

Chapter 2

SME Development Trends

In the first half of 2003, the nascent recovery in the global economy was stalled by the war in Iraq and by the Severe Acute Respiratory Syndrome (SARS) epidemic. In the second half of the year, however, strong economic growth in the US stimulated a more rapid recovery worldwide. This change in the international business climate was reflected in Taiwan, where the economic growth rate rose from just 1.7% in the first half of the year to 4.7% in the second half. How did Taiwan's SMEs perform under these circumstances? This chapter will use statistical data to present the main developments and trends.

The definition of "SME" used in this chapter is that of the May 2000 revision of the *Standard for Determination of SME Status*. In the case of the manufacturing sector, construction industry and mining and quarrying industry, SMEs are defined as those enterprises with paid-in capital of NT\$80 million or less, or with fewer than 200 employees. For other industries, SMEs are defined as enterprises that had operating revenue of NT\$100 million or less in the previous year, or which have 50 or fewer employees.

In this chapter, the number of regular full-time employees is used for determining whether an enterprise should be classed as an SME when analyzing employment and SMEs. For the other four indicators examined in this chapter, the determination of SME status is based on capitalization or operating revenue.

Data for the number of enterprises, sales, domestic sales and export sales are based on Ministry of Finance Tax Data Center business tax collection statistics. The data for the number of persons employed by SMEs is based on the *Monthly Report on Human Resources Utilization* published by the Directorate General of Budget, Accounting and Statistics.

Beginning in 2003, in line with the seventh revision of the ROC Industry Classification Standard, the number of industries for which indicators are produced has been increased from 10 to 15.

I Overall Development Status of SMEs

The overall state of Taiwanese industry and the role that SMEs played in the Taiwanese economy in 2003 (a year in which the economic situation both in Taiwan and overseas began to improve) is outlined below.

1. The State of Taiwanese Industry Overall

For Taiwanese industry as a whole, all indicators showed an improvement in 2003 compared to 2002. The annual growth rates were all positive values, with the most impressive rate of growth being seen in domestic sales (10.61%). A breakdown into large enterprises and small enterprises shows that for large enterprises, while the number of large enterprises declined by 1.51%, other indicators grew, with export sales rising fastest (by 6.15%). Among SMEs the largest growth rate was that for domestic sales (20.10%); export sales declined slightly, by 1.71% (Table 2-1-1 and Figure 2-1-1).

Table 2-1-1 The State of Taiwanese Industry in 2003 by Enterprise Size

Units: number of enterprises; thousand persons; NT\$ millions; %

Item \ Size	All Enterprises	Large Enterprises	SMEs
No. of enterprises	1,171,780	25,428	1,146,352
Percentage of total	100.00	2.17	97.83
Annual growth rate	3.65	-1.51	3.77
No. of persons employed	9,573*	1,160	7,425
Percentage of total	100.00	12.11	77.56
Annual growth rate	1.26	1.08	0.87
Total sales	27,670,606	18,963,546	8,707,060
Percentage of total	100.00	68.53	31.47
Annual growth rate	8.96	5.94	16.17
Domestic sales	20,337,864	12,958,640	7,379,224
Percentage of total	100.00	63.72	36.28
Annual growth rate	10.61	5.84	20.10
Export sales	7,332,742	6,004,906	1,327,836
Percentage of total	100.00	81.89	18.11
Annual growth rate	4.63	6.15	-1.71

Note: Figures marked with an asterisk (*) include the 988,000 people employed by the government.
Sources: 1. Collated from Ministry of Finance Tax Data Center business tax statistics.

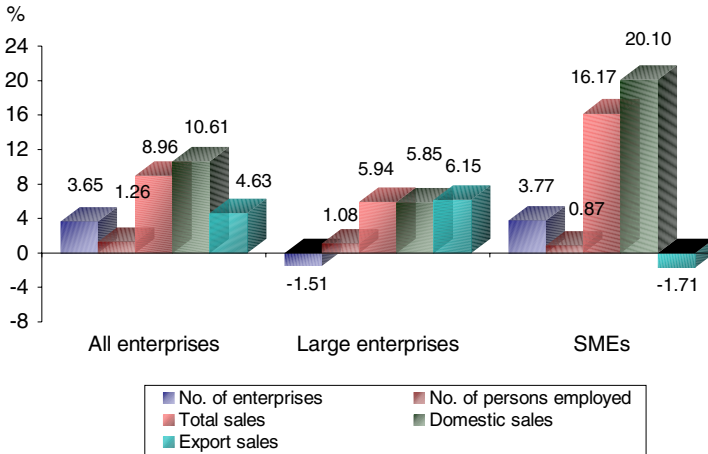
2. Collated from statistics included in the *Monthly Report on Human Resources Utilization* published by the Directorate General of Budget, Accounting and Statistics, Executive Yuan.

2. Number of Enterprises

In 2003 there were about 1,172,000 enterprises in Taiwan; this figure represented an increase of around 41,000 (3.65%) on 2002. There were about 25,000 large enterprises (representing a decrease of 390, or 1.51%), and 1,146,000 SMEs (representing an increase of around 42,000, or 3.77%, the largest increase for five years). As a percentage of all

enterprises, SMEs increased from 97.72% in 2002 to 97.83% in 2003; large enterprises accounted for only 2.17% of the total (Table 2-1-1 and Figure 2-1-2).

Figure 2-1-1 Annual Growth Rates for All Indicators in 2003 by Enterprise Size



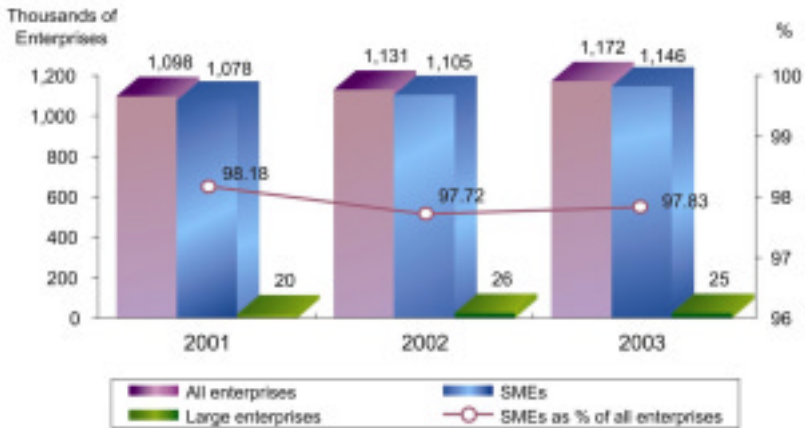
Sources: 1. Collated from Ministry of Finance Tax Data Center business tax statistics.
 2. Collated from statistics included in the *Monthly Report on Human Resources Utilization* published by the Directorate General of Budget, Accounting and Statistics, Executive Yuan.

(1) Number of Enterprises – by Enterprise Age

Breaking the number of enterprises in Taiwan down by the number of years they have been in existence reveals that the largest group, accounting for 24.17% of all enterprises, has been in existence for 10–20 years. The next largest group comprises those that had been in existence for 5–10 years, accounting for 21.19% of the total. The cumulative total of all enterprises that had been in existence for at least 5 years amounted to 63.05% of all enterprises; for those enterprises

that were at least 10 years old the figure was 41.86% (Table 2-1-2).

Figure 2-1-2 Number of Enterprises, 2001 – 2003



Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

Table 2-1-2 Enterprise Age in 2003

Units: number of enterprises ; %

Age	Size	All enterprises		Large enterprises		SMEs	
		No. of enterprises	%	No. of enterprises	%	No. of enterprises	%
Total		1,171,780	100.00	25,428	100.00	1,146,352	100.00
Less than 1 year		112,154	9.57	647	2.54	111,507	9.73
1 – 2 years		104,183	8.89	1,315	5.17	102,868	8.97
2 – 3 years		82,234	7.02	1,373	5.40	80,861	7.05
3 – 4 years		69,545	5.93	1,337	5.26	68,208	5.95
4 – 5 years		64,843	5.53	1,254	4.93	63,589	5.55
5 – 10 years		248,300	21.19	5,701	22.42	242,599	21.16
10 – 20 years		283,225	24.17	7,889	31.02	275,336	24.02
Over 20 years		207,296	17.69	5,912	23.25	201,384	17.57

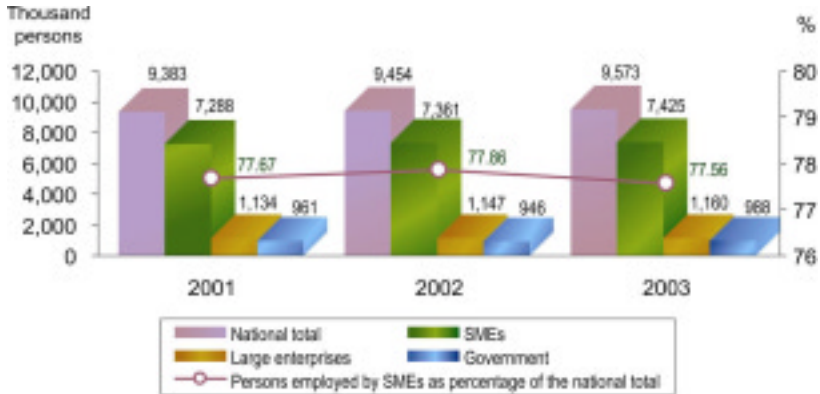
Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

76.69% of large enterprises had been in existence for at least 5 years; more than half (54.27%) were at least 10 years old, and only 2.54% were new enterprises that had been in existence for less than one year. Among SMEs, 62.75% of enterprises had been in existence for at least 5 years, and 41.59% had been in existence for more than 10 years, but newly-established enterprises less than 1 year old accounted for 9.73% of the total. It can thus be seen that, while SMEs generally aim to achieve perpetual operation, they retain a high level of flexibility in terms of the ability to enter and withdraw from the market.

3. Employment Status

The total number of employed persons in Taiwan in 2003 was about 9,573,000. This figure represented an increase of about 119,000 persons, or 1.26%, compared to 2002, the largest increase for three years. Around 1,160,000 persons were employed by large enterprises, accounting for 12.11% of all employed persons; this represented an increase of about 12,000 persons, or 1.08%, compared to 2002. The total number of persons employed by SMEs was around 7,425,000 (77.56% of all employed persons), representing an increase of about 64,000 persons, or 0.87%. The government employed about 988,000 persons (10.32% of all employed persons), representing an increase of around 42,000, or 4.46%; this was the highest increase in recent years (Table 2-1-1 and Figure 2-1-3). In 2003 the Small and Medium Enterprise Administration (SMEA) implemented various projects to help Taiwan's SMEs achieve renewed growth. Of these, the SME Manpower Assistance Project was particularly effective in increasing the number of employed persons.

Figure 2-1-3 Number of Persons Employed, and Percentage of Persons Employed by SMEs, 2001 – 2003



Note: For the purposes of this table, the number of full-time, regular employees is used to determine SME status (see Appendix Table B).

Source: Collated from statistics included in the *Monthly Report on Human Resources Utilization* published by the Directorate General of Budget, Accounting and Statistics, Executive Yuan.

4. Total Sales

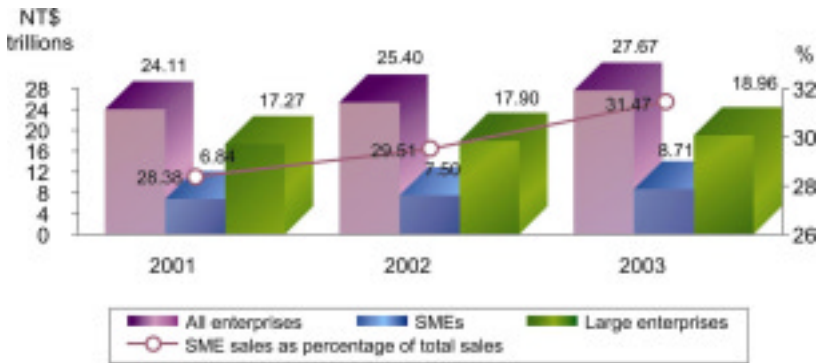
In 2003 Taiwanese enterprises had total sales of NT\$27,671 billion, representing an increase of NT\$2,275 billion (8.96%) on 2002. Large enterprises had total sales of NT\$18,964 billion, representing an increase of NT\$1,063 billion (5.94%); SMEs had total sales of NT\$8,707 billion, representing an increase of NT\$1,212 billion (16.17%). Large enterprises accounted for 68.53% of total sales; SMEs' share rose from 29.51% in 2002 to 31.47% in 2003 (Table 2-1-1 and Figure 2-1-4).

5. Domestic Sales

In 2003 Taiwanese enterprises had total domestic sales of NT\$20,338 billion, 10.61% up on 2002. Large enterprises had total domestic sales of NT\$12,959 billion, representing an

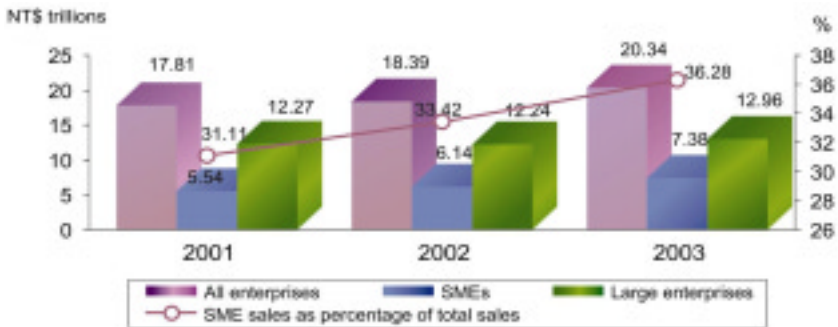
increase of NT\$715.5 billion (5.84%) on 2002; SMEs had total domestic sales of NT\$7,379 billion, representing a very substantial increase of NT\$1,235 billion (20.10%). Large enterprises held a 63.72% share of total domestic sales; SMEs' share rose from 33.42% in 2002 to 36.28% in 2003 (Table 2-1-1 and Figure 2-1-5).

Figure 2-1-4 Total Sales of Enterprises, 2001 – 2003



Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

Figure 2-1-5 Domestic Sales Value of Enterprises, 2001 – 2003

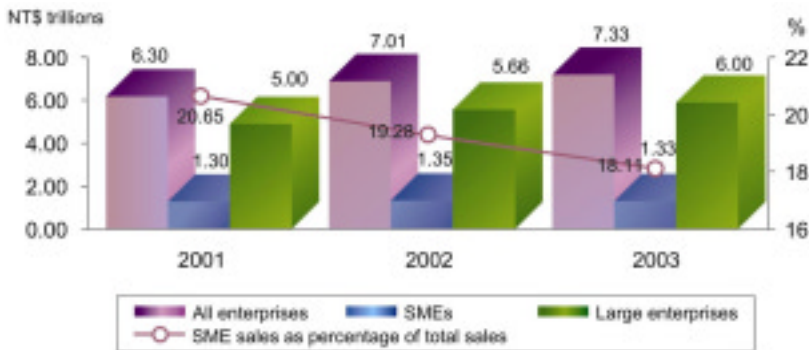


Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

6. Export Sales

Taiwanese enterprises had total export sales of NT\$7,332 billion in 2003, representing an increase of 4.63% compared to 2002. Large enterprises' export sales rose by NT\$348 billion (6.15%) to reach NT\$6,004.9 billion; SMEs' export sales declined slightly, by NT\$23 billion (1.71%), falling to NT\$1,328 billion. Large enterprises' share of total exports stood at 81.89%; SMEs' share fell from 19.28% in 2002 to 18.11% in 2001 (Table 2-1-1 and Figure 2-1-6).

Figure 2-1-6 Export Sales Value of Enterprises, 2001 – 2003



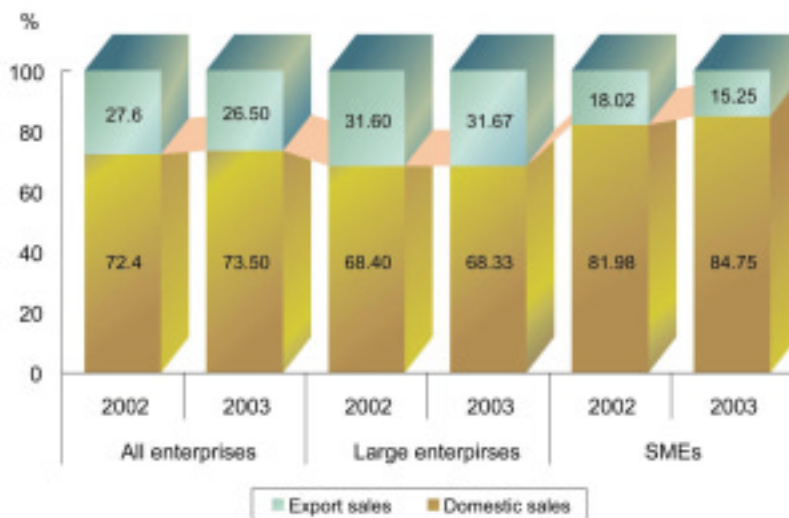
Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

7. Domestic Sales and Export Sales as a Percentage of Total Sales

In 2003, domestic sales accounted for 73.50% of Taiwanese enterprises' total sales, while export sales accounted for 26.50%. The 47-percentage-point disparity between these figures reflects that trend for Taiwanese enterprises to become more oriented towards the domestic market.

Breaking the statistics down by scale of operations (Figure 2-1-7), it can be seen that in 2003 domestic sales held an 84.75% share of SMEs' total sales, while for large enterprises the figure was 68.33%. Export sales accounted for only 15.25% of SMEs' total sales, but 31.67% in the case of large enterprises. Comparing these figures with those for 2002, it can be seen that, while there was little change in the percentages for large enterprises, export sales' share of SMEs' total sales declined by 2.8 percentage points.

Figure 2-1-7 Domestic Sales and Export Sales as a Percentage of Total Sales, 2002 and 2003



Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

8. Conclusions

The data presented above can be summarized as follows:

- (1) The total number of enterprises in Taiwan rose by 3.65% in 2003. The employed population increased by 1.26%, domestic sales grew substantially (by 10.61%), and export sales increased by 4.63%. These figures reflect the fact that the economic recovery in Taiwan is now getting into its stride.
- (2) In 2003 the number of SMEs in Taiwan rose by 3.77% compared to the previous year; this was the highest growth rate for five years. The number of large enterprises declined slightly, by 1.51%. For both large enterprises and SMEs there was a slight increase in the number of persons employed. SMEs' total sales increased by 16.17%, much higher than the increase in the total sales of large enterprises (5.94%). SMEs' domestic sales rose dramatically, by 20.10%, but export sales fell by 1.71%. Large enterprises experienced domestic sales growth of 5.84% and export sales growth of 6.15%.
- (3) In recent years, there has been a change in Taiwan's industrial structure, with SMEs coming to focus more on the domestic market while large enterprises produce mainly for export. Domestic sales now account for 84.75% of SMEs' total sales, while export sales' share has fallen to just 15.25%. SMEs' share of Taiwan's total exports has fallen from 21.11% in 1999 to 18.11% in 2003.
- (4) SMEs account for 97.83% of all enterprises in Taiwan, and 77.56% of all employed persons. They thus play an extremely important role in maintaining social stability and contributing to improvement in living standards for the nation as a whole.

II Changes in SME Structure

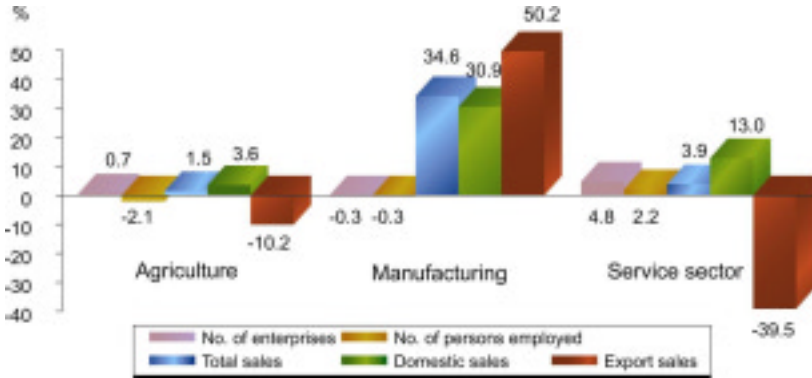
This section examines the changes that have taken place in the structure of Taiwan's SMEs, with the aim of gaining a clearer understanding of the main transformation and development trends. Comparison with the data for 2002 is affected somewhat by the upheavals that took place in the service sector in 2003, especially the effect of SARS.

1. SME Status - by Industry

Looking at the growth rates for SMEs in individual sectors in 2003 (Figure 2-2-1), it can be seen that in the service sector, although domestic sales increased by 13.0%, export sales declined by 39.5%. In the manufacturing sector, although the number of enterprises and the number of persons employed fell, overall operational performance was impressive, with export sales growing by 50.16%. In the agricultural sector, SMEs experienced a 10.16% decline in export sales, and the number of people employed fell by 2.06%.

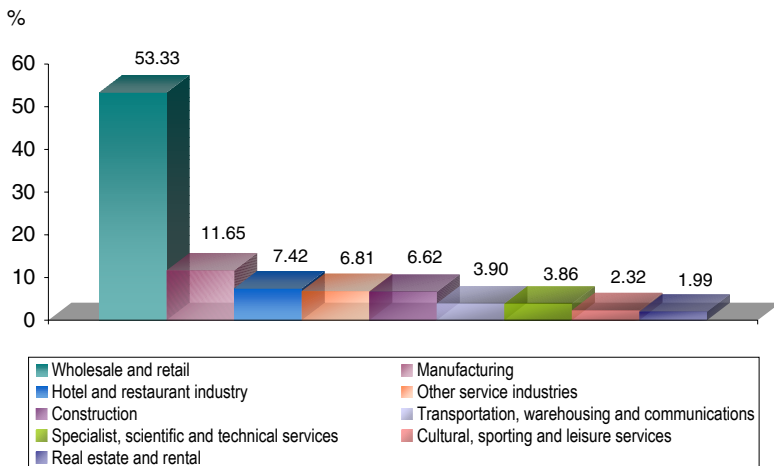
Of Taiwan's 15 major industries, in 2003 the wholesale and retail industry had the largest number of SMEs, 611,000 (53.33% of all SMEs). The manufacturing sector had the second largest number of SMEs (134,000, or 11.65% of the total), followed by the hotel and restaurant industry (85,000, or 7.42% of the total) (Figure 2-2-2). The water, electricity and gas industry, educational services industry, medical, healthcare and social services industry and public administration sector all accounted for less than 0.01% of the total number of SMEs in Taiwan (Table 2-2-1).

Figure 2-2-1 Growth Rates of Indicators for SMEs in Individual Sectors in 2003



Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

Figure 2-2-2 Distribution of SMEs by Industry in 2003



Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

Table 2-2-1 Status of SMEs in 2003 by Industry

Units: enterprises ; hundred persons ; NT\$ millions

Industry	Indicator	No. of Enterprises	No. of Persons Employed	Total Sales	Domestic Sales	Export Sales
Total		1,146,375	74,254	8,707,135	7,379,299	1,327,836
	Percentage	100.00	100.00	100.00	100.00	100.00
Agriculture, forestry and fisheries		10,718	6,884	13,499	11,651	1,847
	Percentage	0.93	9.27	0.16	0.16	0.14
Mining and quarrying		1,393	70	33,648	33,235	413
	Percentage	0.12	0.09	0.39	0.45	0.03
Manufacturing		133,560	20,505	3,146,123	2,304,413	841,710
	Percentage	11.65	27.61	36.13	31.23	63.39
Water, electricity and gas		593	21	7,718	7,585	133
	Percentage	0.05	0.03	0.09	0.10	0.01
Construction		75,861	6,809	850,925	838,936	11,989
	Percentage	6.62	9.17	9.77	11.37	0.90
Wholesale and retail		611,339	15,964	3,381,904	2,975,902	406,002
	Percentage	53.33	21.50	38.84	40.33	30.58
Hotel and restaurant		85,061	5,612	177,207	175,038	2,169
	Percentage	7.42	7.56	2.04	2.37	0.16
Transportation, warehousing and communications		44,721	3,132	357,039	308,823	48,217
	Percentage	3.90	4.22	4.10	4.18	3.63
Finance and insurance		10,513	2,009	165,044	164,828	216
	Percentage	0.92	2.71	1.90	2.23	0.02
Real estate and rental		22,803	597	122,976	122,166	809
	Percentage	1.99	0.80	1.41	1.66	0.06
Specialist, scientific and technical services		44,298	2,259	209,731	197,945	11,786
	Percentage	3.86	3.04	2.41	2.68	0.89
Educational services		459	1,614	1,891	1,843	48
	Percentage	0.04	2.17	0.02	0.02	0.00
Medical, healthcare and social services		367	1,327	1,220	1,212	7
	Percentage	0.03	1.79	0.01	0.02	0.00
Cultural, sporting and leisure services		26,612	1,277	75,844	75,061	783
	Percentage	2.32	1.72	0.87	1.02	0.06
Other service industries		78,054	6,171	162,291	160,585	1,706
	Percentage	6.81	8.31	1.86	2.18	0.13
Public administration		23	3	75	75	0
	Percentage	0.00	0.00	0.00	0.00	0.00

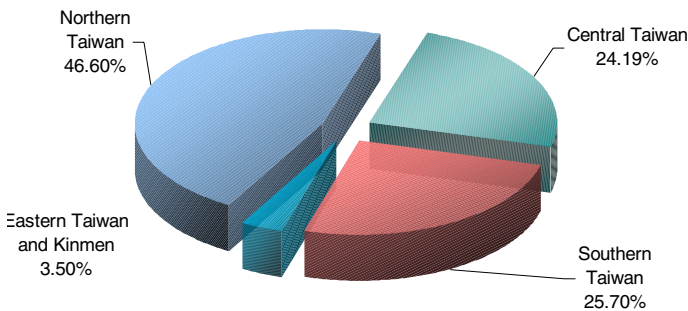
Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

2. Geographical Distribution of SMEs

(1) Northern Taiwan Has the Largest Number of SMEs, Followed by Southern Taiwan

If one breaks the data for the number of SMEs in Taiwan down by region, it can be seen that in 2003 northern Taiwan had the largest number of SMEs, accounting for 46.60% of the total; this figure represented an increase of 1.06% compared to 2002. Central Taiwan had 24.19% of Taiwan's SMEs, representing a 4.52% increase; southern Taiwan had 25.70% (a 4.73% increase); eastern Taiwan and Kinmen had 3.50% (Figure 2-2-3).

Figure 2-2-3 Geographical Distribution of SMEs in 2003 by Region



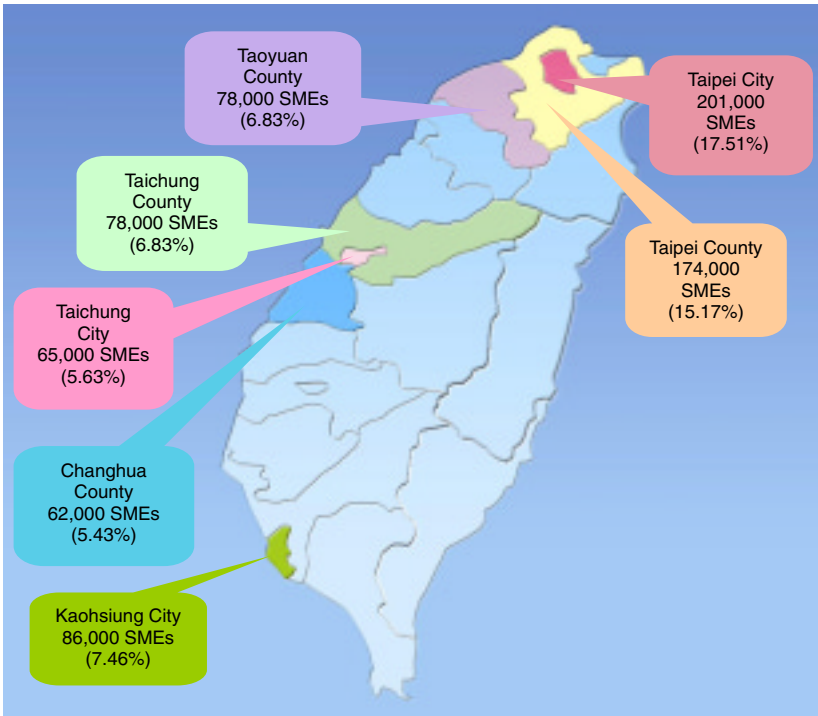
Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

(2) The Largest Concentrations of SMEs are Found in Taipei City and Taipei County

The data for 2003 show that Taipei City and Taipei County had a significantly larger number of SMEs than any other city or

county in Taiwan. However, in both cases their share of the total was less than 20%. There were about 201,000 SMEs in Taipei City, accounting for 17.51% of all SMEs in Taiwan; this figure represented a reduction of 4.75% compared to 2002. Taipei County had around 174,000 SMEs (15.17% of the total), representing an increase of 4.91%. Kaohsiung City had the third largest number of SMEs, at about 86,000 (7.46% of the total), representing an increase of 3.44% (Figure 2-2-4).

Figure 2-2-4 Geographical Distribution of Taiwan's SMEs in 2003 by County or City



Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

As can be seen from the data in Figure 2-2-4, Taiwan's SMEs tend to be heavily concentrated in the major metropolitan cities and the satellite cities and counties surrounding them.

(3) Taipei City Accounts for the Highest Share of Service Sector SMEs

If one examines the distribution of SMEs between the 15 major industries by county or city, it can be seen that the cities and counties that accounted for the highest share of SMEs in particular industries were as follows: agriculture, forestry and fisheries, Kaohsiung City (41.64% of all SMEs in that industry); mining and quarrying, Hualien County (17.44%); manufacturing, Taipei County (21.45%); water, electricity and gas, Pingtung County (13.66%); construction, Taipei County (17.74%); wholesale and retail, Taipei City (18.96%); hotel and restaurant industry, Taipei City (18.30%); transportation, warehousing and communications, Taipei City (28.29%); finance and insurance, Taipei City (36.19%); real estate and rental, Taipei City (17.57%); specialist, scientific and technical services, Taipei City (37.87%); educational services, Taipei City (44.88%); medical, healthcare and social services, Taipei City (29.43%); cultural, sporting and leisure services, Taipei City (21.18%); other service industries, Taipei City (13.81%). There is thus a very high concentration of service sector SMEs in Taipei City.

3. Organization Type Distribution of SMEs

Of the more than 1,140,000 SMEs in Taiwan, in 2003 over 1 million (95.61%) were sole proprietorships, limited companies or corporations limited by shares. Sole proprietorships were the

largest single group, at more than about 673,000 enterprises (58.74% of all SMEs); this represented an increase of 4.59% compared to 2002. There were around 311,000 limited companies (27.12% of the total), representing an increase of 1.72%, and 112,000 corporations limited by shares (9.76%), representing an increase of 1.42% (Table 2-2-2).

Table 2-2-2 Taiwan's SMEs by Organizational Type, 2002 – 2003

Units: enterprises ; %

Type of Organization	Year	2002 Enterprises	2003		
			Enterprises	Percentage	Annual Growth Rate
Total		1,104,706	1,146,352	100.00	3.77
Corporations limited by shares		110,271	111,838	9.76	1.42
Limited companies		305,646	310,889	27.12	1.72
Unlimited liability companies		21	17	0.00	-19.05
Hybrid companies		10	14	0.00	40.00
Partnerships		15,164	15,800	1.38	4.19
Sole proprietorships		643,800	673,326	58.74	4.59
Foreign companies		2,062	2,284	0.20	10.77
Taiwan representative offices of foreign companies		103	103	0.01	0.00
Subsidiaries		17,322	20,114	1.75	16.12
Others		10,307	11,967	1.04	16.11

Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

4. Employment Structure

In 2003 a total of about 2,051,000 people were employed in SMEs in the manufacturing sector, accounting for 27.62% of all persons employed by SMEs. This total represented an increase of about 16,000 (0.76%) compared to 2002. The total for SMEs in the wholesale and retail sector was around

1,596,000 persons (21.50% of the total), representing an increase of around 11,000 (0.71%) compared to 2002. SMEs in the agricultural sector employed the third largest number of people, at about 688,000 (9.27%); this figure represented a decrease of 14,000 (2.06%).

If one compares the number of people working in SMEs in the 16 major industries in 2002 and 2003, it can be seen that in 2003 the manufacturing sector experience the largest increase in the number of people working in its SMEs, with an increase of about 16,000. The hotel and restaurant industry had the next largest increase, at around 15,000, followed by the educational services industry with about 13,000. The construction industry experienced the largest decline; the number of people working in SMEs in this industry fell by 22,000. The next largest decline was in the agriculture, forestry and fisheries industry, about 15,000.

5. Structure in Value of Sales

(1) The Wholesale and Retail Sector Accounted for the Highest Share of Total Sales

In 2003 Taiwan's wholesale and retail industry had total sales of NT\$3,382 billion, accounting for 38.84% of total sales in all industries; this was a higher share than any other industry. The manufacturing sector had the next highest total, NT\$3,146 billion (36.13%), followed by the construction industry with NT\$8,509 billion (9.77%) (see Table 2-2-1).

(2) The Wholesale and Retail Sector Held the Highest Share of Domestic Sales

In 2003 the wholesale and retail sector had total domestic sales

of NT\$2,976 billion (40.33% of total domestic sales for all industries), higher than any other industry. The manufacturing sector had the next highest total, NT\$2,304 billion (31.23%), followed by the construction industry with NT\$839 billion (11.37%) (Table 2-2-1).

(3) The Highest Share of Total SME Export Sales was Found in the Manufacturing Sector

In 2003 the SMEs in Taiwan's manufacturing sector had combined exports of NT\$842 billion, accounting for 63.39% of total export sales for SMEs in all industries. The next highest total was found in the wholesale and retail industry, NT\$406 billion (30.58% of the total), with the transportation and warehousing industry in third place, with NT\$48 billion (3.63%) (Table 2-2-1).

6. Production Value (Value Added) of SMEs

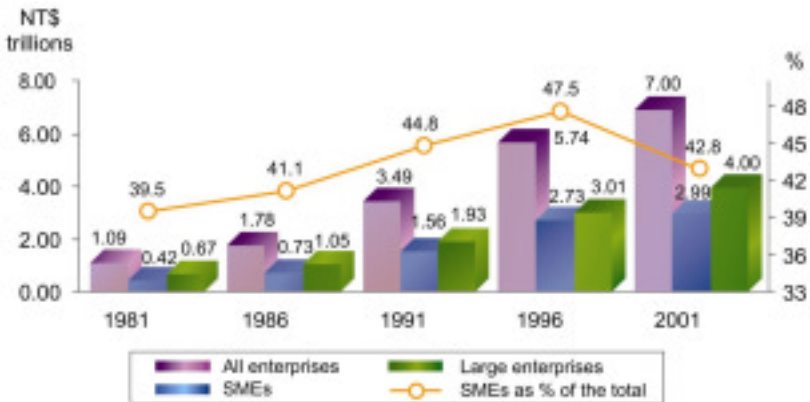
In 2001 Taiwan's SMEs had combined production value of approximately NT\$3,000 billion, accounting for 42.77% of Taiwan's production value for enterprises of all sizes. If one examines the trends since the 1980, it can be seen that SMEs' share of total national production value peaked in 1996 at 47.5%, and then fell off; by 2001 it had declined by 4.7 percentage points compared to 1996 (Figure 2-2-5).

7. SMEs and Triangular Trade

Table 2-2-3 shows the status of those SMEs in the manufacturing sector and wholesale sector involved in triangular trade. According to the definition employed in the *Industrial and Commercial Census* for 2001, the term

“triangular trade” refers to cases where orders are received in Taiwan, but the goods are shipped from another location. If one compares the value added rates for triangular trade and non-triangular trade, it can be seen that, in the case of the manufacturing sector, regardless of whether one is considering

Figure 2-2-5 The Production Value of Taiwanese Industry, 1981 – 2001



Source: Calculated from Industrial and Commercial Census (successive years).

traditional manufacturing industries or non-traditional manufacturing industries, knowledge-intensive industries or non-knowledge-intensive industries, those companies that are not involved in triangular trade have the highest value added rates. Among the four main industry groups, only in the information and electronics sector do companies involved in triangular trade have higher value added rates; for companies in the household goods sector, chemical industry and metals/machinery sector, it is those companies not involved in triangular trade that have the highest value added rates. The situation is much the same in the wholesale industry; it is those

companies not involved in triangular trade that have the higher value added rates.

Table 2-2-3 SMEs and Triangular Trade

Units: enterprises ; persons ; NT\$ millions ; %

Industry \ Item	No. of Enterprises	No. of Employees	Total Production (1)	Gross Production (2)	Value-added Rate = (2)/(1)*100
Engaged in triangular trade					
Manufacturing sector	1,287	80,392	2,956,092	851,712	28.81
Traditional	656	39,405	1,216,586	351,629	28.90
Non-traditional	631	40,987	1,739,506	500,083	28.75
Knowledge-intensive	409	25,835	1,122,471	325,911	29.04
Non-knowledge-intensive	878	54,557	1,833,621	525,802	28.68
Household goods	306	18,674	493,062	146,260	29.66
Chemical industry	219	13,696	469,318	139,761	29.78
Metals and machinery	357	19,197	761,613	213,787	28.07
Information and electronics	405	28,825	1,232,100	351,904	28.56
Wholesale	5,942	57,354	810,790	518,697	63.97
Not engaged in triangular trade					
Manufacturing sector	137,948	1,439,575	30,463,844	9,395,654	30.84
Traditional	91,671	913,039	19,551,782	5,836,038	29.85
Non-traditional	46,277	526,536	10,912,061	3,559,616	32.62
Knowledge-intensive	38,871	426,184	8,790,127	2,904,710	33.05
Non-knowledge-intensive	99,077	1,013,391	21,673,717	6,490,944	29.95
Household goods	29,312	345,359	6,821,700	2,048,062	30.02
Chemical industry	29,867	303,556	6,555,242	2,081,127	31.75
Metals and machinery	63,934	558,748	11,193,891	3,507,624	31.34
Information and electronics	14,835	231,912	5,893,010	1,758,840	29.85
Wholesale	150,521	755,960	8,091,926	5,850,798	72.30

Source: Calculated from Industrial and Commercial Census (2001).

III New Enterprises

This section will examine the structure of newly established enterprises by size of enterprise and industry type, in order to

gain a clearer understanding of their operational status.

1. The Overall State of New Enterprises in Taiwan

For the purposes of this section, the term “new enterprise” is used to refer to enterprises that began operation in 2003. Data for these enterprises derives from the Ministry of Finance Tax Data Center’s business tax records for enterprises that have been operating for less than one year.

(1) The Size of New Enterprises

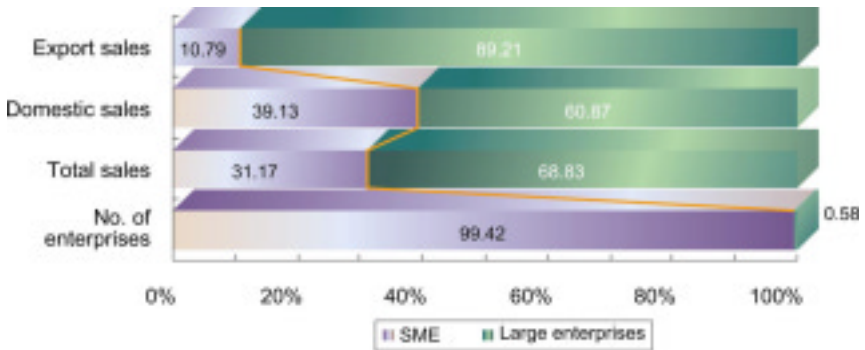
The following points can be made from the data in Table 2-3-1:

- a. In 2003 there were 112,154 new enterprises in Taiwan, of which 647 were large enterprises (accounting for 0.58% of the total) and 111,507 were SMEs (99.42% of the total).
- b. These new enterprises had total sales revenue of NT\$948 billion, with large enterprises accounting for NT\$652 billion of this (68.83% of the total) and SMEs accounting for NT\$295 billion (31.17%).
- c. The new enterprises had total domestic sales of NT\$681 billion, with large enterprises accounting for NT\$415 billion (60.87%) and SMEs for NT\$267 billion (39.13%).
- d. The export sales of new enterprises totaled NT\$266 billion, with large enterprises accounting for NT\$238 billion (89.21%) and SMEs for NT\$29 billion (10.79%).

(2) Comparison of New Enterprises with Taiwanese Enterprises as a Whole

In 2003, the percentage of all enterprises in Taiwan that were new enterprises (i.e. the entry rate) was 9.57%. For SMEs, the entry rate was 9.73%.

Figure 2-3-1 SME Shares in New Enterprises in 2003



Source: Collated from Ministry of Finance Tax Data center business tax statistics.

Turning to total sales, domestic sales and export sales, for all three of these indicators new enterprises accounted for more than 3% of the total figure for all enterprises in Taiwan, 3.42%, 3.35% and 3.63%, respectively. For SMEs, the highest percentage was for domestic sales (3.61%); for large enterprises, it was export sales (3.96%).

(3) New Enterprises – by Industry

Enterprises in the wholesale and retail industry accounted for the largest share of new enterprises in Taiwan in 2003, at 49.87%. The hotel and restaurant industry held the second largest share, at 15.70%. As 99.42% of new enterprises were SMEs, the figures for newly-established SMEs were more or less the same as those for new enterprises as a whole.

Table 2-3-1 Comparison of New Enterprises with All Taiwanese Enterprises in 2003

Units: No. of enterprises ; NT\$ millions

Indicator \ Size		All enterprises	Large enterprises	SMEs
		No. of enterprises	All enterprises	1,171,804
	New enterprises	112,154	647	111,507
	New enterprises as % of all enterprises	9.57	2.54	9.73
Total sales	All enterprises	27,670,875	18,963,740	8,707,060
	New enterprises	947,693	652,323	295,370
	New enterprises as % of all enterprises	3.42	3.44	3.39
Domestic sales	All enterprises	20,338,134	12,958,834	7,379,244
	New enterprises	681,417	414,783	266,634
	New enterprises as % of all enterprises	3.35	3.20	3.61
Export sales	All enterprises	7,332,742	6,004,906	1,327,836
	New enterprises	266,275	237,539	28,736
	New enterprises as % of all enterprises	3.63	3.96	2.16

Source: Collated from Ministry of Finance Tax Data Center business tax statistics.

The industries where new enterprises had the largest total sales were the manufacturing sector, the wholesale and retail sector, and “other service industries”; these industries accounted for 29.13%, 28.37% and 25.55% of total sales by new enterprises. For newly established SMEs it was the wholesale and retail industry that held the highest share of total sales by new enterprises, at 53.31%, followed by the manufacturing sector with 14.79% and the construction industry with 11.09%.

As for domestic sales, the industry whose new enterprises accounted for the highest share of total domestic sales by new enterprises was the “other service industries,” with 35.50% of

the total, followed by the wholesale and retail sector with 34.09%. Among newly-established SMEs it was the wholesale and retail sector that held the highest share, at 53.34%, followed by the construction industry with 12.14% and the manufacturing sector with 11.84%.

The manufacturing sector accounted for the highest percentage of total export sales by new enterprises, with 84.11%, followed by the wholesale and retail sector with 13.71%. Among newly-established SMEs it was the wholesale and retail sector that held the highest share, at 53.05%, followed by the manufacturing sector with 42.18%.

IV International Comparisons

Table 2-4-1 provides an international comparison of SME data. Owing to the fact that the data included was produced at different times and to various other problems relating to data collection, there are some gaps in the data. The table compares important economic indicators for SMEs in 15 countries and regions: Taiwan, Australia, Canada, Hong Kong, Japan, South Korea, Malaysia, Mexico, New Zealand, the Philippines, Russia, Thailand, Singapore, the US and the UK. Different countries define the term “SME” in different ways, and in some cases data for the years covered by the comparison is not available; readers should be aware of these limitations when studying the data.

1. SMEs Account for a Very High Percentage of Enterprises in All Countries

Of the 15 countries and regions covered by the comparison, the

US, Canada and Mexico define the term “SME” rather loosely; all enterprises with 500 or fewer employees are classed as SMEs. As a result, SMEs account for an extremely high percentage of enterprises in these three countries – 99% in the case of the US, 99.8% in the case of Canada, and 99.6% in the case of Mexico. Countries defining SMEs as enterprises with 300 or fewer employees include Japan and South Korea, although in Japan’s case the cut-off point is reduced to 100 employees for firms in the wholesale and service sector, and to 50 employees for retailers. As of 2002, there were 4.27 million SMEs in Japan, accounting for 99.7% of all enterprises; in South Korea, which uses a similar classification, the percentage was 99.7%.

The British government defines SMEs as those enterprises with 250 or fewer employees; approximately 99.8% of business enterprises in the UK fall under this category. Australia, the Philippines, Thailand and Singapore all define SMEs as enterprises with 200 or fewer employees; the percentage of enterprises classed as SMEs in these countries is 96%, 99.6%, 99.7% and 91% respectively. In Hong Kong, Malaysia and New Zealand SMEs’ share of all enterprises also exceeds 90%. The definition of SMEs in Taiwan depends on the type of industry. For enterprises in the manufacturing, construction and mining and quarrying sectors, SMEs are defined as those enterprises with paid-in capital of less than NT\$80 million; for other sectors, SMEs are defined as those enterprises with annual sales revenue of less than NT\$100 million in the previous year. On the basis of this definition, approximately 97.8% of enterprises in Taiwan are SMEs. The definition of SMEs used in Taiwan is thus more stringent than that used in most other countries. Overall, it can be seen that in

all 15 of the countries and regions included in the comparison SMEs account for a very high percentage of all enterprises, reflecting the important role that they play in the economy.

2. Comparison of SME Employment Data

For the purpose of comparison with other countries, in this section the definition of SMEs in Taiwan is based on the number of employees; in this respect, the definition employed in Taiwan is also more restrictive than that used in other countries. If one excludes SMEs in the agricultural sector, Taiwan ranks second out of the 15 countries included in the survey in terms of the percentage of the total employed population working in SMEs; the percentage for Taiwan is 74.3%, with only South Korea having a higher percentage (81.9%). SMEs thus provide the vast majority of employment opportunities in Taiwan. The figure for the Philippines is also very high, at around 70%. The percentages in Canada, Hong Kong, Japan, Mexico and Thailand are not far behind, at 65.2%, 60%, 64.1%, 64% and 60% respectively. For the other countries included in the survey, the figures are: Australia, 43.5%; New Zealand, 40.9%; Russia, 45.2%; Singapore, 57%; USA, 57.1%; UK, 54.7%. New Zealand thus has the lowest percentage. It is worth noting that in all of these six countries SMEs account for more than 90% of enterprises, but they account for only around 50% of jobs. This suggests that in these countries a high proportion of SMEs are small enterprises or individual self-employed persons.

If the data for Taiwan is broken down by sector, it can be seen that in the manufacturing sector SMEs account for 79.2% of employed persons, while in the commercial sector the percentage is 94%; these figures are significantly higher than

those for the same sectors in other countries.

3. Comparison of Sales Percentages

In Taiwan, SMEs account for nearly 31.4% of total business enterprise sales. This is very similar to the figure for the US (31%). The country where SME sales account for the highest share of total sales is the UK, with 51.4%; Japan comes second, with 48.2%. The figures for New Zealand and Russia are 33.2% and 39.3% respectively. The vast majority of SMEs have total sales much lower than those of large enterprises, reflecting the fact that SMEs tend to be highly labor-intensive enterprises.

4. Comparison of Export Percentages

In 2002, direct exports by SMEs accounted for 17.1% of Taiwan's total exports. This percentage has been falling steadily over the last few years, reflecting the gradual transformation in the role that SMEs play in Taiwan's economy. Whereas in the past SMEs exported products directly by themselves, today they are mainly serving as suppliers of components to Taiwan's large enterprises. It is not merely the role played by SMEs that is being transformed; Taiwan's entire industrial structure is being re-oriented towards the hi-tech sector. In Australia, South Korea, Singapore and the US, SMEs' share of direct exports stands at 51%, 36.9%, 16% and 30% respectively; the data available for Mexico and Japan is rather old (1996), and thus of little use for comparative purposes. Comparison of SMEs' share of total exports reveals that, while SMEs account for a high percentage of enterprises in every country included in the survey, they generally account

Table 2-4-1 International Comparison of SMEs

Item Country/Zone	No. of SMEs (excluding the agricultural sector) (million enterprises)	SMEs as % of all enterprises (excluding the agricultural sector)	No. of persons employed by SMEs (excluding the agricultural sector) (million persons)	SME employees as % of the total employed population (excluding the agricultural sector)
Taiwan (2003)	1.14	97.8	6.74	75.9 79.2 (manufacturing)
Australia (2000)	1.10	96	3.94	43.5
Canada (2001)	2.17	99.8	6.43	65.2 55.5 (manufacturing) 75.6 (wholesale) 60.8 (retail)
Hong Kong (2003)	0.28	98	1.31	60.0 64.0 (manufacturing) 64.0 (commerce)
Japan (2002)	4.27	99.7	26.99	64.1
South Korea (2000)	2.77	99.7	8.86	81.9 74.3 (manufacturing) 90.2 (commerce)
Malaysia (2001)	0.05	92	NA	45.0 (manufacturing)
Mexico (2001)	2.84	99.6	NA	64.0 66.0 (manufacturing)
New Zealand (2001)	0.27	96.1	0.6	40.9
Philippines (2001)	0.8	99.6	4.1	70.0 51.6 (manufacturing) 86.2 (services)
Russia (2002)	8.24	86.0	29.55	45.2
Thailand (2000)	0.85	99.7	NA	60.0
Singapore (2000)	0.54	91.0	0.4	57.0
USA (2002)	22.9	99.0	54.8	57.1
UK (2002)	3.62	99.8	12.18	54.7 52.8 (manufacturing) 48.9 (wholesale)

Table 2-4-1 International Comparison of SMEs (continued)

Country/Zone \ Item	SME sales as % of total business enterprise sales	SME exports as % of total exports	Newly established SMEs as % of all SMEs	% of SMEs going out of business
Taiwan (2003)	31.4 34.0 (manufacturing)	18.11	9.7	NA
Australia (2000)	NA	51.0	4.3	8.0
Canada (2001)	NA	NA	6.2	5.7
Hong Kong (2003)	NA	NA	NA	NA
Japan (2002)	48.2	15.0 (1996)	2.7	3.2
South Korea (2000)	NA	36.9	1.5	NA
Malaysia (2001)	NA	NA	NA	NA
Mexico (2001)	NA	21.0 (1996)	NA	NA
New Zealand (2001)	33.2	NA	18.5	15.7
Philippines	NA	NA	NA	NA
Russia (2002)	39.3	NA	NA	NA
Thailand (2000)	NA	NA	NA	NA
Singapore (2000)	NA	16.0	NA	NA
USA (2002)	31.0	30.0	10.0	10.0
UK (2002)	51.4	NA	4.85	4.85

Notes: 1.Canada, Mexico and the US defines SMEs as enterprises with 500 or fewer employees.

2.Japan defines SMEs as enterprises with 300 or fewer employees.

3.South Korea defines SMEs as enterprises with 300 or fewer employees, or which have capitalization of less than 8 billion Won.

4.The UK and Russia defines SMEs as enterprises with 250 or fewer employees.

5.Australia, the Philippines, Thailand and Singapore defines SMEs as enterprises with 200 or fewer employees.

6.Malaysia defines SMEs as enterprises with 150 or fewer employees. The data given in this table for Malaysia includes only manufacturing enterprises.

7.Hong Kong defines SMEs as enterprises with 100 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.

8.New Zealand defines SMEs as enterprises with 20 or fewer employees.

9.Taiwan defines SMEs as: see appended Table 6.

Sources: 1.Australia - Department of Industry, Tourism and Resources, /www.industry.gov.au/

2.Canada - Department of Industry, /www.ic.gc.ca/

3.Hong Kong - Small and Medium Enterprises Office, /www.sme.gov.hk/

4.Japan - *White Paper on Small and Medium Enterprises in Japan 2003*

5.South Korea - Small and Medium Business Administration, /www.smba.go.kr/

6.Malaysia - Small and Medium Industries Development Corporation, /www.smidc.gov.my/

7.Mexico - *OECD Small and Medium Enterprise Outlook 2002*

8.New Zealand - Ministry of Economic Development, /www.med.govt.nz/

9.The Philippines - National Statistics Office, /www.census.gov.ph/

10.Russia - Russian SME Resource Centre, /docs.rcsme.ru/

11.Thailand - Department of Industry Promotion, /www.smethai.net/en/

12.Singapore - Ministry of Trade and Industry, /www.mti.govt.sg/

13.USA - Office of Advocacy, Small Business Administration, /www.sba.gov/advoc/

14.UK - Department of Trade and Industry, /www.sbs.gov.uk/

15.Taiwan - *White Paper on Small and Medium Enterprises in Taiwan*.

for less than 50% of exports (in some cases much less). Clearly, SMEs' small size makes them less competitive compared to large enterprises.

5. New SMEs and SMEs Going Out of Business

The process whereby new SMEs are established and existing SMEs go out of business acts as a driver of growth in the economic system; newly-established SMEs can be a shot in the arm for the economy. If the number of new enterprises being established is larger than the number of enterprises going out of business, then that country is benefiting from a healthy economic system and a strong entrepreneurial spirit. Data on new enterprises and enterprises going out of business thus provide a picture of how flexibly SMEs in different countries are responding to the changes taking place in the global economy.

As can be seen from the table, the percentage of all SMEs accounted for by newly-established SMEs ranges from 1.5% to 18.5% in different countries and regions. New Zealand has the highest percentage, at 18.5%; this is probably related to the New Zealand government's policy of aggressively promoting SME development. In the US and the UK, the new SME percentage and the percentage of SMEs going out of business during the period 2002–2003 were more or less the same – 10.0% in the case of the US and 4.8% in the case of the UK.

By contrast, in Australia and Japan the percentage of SMEs going out of business was higher than the new SME percentage, reflecting a decline in economic vitality in these two countries.

In South Korea, new SMEs accounted for 1.5% of all SMEs in 2000; the data for SMEs going out of business was incomplete. Lack of available data for Hong Kong, Malaysia, Mexico, the Philippines, Russia, Thailand and Singapore makes it difficult to make comparisons in this area.

6. SME Policy Framework

SMEs play an important role in economic development throughout the world. In order to cope with the changes taking place in the global economy, governments are aggressively promoting SME development, and implementing measures to provide guidance to SMEs. The exact measures adopted vary according to the state of the country's economy, its political system etc., as does the overall strategy. The analysis undertaken for this sub-section focused on the SME guidance policies adopted in the UK, Taiwan, Japan, South Korea and the US. The eight key similarities and differences are outlined below:

(1) Establishment of Dedicated Government Agencies for SME Supervision

In order to provide guidance for SME development, many countries have established SME agencies. The Federal Government in the US includes a Small Business Administration (SBA) that provides SMEs with guidance and services in the areas of legislation, policy coordination, funding, information provision, etc. Japan has the Small and Medium Enterprise Agency, a subordinate agency of the Ministry of Economy, Trade and Industry, which provides consulting services for SMEs with regard to business management, technology, information, etc. In South Korea, the Small and

Medium Business Administration (which comes under the Ministry of Commerce, Industry and Energy) is responsible for helping SMEs to restructure, and for providing guidance and support services to SMEs. Taiwan has the SMEA under the Ministry of Economic Affairs, which has responsibility for SME affairs planning, promotion and guidance, for helping SMEs to overcome the problems they encounter, and for building a business environment conducive to SME growth.

(2) Establishment of a Comprehensive Legal Framework for SME Development

To ensure that the rights of SMEs are protected and to promote SME development, in most countries, basic policy with regard to SMEs and the principles according to which the government handles SME affairs are laid down in law. As long ago as the 1940s, the US had established SME committees within the Senate and the House of Representatives, and enacted several dozen items of SME-related legislation, including the *Small Business Act*, the *Small Business Regulatory Enforcement Fairness Act*, and the *Small Business Investment Act*. The *Small Business Act* clearly stipulates that the government should seek to prevent large enterprises from expanding their control over the market, with the objective being to create a regulatory framework that ensures fair competition. Japan also possesses a reasonably sound legal and regulatory framework for SMEs, the most important elements in which are the *Basic Law Regarding SMEs* that was promulgated in 1963, and which has come to be seen as the “constitution” for Japanese SMEs, the *Law for Promoting the Modernization of SMEs*, and the *SME Credit Guarantee Law*; in all, Japan has more than 30 laws relating to SMEs. South Korea has also sought to create a business environment based on fair competition through the

enactment of legislation that includes the *Framework Act on Small and Medium Enterprises*, the *SME Procurement Law*, and the *Fair Trade Law*. Taiwan has also enacted a series of laws and regulations to ensure the healthy development of SMEs, including the *SME Development Statute*, the *Regulations Governing SME Guidance System Establishment and the Provision of Guidance*, the *Regulations Governing the Establishment, Operation and Management of SME Development Corporations*, and the *Regulations Governing SME Development Fund Receipts, Disbursements, Management and Operation*.

(3) Promotion of SME Guidance and Support Policies to Enhance the Competitiveness of SMEs

The promotion of healthy SME development and the provision of guidance to SMEs has become an important task for governments (and particularly for those government agencies responsible for economic affairs) all over the world. The main objectives are always to boost the competitiveness of SMEs, establish a healthy environment for SME operation, provide SMEs with financing services, encourage technology innovation and start-up establishment, provide specialist consulting services, etc. The SME guidance system that has been established in Taiwan is a very comprehensive one. Besides the SME Development Fund and SME Credit Guarantee Fund, the government has also established 10 major guidance systems covering production technology, quality upgrading, R&D, marketing, information, finance, operational management, industrial safety, pollution prevention and mutual assistance. Governments in other countries have been equally energetic in promoting SME development; the main features of the measures adopted are outlined below:

a. Japan

The fundamental objective of SME guidance policy in Japan is to reduce the disparity between SMEs and large enterprises in terms of value added and productivity, and to improve the terms of trade for SMEs. The main guidance measures adopted with respect to SMEs include: industry-specific modernization projects, upgrading products, management rationalization, raising technology levels, organizational measures, enterprise transformation measures, energy conversion and energy conservation, internationalization measures, labor force measures and measures targeting SMEs in particular regions.

b. South Korea

South Korea has established four main guidance systems for SMEs – the financial support mechanism, sales and market development support mechanism, production technology guidance and support mechanism, and operational management support system. The main objective of these systems is to help SMEs to implement restructuring, to improve their technology and quality standards, to promote the growth of hi-tech start-ups, to enhance the competitiveness of SMEs in the distribution sector, to stabilize SME management structure, and to cultivate managerial talent in SMEs, etc.

c. USA

In the US, the objectives behind the provision of guidance for SME development are: to create new business opportunities for SMEs, to build a superior business environment for SMEs, and to provide assistance to those SMEs affected by natural or man-made disasters. The government provides support for

SMEs in the areas of policy, funding, technology and services.

(4) Providing SMEs with Funding Assistance and Special Financial and Tax Incentives

The methods whereby different countries provide funding assistance for SMEs include: tax breaks, subsidies, loans, and encouragement of the provision of direct financing. An overview of these methods is given below:

a. Emphasis on Tax Incentives and Subsidies – the UK

Most countries have formulated tax incentive policies for SMEs, but the extent of the tax breaks provided varies from country to country. The UK is one of the countries where tax incentives are the most important element in the provision of assistance to SMEs. Tax breaks and subsidies are used to facilitate SME development, mainly by a steady reduction in the corporate tax rate. For small businesses with annual output of less than £300,000, the corporate tax rate has been reduced from 24% to 20% (the lowest level ever), and the British government is currently considering further reductions. The tax system is also being reformed to make it easier for SME employees to hold shares in the enterprise they work for, and to provide special tax breaks for employees who have held such shares for at least three years. These measures encourage business owners and employees to work together for the good of the enterprise.

b. Emphasis on Loans – the US, Japan and South Korea

(i) The US

The main sources of financing for SMEs in the US include

loans from commercial banks, financing companies, government assistance, securities financing, etc. The Small Business Administration (SBA) collaborates with more than 700 commercial banks to arrange funding assistance for SMEs. The types of financing plan provided include SBA participation in loan operations, provision of financing guarantees by registered SME development corporations, direct investment and loans, financing for direct investment, insurance for political risk attached to overseas investment, regional development corporate loans, small business investment corporate loans, etc. The US government has introduced “quick loans for SMEs” where the approval process can be completed in 36 hours, thereby helping to improve the efficiency of fund use among SMEs.

(ii) Japan

The provision of loan support to SMEs in Japan takes place mainly through financial institutions established by the government; these institutions provide SMEs with loans at lower than market rates. There are also several private SME financing institutions that provide financing to SMEs. Where an SME is unable to repay a loan, repayment is made by a credit guarantee association established under the “credit supplementation system”; in this case 70–80% of the cost is borne by the SME Credit Guarantee Fund.

(iii) South Korea

In South Korea, the provision of financial support to SMEs involves three funds established by the government – the Korea Credit Guarantee Fund, the New Technology Business Finance Korea Technology Credit Guarantee Fund and the SME Mutual

Assistance Fund. Funding for SMEs is being steadily expanded. The main measures adopted include: raising the limit on loans to SMEs; establishing a special credit guarantee system for commercial paper up to 1 trillion South Korean Won, to ensure an adequate supply of funding for SMEs; implementation of a special loan guarantee system and technology guarantee system to enable SMEs to use their patents and technology as security for loans; creation of special guidance plans for SMEs in particular regions whose development is in conformity with the needs of the region in question, with the cost of guidance provision being covered by the government.

(iv) Taiwan

In order to help SMEs secure funding, in 1974 the Taiwan government established the SME Credit Guarantee Fund. Its main functions were to implement government guidance policy with respect to SMEs, to eliminate the obstacles that SMEs had previously faced due to their lack of collateral that could be used to secure financing, to increase the willingness of financial institutions to grant loans to SMEs, and to collaborate in the expansion of the activities of the various agencies providing guidance to SMEs (for more details, see Chapter 9).

(5) Attaching Due Importance to SME Management Talent, Manpower Cultivation and Professional Training

a. UK

The British government attaches considerable importance to SME manpower cultivation and training. In the late 1980s, the government set to work on the establishment of a unified national training network; today, most senior managers at

Britain's SMEs have undergone training arranged by government agencies. Broadly speaking, training takes place on two levels: training for business owners is arranged by the government on a unified basis, while training for employees is arranged by the individual SMEs. SMEs can arrange to have government experts (including retired engineers) provide training for them at no charge, and SME managers can participate in intensive training programs that are provided on a regular basis at various locations around the country.

b. Taiwan, the US, Japan and South Korea

Governments in all of these countries have established concrete guidance measures with respect to SME management capabilities and manpower cultivation, and they provide SME owners and other entrepreneurs with channels for manpower cultivation and information provision to ensure that SMEs are managed in the most efficient possible manner.

(6) Encouraging SMEs to Undertake Innovation and R&D

When developing new technology or acquiring it from outside sources, SMEs have to deal with problems in terms of risk, funding, manpower, access to information, etc. Most countries have implemented measures to encourage R&D and innovation among SMEs.

a. USA

The US government has achieved great success in its implementation of the Small Business Innovation Research (SBIR) program, which requires Federal Government Agencies to allocate a specific percentage of their budget towards the

provision of funding assistance for innovation and research activities among SMEs, with the aim of stimulating activity of this kind. In addition, the Small Business Administration has established Small Business Development Centers (SBDCs) in universities and colleges throughout the United States; these SBDCs provide SMEs with both specialist and academic assistance, as well as offering technology and business consulting services.

b. Japan

The Japanese government has adopted several measures to strengthen technology development among SMEs. These measures have included: the establishment of more than 200 laboratories throughout Japan to give SMEs free access to laboratory facilities and technology; the setting up of a technology consulting system to provide concrete technology-related assistance to SMEs in the areas of product design and pilot production; the formulation of an SME technology development subsidies system to provide financial assistance for technology development on the part of SMEs.

c. South Korea

In South Korea, the government has been working to promote technology development and higher quality standards. Besides conducting surveys of innovation among Korean SMEs, and providing subsidies to cover up to 75% of the cost of technology development, the government also provides special credit guarantees for enterprises that have strong growth potential but are hobbled by a lack of capital, to enable them to avoid cashflow problems. The government also attaches great importance to boosting the competitiveness of regional SMEs

so as to revitalize the regional economies, and to encourage collaboration between industry, universities and research institutes on technology development projects.

(7) Providing Guidance for New Business Start-ups

Most governments have been adopting various different measures to support the development of new enterprises. One approach is to simplify the application procedures that entrepreneurs are required to undergo, so as to reduce the obstacles faced in the early stages of new business start-ups. In the USA, for example, the procedures for establishing a new enterprise are extremely simple; the entrepreneur is merely required to notify the government that the business has been established, and for the self-employed even this is not necessary. Some countries provide special incentives to encourage entrepreneurial activity, such as Britain's £160 million Enterprise Grants fund, established to provide start-up funding for new businesses in the hi-tech sector. Other countries have formulated special policies to support SME development. In South Korea, the *Support for SME Establishment Act* that was enacted in 1986 sought to establish a comprehensive system (covering financing, taxation and administrative procedures) for supporting the establishment of new businesses; the specific measures adopted included expanding the provision of funding for new business start-ups, establishment of incubator centers, establishment of companies to provide consulting services for SMEs, and the simplification of the procedures that must be completed to set up a new SME. The overall aim is to offer guidance in the areas of start-up, business management and technology, and to provide consulting services.

(8) Other Measures

Different countries have formulated different SME development policies depending on their own unique circumstances and the state of development of SMEs in that country. Some of the policies adopted are outlined below:

a. Assisting SMEs through the Provision of Social Security

Governments in Europe and North America tend to attach considerable importance to the establishment of effective social security systems, ensuring that SME employees receive protection with respect to unemployment and health insurance; by providing this social security safety net, the government reduces the burden that SMEs have to bear. Taking the US as an example, the government provides social security, and helps SMEs to establish pension schemes for their employees.

b. Establishment of Special SME Development Zones

Through the establishment of industrial parks and development zones, national and regional governments can provide SMEs with the infrastructure and public facilities they need. The establishment of such zones also encourages the development of an industry cluster effect among SMEs, thereby boosting the overall scale of SME activity; creating zones of this kind also improves the efficiency of public facilities utilization, ensures efficient use of land and improves environmental protection. By setting up trade centers, technical services centers and training facilities within industrial parks, governments can build up a support system for SME clusters. Japan in particular has seen a high level of clustering among SMEs, with SMEs coming together in a particular location to share training, sales,

transportation and warehousing facilities, thereby reducing the size of the investment required for business start-up and improving overall efficiency. In Taiwan, the government has established several small-scale industrial districts that provide a comprehensive range of ancillary facilities for particular target industries. These industrial districts give SMEs convenient access to the infrastructure they need, and allow them to achieve effective integration with other SMEs in the same industry, leading to enhanced economies of scale.

c. Provision of Guidance for Traditional Local Industries

With the changes taking place in the global economic environment, individual countries find that their industrial structure is changing all the time. In many countries, primary industries are in decline, with companies in these industries seeing their operational performance fall off and in some cases being forced out of business. Governments have adopted various policies to encourage the transformation or restructuring of these industries, which often play an important role in keeping traditional technologies and local culture alive. In Taiwan, the transformation of the industrial structure has had a major impact on the grassroots layer of Taiwanese society.

In response, the government has been working together with local communities to build the “software” and “hardware” infrastructure needed to raise the overall quality of life in each region and to give individual localities their own unique image. As long ago as 1989, the SMEA was already working to promote the restructuring of traditional local industries and to provide guidance for community SMEs. In its provision of guidance, the administration targeted those industries that were

of particular historical or cultural significance, and which had the potential to develop into important local industries for the township, rural township or urban district in question. These efforts have already produced impressive results.

The South Korean government has also implemented measures to promote the development of SMEs in particular regions, including the formulation of a local SME cultivation plan, increased funding for local SME cultivation, establishment of comprehensive SME support centers, designation of areas entitled to receive special assistance, etc. The aim of these measures is to achieve balanced regional development.

7. Conclusions

If one compares the situation in Taiwan with that in other countries and regions, it can be seen that SMEs account for a very high percentage of jobs created in Taiwan; South Korea is the only country where SMEs play a more important role in job creation than they do in Taiwan. The number of new businesses established each year continues to grow, confirming that the entrepreneurial spirit of Taiwan's citizens remains as strong as ever, despite the impact of the global economic downturn.

Comparison of the SME development policies adopted in Taiwan with those adopted in other countries (such as the US, the UK, Japan and South Korea) offers valuable lessons. What is needed now is for the government in Taiwan to formulate a comprehensive set of SME development policies that take into account the actual circumstances currently existing in Taiwan. In the past, the government has already provided a great deal of

assistance for SME development. In order to help Taiwan's SMEs survive and flourish, in the future the SMEA of the Ministry of Economic Affairs will continue to make adjustments to SME development policy in line with changing circumstances and the evolution of the overall business environment.