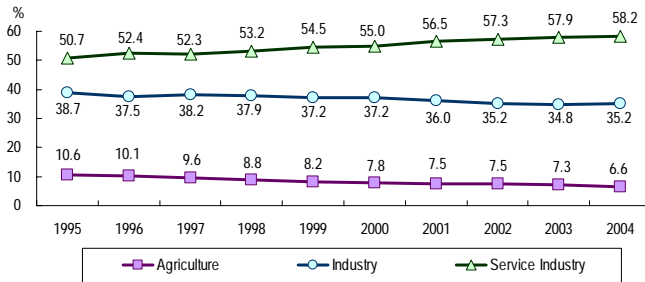
In 2004, there were 5,698,000 employed persons working in the service sector in Taiwan, representing an increase of 155,000 (2.8%) compared to 2003. All industries within the service sector experienced an increase in the number of employed persons. The number of employed persons working in the manufacturing sector rose by 111,000 (3.33%) to reach 3,446,000, while the number of employed persons working in agriculture fell by 54,000 (7.72%) to 642,000 (Table 2-3-1).

The service sector accounted for the largest share of employed persons working in SMEs in 2004, with 41.93% of the total. There were 4,103,000 employed persons working in service sector SMEs in 2004, representing an increase of 107,000 (2.67%) compared to 2003. There were 2,816,000 employed persons working in SMEs in the manufacturing sector, accounting for 28.77% of all employed persons working in SMEs; the number of employed persons working in the manufacturing sector SMEs rose by 75,000 (2.74%) compared to 2003. There were 635,000 employed persons working in SMEs in the agricultural sector, accounting for 6.48% of all employed persons working in SMEs; the number of employed persons working in agricultural sector SMEs fell by 54,000 (7.83%) compared to 2003.

### **(4) Changes in the Number of Employed Persons Working in SMEs in Taiwan in the Last Ten Years – by Sector**

An examination of the changes in the share of all employed persons in Taiwan accounted for by each sector over the ten-year period from 1995 to 2004 shows that, by 1995, the service sector already accounted for more than half of the employed persons in Taiwan, at 50.7%, as compared to 38.7% for the manufacturing sector. From then onwards, the service sector's share continued to rise, and by 2004 the disparity between the service sector and the manufacturing sector had grown to 23 percentage points. Agriculture's share of all employed persons declined by 4 percentage points over the ten-year period (Figure 2-3-2).

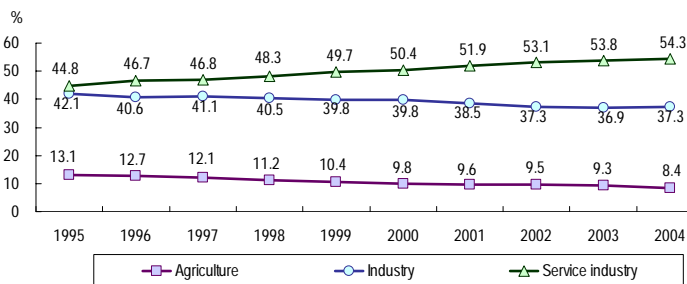
**Figure 2-3-2 Individual Sectors' Shares of the Total Number of Employed Persons in Taiwan, 1995–2004**



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

As regards the situation with SMEs, in 1995 the service sector accounted for 44.8% of all employed persons working for SMEs, while the manufacturing sector accounted for 42.1%. The disparity between the two sectors was thus only 2.7 percentage points. However, the service sector's share continued to rise, climbing to 50.4% by 2000, while the manufacturing sector's share gradually shrank. By 2004, the gap between the two sectors had grown to 17 percentage points, with the service sector accounting for 54.3% of all employed persons working in SMEs, while the manufacturing sector's share had fallen to 37.3%. The agricultural sector's share fell by 4.7 percentage points over the ten-year period from 1995 to 2004 (Figure 2-3-3).

**Figure 2-3-3 Individual Sectors' Shares of the Total Number of Employed Persons in Taiwan Working in SMEs, 1995–2004**



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

It can be seen from the data summarized above that, both for those employed persons working in SMEs and for employed persons as a whole, there has been a gradual shift towards employment in the service sector. However, with the upturn in the

economy that began in 2004, there has been a significant increase in the number of people working in the manufacturing industry and in the construction industry. As a result, the manufacturing sector's share of all employed persons has started to rise again.

## IV Sales Performance and Sales Structure

### 1. Total Sales, Domestic Sales and Export Sales

In 2004, Taiwanese business enterprises had total sales of NT\$30,561.2 billion, representing an increase of NT\$2,890.6 billion (10.45%). Domestic sales totaled NT\$22,128.3 billion, representing an increase of NT\$1,790.4 billion (8.80%); exports totaled NT\$8,432.9 billion, representing an increase of NT\$1,100 billion (15.00%) (Table 2-4-1).

**Table 2-4-1 Total Sales, Domestic Sales and Export Sales in 2004**

Units: NT\$ million; %; percentage points

Year/Size	Item	Total sales value	Domestic sales value	Export value	Total	Domestic sales share	Export sales share
2003	All businesses	27,670,606	20,337,864	7,332,742	100.00	73.50	26.50
	Large enterprises	18,963,546	12,958,640	6,004,906	100.00	68.33	31.67
	SMEs	8,707,060	7,379,224	1,327,836	100.00	84.75	15.25
2004	All businesses	30,561,185	22,128,280	8,432,906	100.00	72.41	27.59
	Large enterprises	21,208,708	14,202,164	7,006,544	100.00	66.96	33.04
	SMEs	9,352,477	7,926,116	1,426,362	100.00	84.75	15.25
Percentage increase in 2004 compared to 2003						Change in percentage points	
	All businesses	10.45	8.80	15.00	–	-1.09	1.09
	Large enterprises	11.84	9.60	16.68	–	-1.37	1.37
	SMEs	7.41	7.41	7.42	–	0	0

Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

Domestic sales accounted for 72.41% of total sales in 2004, while export sales accounted for 27.59%. Domestic sales accounted for a higher share of total sales than export sales for both large enterprises and SMEs; however, the percentage was much higher for SMEs (84.75%) than for large enterprises (66.96%). In the case of the SMEs, the disparity between the share of total sales accounted for by domestic sales and the share accounted for by export sales was extremely large, at 69.5 percentage points, reflecting the SMEs' greater orientation towards the domestic market. The shares of SMEs' total sales accounted for by export sales and domestic sales were more or less unchanged compared to 2003 (Table 2-4-1).

A comparison with 2003 shows a significant increase in total sales, domestic sales and export sales for Taiwanese enterprises as a whole, with the increase in export sales (15.00%) being particularly pronounced. SMEs posted a 7.41% increase in total sales, a 7.41% increase in domestic sales and a 7.42% increase in export sales; these rates of increase were significantly lower than those achieved by Taiwan's large enterprises (11.84%, 9.60% and 16.68%, respectively) (Table 2-4-1).

## 2. SME Sales Performance – by Sector

The service sector accounted for more than half of Taiwanese SMEs' total sales and domestic sales in 2004; this sector accounted for a 51.86% share of total sales and a 55.24% share of domestic sales. The manufacturing sector accounted for the largest share of total SME export sales, at 66.77%. The agricultural sector represented only a tiny share of total sales, domestic sales and export sales – 0.14% in all cases (Table 2-4-2).

**Table 2-4-2 SME Sales Performance By Sector in 2003 and 2004**

Units: NT\$ million; %, percentage points

Year/Industry	Indicator	2003		2004		Comparison between 2004 and 2003	
		Sales value	Percentage of total	Domestic sales value	Percentage of total	Annual growth rate	Percentage point changes
2003	Total	8,707,060	100.00	7,379,224	100.00		
	Agriculture	13,499	0.16	11,651	0.16		
	Manufacturing	4,038,414	46.38	3,184,169	43.15		
	Service sector	4,655,147	53.46	4,183,404	56.69		
2004	Total	9,352,477	100.00	7,926,116	100.00		
	Agriculture	12,851	0.14	10,821	0.14		
	Manufacturing	4,489,557	48.00	3,537,210	44.63		
	Service sector	4,850,069	51.86	4,378,085	55.24		
Comparison between 2004 and 2003		Annual growth rate	Percentage point changes	Annual growth rate	Percentage point changes	Annual growth rate	Percentage point changes
Agriculture		-4.80	-0.02	-7.13	-0.02	9.91	0.00
Manufacturing		11.17	1.62	11.09	1.48	11.48	2.43
Service sector		4.19	-1.61	4.65	-1.46	0.05	-2.44

Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

In comparison with 2003, the service sector's shares of total sales, domestic sales and export sales fell by 1.61 percentage points, 1.46 percentage points and 2.44 percentage points, respectively. The manufacturing sector posted an increase of 11.17% in total sales, 11.09% in domestic sales and 11.48% in export sales, causing this sector's shares of total sales, domestic sales and export sales to rise by 1.62

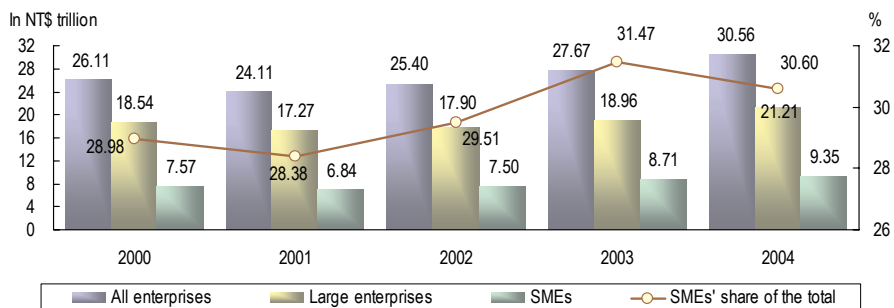
percentage points, 1.48 percentage points and 2.43 percentage points, respectively (Table 2-4-2).

### 3. Total Sales, 2000–2004

#### (1) Total Sales – by Enterprise Size

In 2004, Taiwan's large enterprises posted total sales of NT\$21,208.7 billion, accounting for 69.40% of the total sales for all Taiwanese enterprises. This figure represented an increase of NT\$2,245.2 billion (11.84%) over 2003. SMEs posted total sales of NT\$9,352.5 billion, or 30.60% of the total for all enterprises; this figure represented an increase of NT\$645.4 billion (7.41%) compared to 2003 (Figure 2-4-1).

**Figure 2-4-1 Business Enterprises' Total Sales, 2000–2004**



Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

#### (2) SMEs' Total Sales – by Industry

The industry that accounted for the largest share of Taiwanese SMEs' total sales in 2004 was the wholesale and retail sector, with total sales of NT\$3,553.8 billion (38% of the total for SMEs in all industries); this figure represented an increase of NT\$171.9 billion (5.08%) over 2003. The manufacturing industry accounted for the second largest share, with total sales of NT\$3,521.3 billion (37.65% of the total for all industries), representing an increase of NT\$375.2 billion (11.93%). The construction industry was in third place, with total sales of NT\$926.3 billion (9.90% of the total), representing an increase of NT\$75.4 billion (8.86%). Total sales for the manufacturing industry and for the wholesale and retail sector are thus now at roughly the same level (Table 2-4-3).

**Table 2-4-3 SMEs' Total Sales in 2003 and 2004 – by Industry**

In NT\$ million; %

Industry	Year					Annual growth rate
		2003 (A)	2004 (B)	Percentage of total	(B) – (A)	
Total		8,707,060	9,352,477	100.00	645,418	7.41
Agriculture, forestry, fishing and animal husbandry		13,499	12,851	0.14	-648	-4.80
Mining and quarrying		33,648	35,333	0.38	1,685	5.01
Manufacturing		3,146,123	3,521,301	37.65	375,178	11.93
Water, electricity and gas		7,718	6,608	0.07	-1,111	-14.39
Manufacturing		850,925	926,316	9.90	75,391	8.86
Wholesale and retail		3,381,904	3,553,820	38.00	171,916	5.08
Accommodation and eating-drinking places		177,207	190,954	2.04	13,746	7.76
Transportation, warehousing and communications		357,039	326,139	3.49	-30,901	-8.65
Finance and insurance		165,044	159,895	1.71	-5,149	-3.12
Real estate and leasing		122,976	135,408	1.45	12,433	10.11
Professional, scientific and technical services		209,731	227,474	2.43	17,744	8.46
Educational services		1,891	1,513	0.02	-378	-20.00
Medical, health care and social welfare services		1,220	981	0.01	-239	-19.59
Cultural, sports and leisure services		75,844	78,832	0.84	2,988	3.94
Other service industries		162,291	175,052	1.87	12,762	7.86

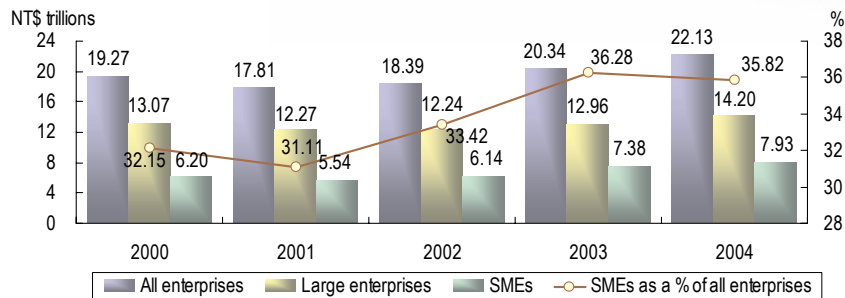
Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

In comparison with 2003, SMEs' total sales grew by 7.41% in 2004. The industries that achieved the highest sales growth were manufacturing, real estate and leasing, and construction. SMEs in six industries experienced a decline in total sales in 2004. These industries were: educational services; medical, healthcare and social services; the water, electricity and gas industry; transportation, warehousing and communications; agriculture, forestry, fishing and animal husbandry; and finance and insurance (Table 2-4-3).

## 4. Domestic Sales

### (1) Domestic Sales – by Enterprise Size

In 2004, Taiwan's large enterprises posted total domestic sales of NT\$14,202.2 billion, accounting for 64.18% of total domestic sales for all Taiwanese enterprises. This figure represented an increase of NT\$1,243.5 billion (9.60%) over 2003. The SMEs posted total sales of NT\$7,926.1 billion, or 35.82% of the total for all enterprises; this figure represented an increase of NT\$546.9 billion (7.41%) compared to 2003 (Table 2-1-1 and Figure 2-4-2).

**Figure 2-4-2 Taiwanese Enterprises' Domestic Sales, 2000–2004**

Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

## (2) SMEs' Domestic Sales – by Industry

The wholesale and retail sector accounted for the largest share of Taiwanese SMEs' total domestic sales in 2004, with combined domestic sales of NT\$3,136.1 billion (39.57% of the total); this figure represented an increase of NT\$160.2 billion (5.38%) over 2003. The manufacturing industry was in second place with domestic sales of NT\$2,584.5 billion (32.61% of the total), representing an increase of NT\$280.1 billion (12.16%). The construction industry ranked third, with domestic sales of NT\$911.4 billion (11.50% of the total), representing an increase of NT\$72.4 billion (8.63%).

## 5. Export Sales

### (1) Export Sales – by Enterprise Size

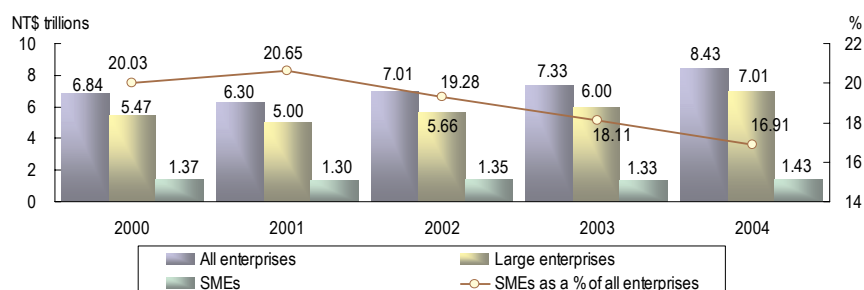
In 2004, Taiwan's large enterprises posted total exports of NT\$7,006.5 billion, representing an increase of NT\$1,001.6 billion (16.68%) over 2003. Taiwan's SMEs achieved total exports of NT\$1,426.4 billion, representing an increase of NT\$98.5 billion (7.42%). Large enterprises accounted for 83.09% of total exports for all enterprises, while the SMEs' share fell from 18.11% in 2003 to 16.91% in 2004 (Figure 2-4-3).

### (2) SMEs' Export Sales – by Industry

In 2004, the manufacturing industry accounted for the largest share of Taiwanese SMEs' total export sales, with combined export sales of NT\$936.8 billion, or 65.67% of the total. This figure represented an increase of NT\$95 billion (11.29%) compared

to 2003. The wholesale and retail industry accounted for the second largest share, with total export sales of NT\$417.7 billion (29.29% of the total), representing an increase of NT\$11.7 billion (2.89%). The transportation, warehousing and communications industry ranked third, with total export sales of NT\$36.8 billion (2.58% of the total), representing a decrease of NT\$11.4 billion (23.67%). Between them, these three industries accounted for 97.54% of Taiwanese SMEs' total exports. No other industry accounted for more than 1% of total exports, with the exception of the construction industry, with 1.05% (Table 2-4-4).

**Figure 2-4-3 Taiwanese Enterprises' Export Sales, 2000–2004**



Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

**Table 2-4-4 SMEs' Export Sales in 2003 and 2004 – by Industry**

Units: NT\$ million; %

Industry	Year	2003 (A)	2004 (B)	Percentage of total	(B) – (A)	Annual growth rate
Total		1,327,836	1,426,362	100.00	98,526	7.42
Agriculture, forestry, fishing and animal husbandry		1,847	2,031	0.14	183	9.91
Mining and quarrying		413	463	0.03	50	12.12
Manufacturing		841,710	936,759	65.67	95,049	11.29
Water, electricity and gas		133	177	0.01	43	32.59
Construction		11,989	14,949	1.05	2,960	24.69
Wholesale and retail		406,002	417,737	29.29	11,735	2.89
Accommodation and eating-drinking places		2,169	1,817	0.13	-352	-16.23
Transportation, warehousing and communications		48,217	36,806	2.58	-11,411	-23.67
Finance and insurance		216	307	0.02	91	42.36
Real estate and leasing		809	785	0.06	-25	-3.05
Professional, scientific and technical services		11,786	12,004	0.84	218	1.85
Educational services		48	16	0.00	-32	-66.55
Medical, health care and social welfare services		7	8	0.00	1	19.29
Cultural, sports and leisure services		783	730	0.05	-53	-6.75
Other service industries		1,706	1,773	0.12	67	3.92

Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.



To summarize, in 2004 domestic sales accounted for 84.75% of Taiwanese SMEs' total sales, while export sales accounted for 15.25%; there was thus a 69.5 percentage point gap between domestic sales and export sales. By contrast, for large enterprises, domestic sales accounted for 66.96% of total sales, while export sales accounted for 33.04%, giving a disparity of only 33.92 percentage points. There is thus a clear tendency for SMEs to focus on the domestic market to a greater extent than large enterprises do. SME export sales are heavily concentrated in the manufacturing industry (65.67%) and the wholesale and retail industry (29.29%).

## V Newly-Established Enterprises

### 1. Overview of Newly-Established Enterprises – by Enterprise Size

The status of newly-established enterprises in Taiwan – by enterprise size – is outlined below (Table 2-5-1 and Figure 2-5-1).

**Table 2-5-1 Domestic Sales and Export Sales of Newly-Established Enterprises in 2004**

Units: NT\$ million; %

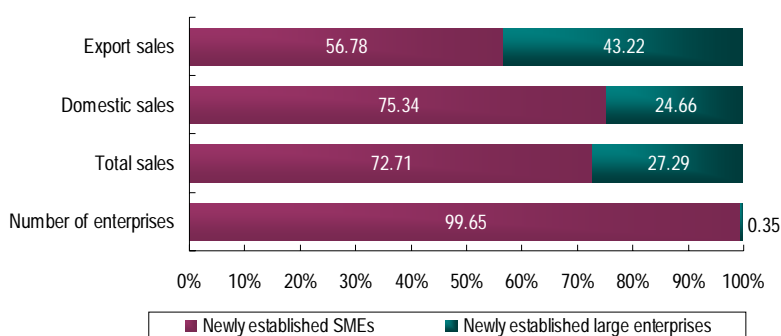
Size	Item	Total sales value	Domestic sales value	Export sales value	Total	Domestic sales ratio	Export sales ratio
All businesses		358,680	307,962	50,718	100.00	85.86	14.14
Large enterprises		97,869	75,947	21,921	100.00	77.60	22.40
	Percentage of total	27.29	24.66	43.22			
SMEs		260,811	232,015	28,797	100.00	88.96	11.04
	Percentage of total	72.71	75.34	56.78			

Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

- (1) There were 109,000 newly-established enterprises, of which 375 were large enterprises, accounting for 0.35% of all newly-established enterprises; 108,000 of the newly-established enterprises were SMEs, accounting for 99.65% of all newly-established enterprises.
- (2) Newly-established enterprises posted total sales of NT\$358,680 million in 2004. Newly-established large enterprises accounted for NT\$97,870 million of this figure (27.29% of the total), while newly-established SMEs accounted for NT\$260,810 million (72.71% of the total).

- (3) Newly-established enterprises posted domestic sales totaling NT\$307,960 million. Newly-established large enterprises accounted for NT\$75,950 million of this figure (24.66% of the total), while newly-established SMEs accounted for NT\$232,011 million (75.34% of the total).
- (4) Newly-established enterprises posted export sales totaling NT\$50,720 million. Newly-established large enterprises accounted for NT\$21,920 million of this figure (43.22% of the total), while newly-established SMEs accounted for NT\$28.8 billion (56.78%).

**Figure 2-5-1 Newly-Established Enterprises in 2004 – by Size**



Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

## 2. Ratio of Domestic Sales to Export Sales among Newly-Established Enterprises

The difference between the domestic sales performance and export sales performance of newly-established enterprises in 2004 was dramatic. Domestic sales accounted for 85.86% of newly-established enterprises' total sales, while export sales accounted for 14.14%. These figures reflect the fact that newly-established enterprises are heavily oriented towards the domestic market. For newly-established SMEs, domestic sales accounted for 88.96% of total sales, while domestic sales accounted for 11.04%, giving a disparity of 77.92 percentage points. Among newly-established large enterprises, the figures were 77.60% and 22.40%, giving a disparity of 55.2 percentage points. It can thus be seen that the orientation towards the domestic market among newly-established enterprises is even more pronounced among SMEs than among large enterprises.

### 3. Comparison of Newly-Established SMEs with SMEs as a Whole

Examination of the data for newly-established SMEs as a percentage of all SMEs for the last five years shows that, in 2004, there was a downward trend in all indicators. The shares of total sales, domestic sales and exports sales for all SMEs accounted for by newly-established SMEs all fell to their lowest level in five years. As a percentage of all SMEs, the number of newly-established SMEs was largest in 2003, at 9.73%, and lowest in 2002, at 8.28%. The share of SMEs' total sales and domestic sales accounted for by newly-established SMEs reached its highest level in 2000, while the share of SMEs' total export sales accounted for by newly-established SMEs reached its highest level in 2001 (Table 2-5-2).

**Table 2-5-2 Comparison of Newly-Established SMEs with SMEs as a Whole, 2000–2004**

Units: Number of enterprises; NT\$ million; %

Indicator		Year	2000	2001	2002	2003	2004
Number of enterprises	All SMEs		1,070,310	1,078,162	1,104,706	1,146,352	1,164,009
	Newly-established SMEs		96,723	94,803	91,435	111,507	108,235
	Newly-established SMEs as % of all SMEs		9.04	8.79	8.28	9.73	9.30
Total sales value	All SMEs		7,566,617	6,841,565	7,495,287	8,707,060	9,352,477
	Newly-established SMEs		267,649	231,363	247,292	295,370	260,811
	Newly-established SMEs as % of all SMEs		3.54	3.38	3.30	3.39	2.79
Domestic sales value	All SMEs		6,196,680	5,541,613	6,144,404	7,379,244	7,926,116
	Newly-established SMEs		228,245	190,003	204,968	266,634	232,015
	Newly-established SMEs as % of all SMEs		3.68	3.43	3.34	3.61	2.93
Export sales value	All SMEs		1,369,937	1,300,385	1,350,884	1,327,836	1,426,362
	Newly-established SMEs		39,403	41,384	42,324	28,736	28,797
	Newly-established SMEs as % of all SMEs		2.88	3.18	3.13	2.16	2.02

Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

### 4. Newly-Established SMEs – by Industry

In 2004, the wholesale and retail sector accounted for the largest number of newly-established SMEs, at 54,000 (49.72% of all newly-established enterprises). The accommodation and eating-drinking places industry was in second place, with 16,000 enterprises (15.16% of all newly-established enterprises). In terms of the total sales achieved by newly-established SMEs, the wholesale and retail sector was in first place, with NT\$137.4 billion, accounting for 52.69% of the total for all industries, while the

manufacturing industry was in second place with NT\$40 billion (15.33%). As regards the total domestic sales value achieved by newly-established SMEs, the wholesale and retail sector again ranked first, with NT\$127.7 billion (55.02% of the total), followed by the construction industry with NT\$30.4 billion (13.11%). With respect to export sales, the manufacturing sector was in first place, with NT\$16.3 billion (56.47% of the total for all newly-established SMEs), and the wholesale and retail sector was in second place, with NT\$9.8 billion (33.95%) (Table 2-5-3).

**Table 2-5-3 Overview of Newly-Established SMEs in 2004 – by Industry**

Units: Number of enterprises; NT\$ million; %

Industry	Indicator	Number of enterprises		Total sales		Domestic sales		Export sales	
			% of total		% of total		% of total		% of total
Total		108,235	100.00	260,811	100.00	232,015	100.00	28,797	100.00
Agriculture, forestry, fishing and animal husbandry		245	0.23	185	0.07	185	0.08	0	0.00
Mining and quarrying		100	0.09	751	0.29	751	0.32	0	0
Manufacturing		5,045	4.66	39,993	15.33	23,732	10.23	16,262	56.47
Water, electricity and gas		27	0.02	190	0.07	190	0.08	0	0
Construction		8,701	8.04	32,637	12.51	30,414	13.11	2,222	7.72
Wholesale and retail		53,810	49.72	137,429	52.69	127,653	55.02	9,776	33.95
Accommodation and eating-drinking places		16,407	15.16	13,067	5.01	13,067	5.63	0	0.00
Transportation, warehousing and communications		990	0.91	4,467	1.71	4,273	1.84	193	0.67
Finance and insurance		971	0.90	3,145	1.21	3,144	1.35	1	0.00
Real estate and leasing		3,383	3.13	6,504	2.49	6,500	2.80	4	0.01
Professional, scientific and technical services		5,573	5.15	10,853	4.16	10,633	4.58	220	0.76
Educational services		62	0.06	122	0.05	122	0.05	0	0
Medical, health care and social welfare services		30	0.03	12	0.00	12	0.00	0	0
Cultural, sports and leisure services		3,928	3.63	3,636	1.39	3,626	1.56	10	0.03
Other service industries		8,963	8.28	7,822	3.00	7,714	3.32	108	0.37

Source: Ministry of Finance Tax Data Center, VAT data for consecutive years.

## VI International Comparison

Table 2-6-1 provides an international comparison of SMEs. In light of the differences in the time the data was collected and the difficulties encountered in the collection process, some data in the table might be incomplete or outdated. The table compares a few major economic indicators for SMEs in 15 countries and regions, including Taiwan, Australia, Canada, Hong Kong, Japan, Malaysia, Mexico, New Zealand, Philippines, Russia, Singapore, South Korea, Thailand, the UK and the US. Different countries define SMEs differently, and in some cases data for the years covered are not available. Readers should be aware of these limitations and are advised to interpret

the data more judiciously.

## 1. Percentage of SMEs

Based on the collected data for the 15 countries and regions covered by the comparison, the US and Canada define SMEs most loosely, that is, enterprises with 500 or fewer employees, while New Zealand has the most stringent criterion, setting the cut-off at 19 employees. Countries defining SMEs as enterprises with 300 or fewer employees include Japan and South Korea. In the case of Japan, the standard is 300 or fewer employees, but the cut-off is reduced to 100 employees for firms in the wholesale sector, and to 50 employees for the retail and service sectors; in the case of South Korea, the standard for the majority of industries (see Note 3 for details) is similarly 300 or fewer employees, but the cut-off is reduced to 200 or fewer employees for the seedling and broadcasting industries, and to 100 or less for some other industries. The UK defines SMEs as enterprises with 250 or fewer employees, whereas Russia does not have an explicit definition. Hong Kong classifies its industry into manufacturing and non-manufacturing sectors; enterprises in the manufacturing sector with 100 or fewer employees are classed as SMEs, while enterprises in the non-manufacturing sector with 50 or fewer employees are defined as SMEs. Taiwan defines SMEs based on the number of employees and sales turnover or capital; in the case of the former, SMEs are defined as enterprises with 200 or fewer employees in the manufacturing, construction and mining sectors, and enterprises with 50 or fewer employees in the other sectors; in the case of the latter, SMEs are defined as enterprises with a paid-in capital of less than NT\$80 million for the manufacturing, construction, mining and quarrying sectors, and as enterprises with turnover of less than NT\$100 million in the previous year for other sectors. Based on the number of employees, Taiwan's definition of SMEs is more stringent than those of most other countries. For the purposes of comparison, the data on Taiwan in the table define SMEs based on the criterion of sales turnover and capital, except for the number of employees.

In terms of absolute number, the US has the greatest number of SMEs, totaling 22.9 million and accounting for 99% of all enterprises. Russia and Japan have, respectively, 8.73 million and 5.63 million SMEs, taking the second and the third places among the countries under comparison. In fact, all 15 countries discussed in this section have very high percentages of SMEs, all exceeding 90% and twelve of them exceeding 95%,

suggesting the critical role played by SMEs in the economic structure of many countries.

Taiwan has 1.15 million SMEs, accounting for 96.91% of all enterprises. Such a high percentage also indicates the importance of SMEs to the country's economy.

**Table 2-4-1 International Comparison of SMEs**

Units: thousand establishments; thousand persons; percentage

Country/ Region	Item	Non-Agricultural sector				Sales turnover	Exports	Newly- established SMEs	SMEs closed down
		No. of establishments	Percentage	No. of persons employed	Percentage				
Taiwan (2004)		1,150	96.91	6,910	70.70	30.60	16.91	9.1	NA
Australia (2000)		1,100	96.00	3,940	43.50	NA	51.00	4.3	8.0
Canada (2003)		2,140 (2004)	91.44 (2004)	6,650	64.98	NA	38.20 (2002)	10.5	9.7
Hong Kong (2003)		280	98.00	1,310	60.00	NA	NA	NA	NA
Japan (2004)		5,630	98.32	39,220	75.20	48.20 (2002)	NA	2.7 (2002)	3.2 (2002)
Malaysia (2001)		205	96.11	376	32.50	NA	NA	NA	NA
Mexico (2001)		2,840	99.60	NA	64.00	NA	21.00 (1996)	NA	NA
New Zealand (2003)		290	96.84	650	42.28	33.20 (2001)	NA	18.2	13.5
Philippines (2001)		800	99.60	4,100	70.00	NA	NA	NA	NA
Russia* (2003)	250 employees	8,440	94.35	32,050	48.81	46.89	NA	NA	NA
	500 employees	8,730	97.57	39,960	60.86	53.78	NA	NA	NA
Singapore (2000)		540	91.00	400	57.00	NA	16.00	NA	NA
South Korea (2003)		2,950	99.81	10,380	86.66	NA	39.06 (2004)	1.5 (2000)	NA
Thailand (2003)		2,000	99.47	5,570	60.69	47.91	NA	NA	NA
UK (2003)		3,840	95.41	12,170	56.20	51.15	NA	4.8 (2002)	4.9 (2002)
USA (2002)		22,900	99.00	54,800	57.10	31.00	30.00	10.0	10.0

Notes: 1. \* means the No. of enterprises, and employed population include those of the agricultural sector.

2. The percentages represent the ratio of SMEs as a percentage of all enterprises.

3. Definitions of SMEs in different countries:

Taiwan: See Appended Table B.

Australia: Enterprises with 200 or fewer employees.

Canada: Enterprises with 499 or fewer employees.

Hong Kong: For the manufacturing sector, enterprises with 100 or fewer employees; for the non-manufacturing sector, enterprises with 50 or fewer employees. The data given in this table for Hong Kong does not include enterprises in the construction industry, street traders and hawkers, transportation firms, home helps, writers or other self-employed persons.

Japan: For the mining, manufacturing, transportation and construction sectors, enterprises with 300 or fewer employees; for wholesale industry, enterprises with 100 or fewer employees; for the retail and service sectors, enterprises with 50 or fewer employees.

Malaysia: Enterprises with 100 or fewer employees.

Mexico: Enterprises with 500 or fewer employees.

New Zealand: Enterprises with 19 or fewer employees.

Philippines: Enterprises with 200 or fewer employees.

Russia: Not clearly defined; the country's data are classified into groups of SMEs with 250 or fewer employees and SMEs with 500 or fewer employees for comparison purposes.

Singapore: Enterprises with 200 or fewer employees.

South Korea: For the mining, manufacturing, transportation, construction, large wholesale, hotel, information processing sectors, enterprises with 300 or fewer employees; for the seedling and broadcasting sectors, enterprises with 200 or fewer employees; for the other sectors, enterprises with 100 or fewer employees.

Thailand: For the manufacturing and service sectors, enterprises with 200 or fewer employees; for the wholesale industry, enterprises with 50 or fewer employees; for the retail sector, enterprises with 30 or fewer employees.

UK: Enterprises with 250 or fewer employees.

USA: Enterprises with 500 or fewer employees.

Sources: Taiwan – White Paper on Small and Medium Enterprises in Taiwan, 2005.  
 Australia – Department of Industry, Tourism and Resources, /www.industry.gov.au/  
 Canada – Department of Industry, /strategis.ic.gc.ca/  
 Hong Kong – Small and Medium Enterprises Office, /www.sme.gov.hk/  
 Japan – Statistics Bureau, /www.stat.go.jp/  
 Malaysia – Small and Medium Industries Development Corporation, /www.smidec.gov.my/  
 Mexico – *OECD Small and Medium Enterprise Outlook 2002*.  
 New Zealand – Statistics New Zealand, /www2.stats.govt.nz/  
 Philippines – National Statistics Office, /www.census.gov.ph/  
 Russia – Russian SME Resource Centre, /docs.rcsme.ru/  
 Singapore – Ministry of Trade and Industry, /www.mti.gov.sg/  
 South Korea – Small and Medium Business Administration, /www.smba.go.kr/  
 Thailand – Office of SMEs Promotion.  
 UK – Department of Trade and Industry, www.sbs.gov.uk/  
 USA – Office of Advocacy, Small Business Administration, /www.sba.gov/advo/

## 2. Employment

For the purposes of comparison, the definition of SMEs in Taiwan in this section is based on the number of those in employment. If SMEs in the agricultural sector are excluded, the US ranks the highest in terms of SME employment, totaling 54.8 million persons, followed by Russia and Japan with 39.96 million persons and 39.22 million persons employed by SMEs, respectively. Based on the percentage of employed population, South Korea has the highest percentage of employed population working for SMEs, or 86.66%. Of the 15 countries compared, only four have less than 50% of its employed population in the SME sector, while the other countries all exceed 50%, indicating the SMEs in the great majority of countries provide more than 50% of employment opportunities.

Taiwan's SMEs employ 6.91 million persons, which accounts for 70.7% of the total employed population, being surpassed by the US and Japan only.

## 3. Sales Turnover

Taiwan's SMEs account for 30.6% of the sales turnover of all enterprises, which is comparable to the 31% in the US. The country where SME turnover accounts for the highest percentage of total turnover is the UK with 51.15%; Japan and Russia come in second and third with 53.78% and 48.2%, respectively. Of the 15 countries under comparison, only the SMEs in the UK and Russia contribute more than 50% of the country's turnover. Since the vast majority of SMEs contribute less to total sales turnover than large enterprises, this reflects the fact that SMEs tend to be labor-intensive enterprises.

## 4. Export Value

Exports of SMEs as a percentage of a country's total exports are the highest in South Australia, at about 51%; South Korea and Canada come in second and third at 39.06% and 38.2%, respectively. The share of direct exports by Taiwan's SMEs in 2004 stood at 16.91%. This share has been in decline in recent years, suggesting the changing role of SMEs in exports, from being direct exporters of final products in the past to serving as suppliers of components to Taiwan's large enterprises. While the SMEs in Taiwan undergo transformation, the country's industrial structure is also being oriented towards high technology.

## 5. New SMEs and the Closing Down of SMEs

The establishment and closing down of businesses may be viewed as the driving force within an economic system. If a country establishes more new enterprises than those it closes down, this is an indication that the country's economy is in robust shape. Thus the data on new SMEs and the closing down of SMEs provide a glimpse of how flexibly SMEs respond to changes taking place in the macroeconomic environment.

As shown in Table 2-4-1, the percentage of newly-established SMEs is less than 20% for all the countries under comparison. New Zealand has the highest percentage of 18.2%, but the country also has the highest percentage of SMEs closing down, or 13.5%, which means the growth rate of its SMEs is actually less than 5%. The US and the UK had nearly the same percentages of new SMEs and SMEs closed down during the period 2002–2003, representing essentially zero growth in their SME sector. The SMEs in Canada displayed slight growth with percentages of new SMEs and SMEs being closed down of 10.5% and 9.7%, respectively, representing an increase of 0.8%. By contrast, Japan has higher percentage of SMEs being closed down than of new SMEs, indicating that the number of SMEs in Japan is decreasing and reflecting the decline in the country's economic vitality. In South Korea, new SMEs accounted for 1.5% of all enterprises in 2000, whereas in Taiwan, the percentage of new SMEs was 9.1% in 2004. However, the data on the SMEs closed down in both countries are incomplete. Taiwan consistently had more new SMEs than SMEs closed down in the past. However, the statistics on SMEs being closed down have not been made available since 2003.