

## Chapter 5

### The Internationalization of Taiwan's SMEs

SMEs have played a very important part in Taiwan's economic development; their strength has been the foundation for over 40 years of prosperity and growth. Many leading Taiwanese trading companies started out as SMEs, and these companies can be thought of as the forerunners in the internationalization of Taiwan's SMEs. However, since 1986 there have been major changes in the macroeconomic environment in Taiwan. The appreciation of the NT Dollar destroyed the price advantage that Taiwan's exports had previously enjoyed, wages rose, and the environmental protection and labor movements grew in strength. With production costs rising, Taiwanese products were no longer as competitive as those of Southeast Asian nations, mainland China and other Third World countries. Large numbers of Taiwanese SMEs moved their operations overseas to low-cost production destinations. This trend was not confined to manufacturing enterprises; trading companies also began to establish sourcing, purchasing and distribution facilities overseas as they adopted a trans-national marketing model. This chapter will examine the motivation for internationalization among Taiwan's SMEs; it will analyze the current state of their overseas operations, their levels of internationalization, the business models adopted to develop overseas markets, and the problems encountered in trans-national marketing and management.

In the broad sense, "internationalization" refers to the expansion of an enterprise's products or activities into overseas markets. The term can thus be applied to exports, licensing,

agency operations, export processing, etc. It does not necessarily involve foreign direct investment (FDI). According to the definition used by the United Nations Conference on Trade and Development (UNCTAD), for an enterprise to be classed as a transnational corporation it must have established an entity overseas, and that entity must operate within the same decision-making system as the parent company. In other words, to be a transnational corporation one must be engaged in FDI activity; this is internationalization in the narrow sense.

For the purposes of this chapter, the broad definition of internationalization is used. The first section of the chapter examines the motivation for internationalization among Taiwan's SMEs and the current state of internationalization. Most large transnational corporations started off as SMEs, so there is a clear model for SMEs to follow in this respect; this issue is discussed in Section II. Due to the impact of economic globalization, both SMEs in the manufacturing sector and those in the service sector are faced with an unprecedented intensity of competition; at the same time, however, they also enjoy easier access to overseas markets than they did in the past. The key factor is how competitive the individual enterprise is. Enterprises' management capabilities and market development capabilities are thus worth investigation; these managerial issues are considered in the third section.

## **I The Internationalization of Taiwan's SMEs – Motivation and Current Status**

Taiwan's domestic market is quite small, so Taiwan has for many years relied on exports to drive economic growth. Most of the companies involved in the provision of import/export

trade services are SMEs; using the term “internationalization” in the broad sense, these trading companies can be thought of as having led the way in the process of SME internationalization. As noted above, there was no significant overseas investment by SMEs until the late 1980s.

On the import/export trade side, from a very early stage Taiwan’s SMEs were collaborating with leading international trading companies, foreign IPOs and chains in a vertical division of labor. Taiwanese companies handled production, while the foreign companies dealt with marketing and distribution. Although the profits that Taiwanese enterprises were able to make under this arrangement were not particularly high, it did make a significant contribution to Taiwan’s economic development. In the last few years, European, US and Japanese multinationals have been focusing on developing their core competitiveness and trying to reduce costs. They have been outsourcing part of their production to low-cost suppliers in other countries, leading to the establishment of a large number of contract manufacturing relationships; this has become the most common form of international strategic alliance. Original Equipment Manufacturing (OEM) and Original Design Manufacturing (ODM) orders from foreign companies have helped many Taiwanese SMEs to grow into large enterprises.

Beginning in the late 1980s, large numbers of Taiwanese SMEs began to invest in Southeast Asia, particularly in Thailand and Malaysia. In the 1990s the main focus of Taiwan’s outward investment shifted to Vietnam and mainland China, with most of this investment going into labor-intensive industries such as textiles and shoe manufacturing. The

industries in which Taiwanese companies were investing were, for the most part, mature industries that had failed to upgrade themselves. The decision as to where to locate production was normally based on the availability of low-cost production factors (e.g., low wages, cheap land for factory construction, and the provision of incentives by the government of the country in question); there was also a tendency to invest in countries where the ethnic Chinese business network was strong, especially Southeast Asia and mainland China, which felt closer to “home” for Taiwanese entrepreneurs. Mainland China, with its vast and rapidly growing domestic market, was a particularly attractive target for Taiwanese investment.

Taking the textile and shoe industries (which had very high concentrations of SMEs) as an example, as early as the late 1980s rising labor and land costs in Taiwan were pushing some textile SMEs to move production to mainland China or Southeast Asia. The governments of the countries concerned welcomed this investment, and Taiwanese firms found that they were able to make considerable savings on costs. Other companies, which had been in better financial condition to begin with, kept production in Taiwan. By the early 1990s, however, labor costs in Taiwan were rising even more rapidly than before, and companies that had previously decided to stay in Taiwan were now forced to shift production offshore too. However, by this time mainland China and Malaysia had ceased to encourage investment in the textile industry, so Vietnam, which had only recently started to open up its markets, became the new focus of investment. As companies in the upstream segment of the textile industry moved their operations offshore, their downstream customers were forced to follow suit, leading to a comprehensive internationalization

of the Taiwanese textile industry.

As for the shoe manufacturing industry, this industry was characterized by a large number of companies focusing on a wide variety of niche markets. It was common practice to collaborate with other manufacturers in order to be able to process large orders. This mixture of competition and collaboration, coupled with the importance of economies of scope, resulted in a situation where more or less the whole industry moved production overseas *en masse*, establishing new industry clusters in other countries. Contract manufacturing had played a very important role in the development of the Taiwanese shoe industry; individual manufacturers usually had a close relationship with a particular foreign partner. This situation encouraged “co-opetition,” with different companies working together to establish new business models that everyone in the industry could adopt. Companies in the shoe industry were already used to working as a team, so when the business environment in Taiwan started to change the shoe industry network that had existed in Taiwan was able to replicate itself in mainland China and Vietnam.

Regardless of whether a Taiwanese company invested in Southeast Asia or Vietnam, the motivation was the same: the desire to reduce labor costs, increase production capacity, comply with customers’ requirements, achieve competitive advantage on cost, develop new markets, spread risk, gain access to new sources of production resources, expand into other industries, etc. For those Taiwanese companies that invested in Europe or the US, the motivation was the opportunity to keep up to date with the latest developments in technology, achieve segmentation through the development of

unique products, and spread risk.

Comparing data for 2002 and 2003 included in the *Survey on Overseas Investment by Manufacturing Industry* published by the Ministry of Economic Affairs in October 2003, it can be seen that, whereas in 2002 small enterprises accounted for 64.84% of wholly-owned subsidiaries established by Taiwanese SMEs overseas, by 2003 this figure had risen to 67.33%; the share held by medium-sized enterprises fell from 35.16% to 32.67% (Table 5-1-1). Meanwhile, 87.47% of SME overseas investment projects involved cash investment (more than 90% for medium-sized enterprises) (Table 5-1-2), with around 50% of SMEs providing machinery and equipment as part of their investment, and 25.43% providing raw materials, components, semi-finished products or finished products. The provision of patents or technology accounted for part of the investment in less than 10% of cases.

## II The Process of Internationalization

For an enterprise, internationalization is a gradual process. The literature on this subject generally holds that there is a very close relationship between the level of internationalization that an enterprise has achieved and the level of experiential knowledge that it has managed to build up. That is to say, there are both internal and external factors encouraging the process of internationalization. Besides the environmental and economic factors that all companies have to deal with, the level of experience that the enterprise has accumulated in international markets will also have a major impact on its decision-making.

**Table 5-1-1 The Form Taken by Taiwanese SMEs' Overseas Investment**

Unit: %

Item \ Size	2002 Survey				2003 Survey			
	Total	Small enterprises	Medium enterprises	Large enterprises	Total	Small enterprises	Medium enterprises	Large enterprises
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Wholly-owned Subsidiary	64.84	61.39	65.80	69.81	67.33	65.00	66.99	72.63
Joint Venture	35.16	38.61	34.20	30.19	32.67	35.00	33.01	27.37

Source: Statistics Department, Ministry of Economic Affairs, *Survey on Overseas Investment by Manufacturing Industry, 2003*.

**Table 5-1-2 The Methods Used for Overseas Investment, 2003**

Unit: %

Size \ Methods	Cash	Machinery and Equipment	Provision of Raw Materials, Components, Semi-finished Products and Finished Products	Provision of Patents or Technology	Other
Total	87.47	50.00	25.43	4.86	0.86
Small enterprises	82.45	55.09	33.02	5.09	0.47
Medium enterprises	94.12	47.39	17.97	3.59	0.98
Large enterprises	94.24	40.53	13.58	5.14	1.65

Note: Individual enterprises may have used more than one method of investment.

Source: Statistics Department, Ministry of Economic Affairs, *Survey on Overseas Investment by Manufacturing Industry, 2003*.

As a rule, enterprises prefer to adopt a gradual, progressive approach to internationalization in their main markets. The initial entry into a new market will be made through a foreign agent. As the volume of sales gradually increased, direct sales by the enterprise itself will come to account for a higher share of total sales. A company that is marketing its own brand overseas will normally want to establish its own distribution network in key markets, investing directly in overseas subsidiaries; in secondary markets it is more likely to work through the distribution network of an agent. In the case of companies engaged in contract

manufacturing, if the company has positioned its products as high-quality, medium- to high-price products, the company might also want to establish overseas subsidiaries, either to be able to provide better logistics service to its foreign customers or to exploit low production costs in an overseas production location. As a company gains more experience in overseas markets, its willingness to undertake further investment in those markets will increase, and so will the amount that it invests. It will move away from working through agents (where the degree of control that can be exercised is very limited) toward joint ventures, and ultimately towards the establishment of a wholly-owned subsidiary, either by acquiring an existing company or by setting up a new one.

Taiwan is an open economy heavily dependent on foreign trade. To remain competitive, Taiwanese industry relies on the utilization of industry networks to develop technology and knowledge. When seeking to expand their scale of operations, Taiwanese firms will normally try to leverage the complex division of labor and high level of flexibility that characterize Taiwanese business enterprises. The cross-company and cross-industry networks that are formed in this way are the main source of competitive advantage for Taiwanese enterprises in international markets. Network linkages thus tend to encourage internationalization among companies within the industry network; these linkages are often one of the key motivating factors that lead a Taiwanese SME to embark on the process of internationalization. As noted above, the Taiwanese shoe industry relied on networks to reduce the level of uncertainty and risk in its business environment (including the opportunity cost attached to changing business partners, information sharing, etc.), and it was natural for shoe



manufacturers to want to use the same model when developing overseas markets. In order to minimize risk and overcome the uncertainties and problems relating to the special characteristics of overseas markets, different ways of doing business and decision-making issues, when investing overseas companies often choose to adopt the low-risk strategy of extending existing industry networks or moving production overseas *en masse*. In this way, they were able to make effective use of the intra-industry division of labor and of their enterprise's own internal resources. The adoption of this strategy tends to result in improved operational performance, whether viewed subjectively or objectively.

Now that both Taiwan and mainland China are members of the World Trade Organization (WTO), Chinese enterprises are beginning to participate actively in the global manufacturing/purchasing system. In this new era of globalized competition, collaborating with multinationals provides SMEs with a shortcut to internationalization. Taiwan still occupies an important place in the global supply chain. Not only does Taiwan possess a first-rate manufacturing capability, its OEM and ODM providers have already achieved a high level of e-adoption and e-enablement. With the dawning of the Internet era, the international division of labor is already starting to change; from the point of view of Taiwan's SMEs, this transformation presents both opportunities and threats. China's larger enterprises are already working vigorously to internationalize themselves. Those Taiwanese SMEs that have yet to complete the process of internationalization may need to focus more on leveraging the advantages that Taiwan's industry networks give them, using these networks of relationships to learn from the large enterprises; in this way,

they should be able to build up more experience in internationalization.

As noted above, although SMEs can make use of industry networks to overcome those entry barriers related to economies of scale, if SMEs are unable to increase their e-business capabilities so as to meet the needs of the first-tier manufacturers and vendors, they may find it very difficult to secure opportunities to collaborate with such companies. Foreign customers tend to be very demanding when it comes to delivery time. If one examines the division of labor within the IT industry's global logistics system, it can be seen that the multinationals are insisting that goods be delivered from sites close to the final market in order to keep inventory levels down. On-line materials flow, cash flow and information flow management capability has thus become of great importance for companies seeking to establish themselves within the international supply chain. Hon Hai, Taiwan's largest private-sector manufacturing enterprise, is a good example. Having started out as an SME engaging in OEM production, today Hon Hai is the third largest Electronic Manufacturing Service (EMS) provider in the world.

Another example is Test-Rite, one of Taiwan's leading trading companies. Established in 1978, Test-Rite has collaborated with numerous foreign corporations, accumulating both extensive experience of international markets in the process and a wide range of managerial knowledge. Having acquired retailing knowledge from Wal-Mart, Test-Rite has expanded the scope of its business activities to include distribution. In international trade, rapid access to information is of key importance; it is necessary to be aware of the changes

taking place in different parts of the world as quickly as possible. Today, Test-Rite is more than just a trading company; it manages international distribution channels through the provision of an integrated range of services. Test-Rite has offices and facilities in more than 20 countries throughout the world, and is gradually diversifying its operations; it provides a marvelous example of how an SME can internationalize successfully.

### III Problems Relating to Trans-national Management

#### 1. Overseas Marketing Issues

The main source of competitive advantage that Taiwanese companies benefit from in international competition is the industry networks that take shape through the division of labor between SMEs and the flexibility that SMEs display in complementing one another's strengths. These closely-knit networks make it possible to integrate technology and capital and to respond quickly to changes in market demand. However, Taiwanese SMEs are usually prevented by their small scale of operation and lack of overseas bases from keeping up to date with changes in consumer behavior in overseas markets, and their knowledge of the structure of the distribution networks in overseas markets is often limited too.

As can be seen from the *Survey on Overseas Investment by Manufacturing Industry* published by the Ministry of Economic Affairs in 2003, with the gradual increase in overseas investment, around 60% of Taiwan's SMEs are now marketing their products in overseas markets through their own

subsidiaries or affiliates, and this percentage continues to rise, having increased from 58.41% in 2000 to 61.78% in 2003 (Table 5-3-1). In around 50% of cases, the Taiwan parent company markets its products overseas itself, a percentage that has not fluctuated a great deal. The percentage of SMEs using indirect exportation (where products are marketed through another Taiwanese company, such as a trading company, or through an enterprises based in a third country) is lower than that using direct exportation. In reality, SMEs that rely on other companies to distribute their products in foreign markets and obtain market information tend to find that they suffer from a lack of both breadth and depth in their efforts to develop overseas markets. Surveys undertaken by the Ministry of Economic Affairs in three consecutive years show that the percentage of SMEs using direct exportation has remained flat,

**Table 5-3-1 Marketing Methods for Main Overseas Operations**

Unit: %

Methods Year/Size	Direct marketing by overseas operation	Marketing handled by Taiwan parent company	Marketing undertaken through a local enterprise	Marketing undertaken through another Taiwanese enterprise	Marketing undertaken through a third-country enterprise	Marketing undertaken through a subsidiary in another region
2000 survey	58.41	51.89	17.12	9.57	7.92	5.95
2002 survey	60.34	49.37	15.07	7.46	7.66	3.56
2003 survey	61.78	51.69	15.90	7.16	6.88	4.23
By enterprise size (2003)						
Small enterprises	60.37	52.52	14.92	9.21	7.36	3.68
Medium-sized enterprises	60.98	48.43	19.16	6.62	6.97	5.57
Large enterprises	65.49	51.87	16.04	2.86	5.71	4.62

Note: Respondents were allowed to select more than one type of marketing.

Source: Statistics Department, Ministry of Economic Affairs, *Survey on Overseas Investment by Manufacturing Industry*, 2003.

while the percentage employing indirect exportation has fallen slightly. In other words, there has thus been little change in the overseas marketing channels used by Taiwan's SMEs over the past three years.

As can be seen from Table 5-3-2, the share of total sales held by local sales has increased dramatically for the overseas operations of Taiwanese SMEs. Between 2001 and 2002, more than 50% of SMEs experienced an increase in local sales, while over 40% reported an increase in exports to another region; less than 20% of SMEs reported a decrease in both local sales and exports to other regions. That is to say, for both those SMEs selling their products in the local market and those exporting them to other regions, the share of SMEs experiencing an increase in sales was much greater than those

**Table 5-3-2 Sales by Overseas Operations of Taiwanese Enterprises in 2002 Compared to 2001**

Unit: %

Destination Size	Shipped back to Taiwan			Sold locally			Exported to other regions		
	Rose	Flat	Fell	Rose	Flat	Fell	Rose	Flat	Fell
All enterprises	28.81	40.85	30.34	54.52	32.71	12.77	45.96	38.62	15.42
Small enterprises	24.86	39.50	35.64	50.22	36.10	13.68	42.97	37.97	19.06
Medium enterprises	30.59	42.97	26.44	59.26	25.93	14.81	46.38	37.96	15.66
Large enterprises	37.69	42.99	19.32	60.49	29.79	9.73	52.33	40.50	7.17

Note: Respondents were allowed to select more than one type of sales.

Source: Statistics Department, Ministry of Economic Affairs, *Survey on Overseas Investment by Manufacturing Industry*, 2003.

experiencing a decrease. By contrast, among those enterprises shipping their products back to Taiwan, the percentage of

companies reporting a decrease in sales was larger than the percentage reporting an increase. Clearly, Taiwan's SMEs have achieved impressive results in their recent efforts to develop overseas production and overseas marketing.

## 2. Human Resources

It is a widely recognized fact that SMEs tend to suffer from a shortage of human resources, and this problem is particularly acute when trying to develop overseas markets. When an SME establishes an overseas office or facility, besides assigning managers from Taiwan to work there it will also need to recruit local employees; personnel management is thus a key issue affecting the internationalization of SMEs. The *Survey on Overseas Investment by Manufacturing Industry* published by the Ministry of Economic Affairs in 2003 showed that, for two years in succession, the uneven quality of local employees was the biggest problem that Taiwanese SMEs had to deal with in this area, and that the problem was especially serious for small enterprises. The next biggest problem was the difficulty in recruiting specialist and technical personnel locally (Table 5-3-3).

## 3. Management of Overseas Subsidiaries

The period since 1990 has seen dramatic changes in the business environment both in Taiwan and overseas. With the cost of production factors rising dramatically in Taiwan and with the impact of the ongoing liberalization of world trade, overseas expansion and internationalization on the part of Taiwanese companies has become a major trend. When investing overseas, Taiwanese companies need to establish overseas subsidiaries. To be able to deal with the peculiarities

**Table 5-3-3 Problems Experienced by the Overseas Operations of Taiwanese Enterprises in the Area of Human Resources**

Unit: %

Problem \ Year/Size	2002 All	2003			
		All	Small enterprises	Medium enterprises	Large enterprises
Uneven quality of local employees	40.46	45.68	48.40	41.18	42.59
Difficulty in recruiting specialist and technical personnel locally	39.54	36.99	38.96	39.22	31.28
High personnel turnover rate	23.18	29.37	31.23	26.47	27.16
Rising wages	22.17	22.46	22.74	22.22	22.02
Rigorous labor legislation	14.75	17.01	16.13	19.93	17.08
Low productivity of local employees	12.53	14.20	15.66	13.73	11.32
Difficulty in adapting to new production processes	10.69	11.77	13.96	9.80	8.23
Personnel assigned to the overseas operation from the Taiwan parent company unable to adapt well	11.71	11.61	12.45	10.46	10.49
Labor disputes	2.03	2.70	2.64	1.96	3.29
Other	2.76	2.38	1.60	3.92	3.09
No problems experienced	22.90	18.90	17.74	20.26	20.58

Note: Respondents were allowed to select more than one answer.

Source: Statistics Department, Ministry of Economic Affairs, *Survey on Overseas Investment by Manufacturing Industry*, 2003.

of the local market and different ways of doing things, and to be able to cope with the high level of uncertainty in decision-making, the entrepreneurs establishing these overseas operations must be totally committed and capable of withstanding high levels of stress. Once an overseas operation has been established, the division of labor between the overseas operation and the parent company and the issues relating to transnational management will have a direct impact on the types of international marketing methods used.

Firstly, there is the question of product line segmentation. As can be seen from Table 5-3-4, the finished products produced in Taiwan tend to be high-level products, and come in a wide variety. However, in 14.47% of SMEs the products manufactured by the overseas subsidiary and the products manufactured in Taiwan are exactly the same. However, more common is a horizontal division of labor, in which the products manufactured in Taiwan and those manufactured overseas are similar, but those produced in Taiwan tend to be better quality (this is true in 18.47% of cases). Where a vertical division of labor is used, in most cases components and semi-finished products are manufactured in Taiwan, with the final assembly of the finished products being performed overseas (12.20% of SMEs use this model).

Regarding the interaction between parent company and overseas subsidiary, it can be seen from Table 5-3-5 that, in the 2003 survey, overseas subsidiaries were reported as having a relatively high level of autonomy in personnel matters, with 46.76% being allowed to make important decisions for themselves in this area. However, this percentage represented a pronounced decline compared to the 2002 figure of 53.18%. The next highest level of autonomy was found on the marketing side, where the percentage of overseas subsidiaries enjoying autonomy in price setting and sales strategy formulation was 36.23% and 38.44% respectively. Here again, these figures represented a decline compared to 2002. Financial matters were generally handled on a centralized basis; only 29.37% of overseas subsidiaries enjoyed autonomy in this area.

Overall, it can be seen from the survey results for the three consecutive years that the share of SMEs where decision-making is undertaken jointly by the Taiwan parent



**Table 5-3-4 The Relationship between the Main Overseas Operation and the Taiwan Parent Company in Terms of Products**

Unit: %

Comparison \ Size	Size			
	Total	Small enterprises	Medium enterprises	Large enterprises
Finished products are manufactured in both locations, but those manufactured in Taiwan are better quality	18.47	17.74	16.67	21.19
The quality of the products manufactured in the two locations is the same, but the Taiwan parent company manufactures a wider variety of products	14.47	11.70	13.40	21.19
The products manufactured in the two locations are different; those manufactured in Taiwan have higher value added	9.50	7.83	13.73	10.49
The products manufactured in the two locations are the same in terms of both product types and product quality	10.64	12.36	8.50	8.23
The Taiwan parent company manufactures components and semi-finished products; the overseas operation undertake final assembly to produce finished products	12.20	10.19	12.75	16.26
The quality of the products manufactured in the two locations is the same, but the overseas operation manufacturers a wider variety of products	8.26	10.19	7.84	4.32
The overseas operation manufactures components and semi-finished products; the Taiwan parent company undertakes final assembly to produce finished products	5.02	5.28	4.25	4.94
Both production locations manufacture components, but the product types are different	4.00	3.96	7.19	2.06
The products manufactured in the two locations are different; those manufactured in the overseas production location have higher value added	1.57	2.08	0.98	0.82
The products manufactured in the two locations are similar, but those manufactured in the overseas production location are higher-level	0.49	0.47	0.00	0.82

Note: Respondents were allowed to select more than one answer.

Source: Statistics Department, Ministry of Economic Affairs, *Survey on Overseas Investment by Manufacturing Industry*, 2003.

**Table 5-3-5 The Relationship between Taiwan Parent Companies and Their Overseas Subsidiaries**

Unit: %

Decision \ Year/Size	2001 All	2002 All	2003			
			All	Small enterprises	Medium enterprises	Large enterprises
<b>Overall strategy for overseas subsidiary</b>						
Decided by Taiwan parent company	56.81	55.39	56.43	53.58	55.88	62.96
Decided jointly	20.52	23.23	24.03	24.25	25.82	22.43
Decided by overseas subsidiary	22.67	21.38	19.55	22.17	18.30	14.61
<b>Local pricing strategy</b>						
Decided by Taiwan parent company	38.59	35.21	34.02	34.53	33.33	33.33
Decided jointly	23.19	23.50	29.75	28.40	32.03	32.28
Decided by overseas subsidiary	38.22	41.29	36.23	37.08	34.64	35.39
<b>Local marketing strategy</b>						
Decided by Taiwan parent company	36.65	33.73	32.56	32.92	32.03	32.10
Decided jointly	24.24	23.59	29.00	28.30	28.43	30.86
Decided by overseas subsidiary	39.11	42.67	38.44	38.77	39.54	37.04
<b>Local personnel decisions</b>						
Decided by Taiwan parent company	30.16	24.70	27.05	27.26	25.49	27.57
Decided jointly	20.26	22.12	26.19	23.49	27.45	31.28
Decided by overseas subsidiary	49.58	53.18	46.76	49.25	47.06	41.15
<b>Local financial management</b>						
Decided by Taiwan parent company	44.76	41.52	42.71	44.62	38.56	41.15
Decided jointly	23.09	26.41	27.92	25.47	29.41	32.30
Decided by overseas subsidiary	32.15	32.07	29.37	29.91	32.03	26.54

Source: Statistics Department, Ministry of Economic Affairs, *Survey on Overseas Investment by Manufacturing Industry*, 2003.

company and the overseas subsidiary is gradually rising, while the share where the overseas subsidiary enjoys autonomy in decision-making is falling; this is true even in personnel matters, where overseas subsidiaries have traditionally enjoyed the highest level of autonomy. The level of control that Taiwanese SMEs exercise over their overseas operations is thus increasing, with a corresponding fall in the degree of autonomy that the overseas subsidiaries enjoy. This is a significant development. As regards the profitability of overseas subsidiaries, medium-sized enterprises have performed better than small enterprises in this respect; nevertheless, even among medium-sized enterprises around one third of overseas operations have been making a loss, with only a third making a profit (Table 5-3-6). However, comparison of the data for the two consecutive years suggests that the profitability of Taiwanese SMEs' overseas subsidiaries may be improving.

**Table 5-3-6 The Profitability of the Overseas Subsidiaries of Taiwanese SMEs**

Unit: %

Profitability Year/Size		Profitability of all overseas subsidiaries			Profitability of the main overseas subsidiary		
		Made a loss	Broke even	Made a profit	Made a loss	Broke even	Made a profit
2001	All	40.83	25.17	34.00	39.76	24.39	35.85
2002	All	36.30	25.93	37.77	36.47	25.31	38.22
	Small enterprises	34.59	31.88	33.53	35.08	31.30	33.62
	Medium enterprises	38.33	22.65	39.02	36.93	20.56	42.51
	Large enterprises	38.90	14.51	46.59	39.34	14.73	45.93

Source: Statistics Department, Ministry of Economic Affairs, *Survey on Overseas Investment by Manufacturing Industry*, 2003.

