

## Summary

The White Paper on Small and Medium Enterprises in Taiwan, 2004, is presented in three parts, with the first part comprised of six chapters dealing with the macroeconomic environment facing SMEs, their recent development, their performance in terms of finance, labor utilization, and internationalization, and their participation in Taiwan's cultural and creative industries. The second part comprises two chapters on two special topics, dealing with the impact of the 2003 SARS epidemic on SMEs and women entrepreneurs. The last part covers two chapters on governmental guidance policy and programs for SMEs and a review of their prospects in the future. A summary of these chapters is presented below.

### Macroeconomic Environment

In the first half of 2003, the war in Iraq and the Severe Acute Respiratory Syndrome (SARS) epidemic led to a continuation of the global economic downturn. However, the global economic recovery started to pick up speed during the second half of 2003, ending up with a global economic growth of 2.7 per cent for the whole year. In 2003, the economic growth rate was 3.1 per cent for the United States, 0.4 per cent for the Eurozone, 2.7 per cent for Japan, 9.1 per cent for mainland China, and 5.7 per cent for the overall Asia Pacific region. The Japanese economy has finally shown sign of recovering after many years of weakness. The Latin American economies, like Mexico, Argentina, and Brazil, were also greatly improved. But the economic performance of Africa's nations was still very much weaker than it should be.

Despite the disruptions caused by the war and the SARS epidemic, the global economy as a whole has been improving. The volume of world trade grew by 4.5 per cent in 2003, higher than the original forecast of 3.0 per cent, with many leading trading nations seeing their currencies appreciate against the dollar. The pegged Renminbi has led to widespread calls in the international community for it to appreciate. Concerned about its overheating economy, the Chinese government has adopted measures to slow down the expansion. The emergence of China as a major player in the global economy has made other Asian nations less dependent on the United States and Japan, and intra-regional trade is becoming more significant.

Although the impact of SARS reduced Taiwan's economic growth rate in the second quarter, Taiwan's overall annual growth rate attained 3.31 per cent, due mainly to the export growth of 10.89 per cent in 2003. Over the whole year consumer spending grew only by 0.69 per cent and private-sector investment even declined by 1.47 per cent. Although the unemployment rate averaged 4.99 per cent for 2003, it fell to 4.58 per cent in December. Taiwan's economic growth rate is expected to reach 5.87 per cent in 2004, bringing Taiwan's per capita GNP up to US\$13,925.

Taiwan's international competitiveness is continuing to rise, as indicated by the global competitiveness rankings for 2003 published by Switzerland's World Economic Forum, for moving up to 5<sup>th</sup> place from 6<sup>th</sup> place in 2002, being the only Asian nation among the top five. The main reasons for Taiwan's high ranking are the impressive performance of its hi-tech sector and the aggressive pursuance of globalization by its domestic enterprises. Facing such a changing macro-

economic and competitive environment, Taiwan's SMEs need: to make effective use of marketing to create new customers, to create value and boost quality, to make culture the foundation and innovation the guide, to use new business models to discover core value, and to focus on knowledge and creativity to build competitive advantage.

## **SME Development**

For Taiwan's industry as a whole, all indicators showed an improvement in 2003, compared to 2002. There were a total of 1.15 million SMEs in 2003, representing growth of 3.77 per cent, the largest increase for three years, but the number of large enterprises declined by 1.51 per cent. The number of SMEs as a percentage of all enterprises increased from 97.72 per cent in 2002 to 97.83 per cent in 2003. Among them 41.59 per cent had been in existence for more than 10 years and newly-established enterprises, or those in existence for less than one year, accounted for 9.57 per cent of the total. While SMEs generally aim to achieve perpetual operation, they retain a high flexibility to enter or withdraw from the market.

For both large enterprises and SMEs there was a slight increase in the number of persons employed in 2003. SMEs account for 77.56 per cent of all employed persons and play an important role in maintaining social stability and contributing to improvement in living standards for the society as a whole. In 2003, SMEs' domestic sales rose dramatically by 20.10 per cent, but their export sales fell by 1.71 per cent. Large enterprises experienced domestic sales growth of 5.85 per cent and export sales growth of 6.15 per cent. In recent years, there has been a change in Taiwan's sales structure, with SMEs coming to focus more on the domestic market while large

enterprises produce mainly for export.

SMEs in the commercial sector continued to rank top in terms of the number of enterprises and domestic sales, followed by the manufacturing sector. The ranking was reversed in terms of persons employed and export sales. In the service sector SME domestic sales increased by 13.0 per cent, but export sales declined by 39.5 per cent. In the manufacturing sector, although both the number of enterprises and the number of persons employed fell, the export sales grew by 50.16 per cent. Regionally, northern Taiwan has the largest number of SMEs, followed by southern Taiwan. In fact, the largest concentrations of SMEs are found in Taipei City and Taipei County.

An international comparison is made for 15 economies in terms of their number, employment, sales, exports, and governmental policy for SMEs. There are similarities and differences. SME development policies in many countries offer valuable lessons. Taiwan needs to formulate a comprehensive set of SME development policies that take into account the actual circumstances in Taiwan.

## **Financial Status**

The financial status of enterprises refers to 2002 on the basis of a one-year time lag in tax data. The overall economy was still weak in 2002. Many enterprises found that not only was overall demand falling, but that many of their customers were moving their operations overseas. The negative impact of this trend was even more pronounced among SMEs than among large enterprises. Consequently, the financial status of SMEs worsened in 2002. The sample showed that 37.19 per cent of

enterprises incurred a loss, 25.36 per cent of those large enterprises and 37.74 per cent of them SMEs, indicating that SMEs suffered more from the economic downturn than large enterprises.

Due to weak domestic demand, SMEs' short-term liquidity continued to deteriorate in 2002, with the current ratio, quick ratio and inventory ratio all falling. As a proportion of total assets, SMEs' current assets declined by 3.35 percentage points in 2002, while their funds and long-term investments rose by 3.64 percentage points due to outward investment in mainland China. The fixed assets ratio fell by 0.35 percentage points and the machinery's share of total assets declined by 0.71 percentage points. Facing an uncertain economic outlook, SMEs, which tend not to have much capital, continued to delay investment in machinery. There was a slight increase in inventory turnover but a fall in the receivables turnover ratio.

SMEs' debt ratio rose slightly from 66.23 per cent in 2001 to 66.33 per cent in 2002. The current liability ratio in 2002 was 0.63 percentage points lower, but the long-term debt ratio was 0.56 percentage points higher. There was relatively little change in SME funding sources in 2002 compared to 2001. There was no significant improvement in profitability. SMEs had current profit and loss of -0.24 per cent in 2002, as compared with the 2001 figure of -0.53 per cent.

Considerable disparities are apparent between the financial structures of the different industries. As in 2001, SMEs in the construction sector had the highest ratio of current assets, at 83.68 per cent, in 2002. The social and personal services sector had the lowest ratio of 27.01 per cent. On the contrary, the social and personal services industry has the

highest fixed asset ratio, at 65.53 per cent, while the construction industry has the lowest, at 11.84 per cent. In 2002, the short-term repayment ability of SMEs in all industries worsened, with the situation in the water, electricity and gas industry and the business services industry being particularly serious. The finance, insurance and real estate industries, and the social and personal services industries were the only industries that did not experience a worsening in their long-term repayment ability.

As of the end of 2003 there were 50 domestic banks (including 45 regular banks and five specialist SME banks) and 36 foreign banks operating in Taiwan. The total value of all outstanding bank loans to SMEs was NT\$2.81 trillion, down by NT\$7.8 billion at the end of 2002. The 10 banks providing the largest amount of loans to SMEs had a combined market share of 73.31 per cent. Of the 10 banks, the specialist SME banks occupied the top five places. The combined value of outstanding loans to SMEs by all foreign banks was NT\$16.7 billion, giving the foreign banks market share of just 0.59 per cent, roughly unchanged from 2002.

## **Labor Utilization**

Taiwan had a total available workforce of 10.08 million in 2003. The labor participation rate was 57.34 per cent and the average unemployment rate was 4.99 per cent. Both the workforce and the number of persons in work increased in 2003 compared to 2002. Thanks to the various measures adopted by the government to boost employment, the number of unemployed fell by 12,000 compared to 2002. The labor market thus displayed more vitality in 2003 than it had done in 2002.

In 2003, a total of 7.43 million people were working in SMEs in Taiwan, about 64,000 up on the 2002 total of 7.36 million. The share of people working for SMEs fell from 77.86 per cent in 2002 to 77.56 per cent in 2003 because the implementation of the “Project for the Creation of Employment Opportunities through the Expansion of Public Services” led to a dramatic increase in the number of people employed by the government. In 2003, the number of SME owners increased by nearly 4,000 compared to 2002, rising to 493,000. Most were aged between 25 and 55, and the share of SME owners who were female had risen slightly compared to 2002. The long-term trend is for the ratio of female SME owners to rise, reflecting a gradual increase in entrepreneurial drive among women. While the total number of self-employed persons was slightly lower than in 2002, the share held by those in the 41–55 age bracket increased because the high unemployment rate is encouraging middle-aged people who have lost their jobs to start their own businesses. The number of self-employed women has been gradually rising, with more and more women starting their own small-scale businesses. The number of people employed in SMEs in the hi-tech sector was over 1.29 million. The hi-tech sector is becoming a fertile breeding ground for SMEs.

To reduce unemployment, the government has implemented a SME Manpower Assistance Program in 2003. Under this program, SMEs that recruit new employees can receive a government subsidy of NT\$10,000 per month for each employee for a period of not more than 12 months. Over the period from June 18, 2003 to December 31, 2003 subsidies were granted for a total of 41,386 new employees at 10,992 SMEs.

Average salaries in 2003 were higher for employees in the medical, healthcare and social services industry and some others. There was a slight fall in the wage share of total operating expenses. Average working hours per week remain more or less the same in all industries, decline with age, and vary with the level of education. Both the number of labor disputes reported to private arbitration organizations and the number of people involved in such disputes rose, but the number of disputes reported to government agencies and the number of people involved in such disputes was substantially lower than in 2002. It appears that enterprises and workers may have become more receptive to the idea of resorting to private arbitration.

In 2002 fewer SME employees participated in professional training, compared to 2001. Enterprise spending on professional training remained low. Average training expenses accounted for 0.21 per cent of operating costs for SMEs, whereas the figure is only 0.1 per cent for large enterprises. The main motivation for organizing training is to meet the organization's development needs, cultivating first-rate managers, and raising overall employee quality. Promotion of e-learning in Taiwan has been underway for at least three years now, but the implementation in most SMEs is still limited to the adoption of electronic methods for data exchange and internal integration. The main limiting factors are inadequate bandwidth and IT hardware and software, and the high cost of establishing a bi-directional interactive platform for many SMEs. Cultivating specialist skills and communications skills are considered most needed in the future



## Internationalization

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.

Thus, the motivation to invest overseas was the desire: to reduce labor costs, to increase production capacity, to comply with customers' requirements, to achieve competitive advantage on cost, to develop new markets, to spread risk, to gain access to new sources of production resources, to expand into other industries, to keep up to date with the latest developments in technology, to achieve segmentation through the development of unique products, etc. Data indicates that in 2002 small enterprises accounted for 64.84 per cent of wholly-owned subsidiaries established by Taiwanese SMEs

overseas, by 2003 this figure had risen to 67.33 per cent. Meanwhile, 87.47 per cent of SME overseas investment projects involved cash investment and more than 90 per cent for medium-sized enterprises, with around 50 per cent of SMEs providing machinery and equipment as part of their investment, and 25.43 per cent 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 per cent of cases.

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. Those Taiwanese SMEs that have yet to complete the process of internationalization need to focus more on leveraging the advantages that Taiwan's industry networks give them, using these networks of relationships to increase their e-business capabilities and to build up more experience in internationalization.

The percentage of SMEs marketing their products in overseas markets through their own subsidiaries or affiliates continues to rise, having increased from 58.41 per cent in 2000 to 61.78 per cent in 2003. The share of total sales held by local sales has increased dramatically for the SME overseas operations. Between 2001 and 2002, more than 50 per cent of SMEs experienced an increase in local sales, while over 40% reported an increase in exports to another region. Clearly, Taiwan's SMEs have achieved impressive results in their

recent efforts to develop overseas production and overseas marketing.

SMEs suffer from a shortage of human resources, and this problem is particularly acute when trying to recruit specialist and technical personnel locally. Product line segmentation and the interaction between parent company and overseas subsidiary on personnel, marketing, and financial matters is another problem to be resolved. Surveys indicate that the level of control that Taiwanese SMEs exercise over their overseas operations is increasing, with a corresponding fall in the degree of autonomy that the overseas subsidiaries enjoy.

## **Cultural and Creative Industries**

With the cost of production factors rising and developing nations catching up, Taiwanese industry needs to adopt new concepts to create new sources of competitive advantage. If cultural industries can be integrated effectively with consumer goods industries and digital content technology can be applied to culture and creativity, then the competitiveness of Taiwanese industry can be enhanced, resulting further growth in exports and breathing new life into the Taiwan economy. Therefore, the development of the cultural and creative industry, which encompasses culture, art, technology and local traditions, has been prioritized by the government's Challenge 2008 National Development Plan.

In 2002 the total operating revenue of the cultural and creative industry came to approximately NT\$523.24 billion. The overall production value came to around NT\$302.62 billion, accounting for 2.9 per cent of GDP, as compared with 2.0 per cent in Hong Kong, 3.3 per cent in Australia, and 3.1

per cent in New Zealand. The industry included over 47,800 enterprises, employing more than 325,500 people, about 3.4 per cent of the employed population. The four industries with the highest production value are the construction design industry, broadcasting industry, publishing industry, and handicrafts industry. The industries employing the largest number of people are the design industry, digital leisure industry, advertising industry, and publishing industry.

Three cases of successful enterprises in the cultural and creative industry are presented to reveal their experience in terms of products and commercialization strategies. The first one is Liuli Gongfang, which grew from a small workshop into one of the world's leading glassware makers. The second one is the Seagull Group, which has been very successful in marketing its "Franz" own-brand products in international markets. The third one is PiLi International Multimedia, which successfully transformed itself from a traditional *budaihsi* puppet theatre troupe into a diversified enterprise. Their production, marketing, human resources, product design, finance, R&D, operational management, and development strategies are accounted in detail.

The cultural and creative industry can be divided into the handicraft industry and the cultural economy. To commercialize handicrafts, a maker needs to think about costs and profits and also to consider whether the company's products are sufficiently innovative and distinctive, or whether the company possesses some particular technological edge, or has a niche market that it can develop. The industrialization of culture may go through several stages from original idea, innovation formation, start-up, and then final industrialization.

It is best suited to those companies that possess innovation, originality, their own brands, and the capabilities needed for successful commercialization. The government assistance can focus on particular cultural and creative industries that have strong development potential, make companies' business plans one of the criteria for assistance, canvass the views of experts and overseeing the establishment of effective peripheral and supporting systems, provide an SME innovation subsidy plan, and establish special funds and programs to foster the growth of companies that can serve as models. Thus the government and private companies can work together to promote the development of the cultural and creative industry.

## **SARS Epidemic**

The SARS epidemic began at Foshan in Guangdong Province, mainland China, in November 2002. By the end of May 2003, the disease had spread to more than 30 countries throughout the world. Its impact on Taiwan's economy can be examined based on business tax data and on a survey conducted in the second quarter of 2004.

The impact on Taiwanese industry as a whole was relatively limited. According to tax data, overall sales for Taiwanese industry as a whole fell by 0.38 per cent year-on-year in the period May–June 2003, and sales continued to grow in every other two-month period, both consecutively and year-on-year. Nevertheless, the impact of SARS was felt in almost every industry. If one examines the changes in sales by individual industries, it is apparent that a significant number of industries experienced a decline in sales during the periods March–April and May–June 2003. In terms of year-on-year comparison with 2002, the number of industries experiencing a

decline in sales was 31 in March–April and 36 in May–June; both these figures are substantially higher than those for the other two-month periods. If one compares sales performance with that in the previous two-month period, 20 industries can be seen to have experienced a decline in March–April, 21 in May–June, and 21 in July–August. May–June was thus the peak period for declining sales, with approximately half of Taiwan’s industries seeing their sales fall off during these two months. The industries that experienced a decline in sales in March–April and May–June were mainly in the service sector, such as the retail industry, hotel industry, restaurant industry, air transportation industry, insurance industry, and leisure industry. In the manufacturing sector there was no pronounced decline in sales until May–June, and even then it was short-lived.

The questionnaire survey also showed that, although the impact of SARS was felt across a wide range of industries, in most cases its impact was short-lived. Only a minority of industries (travel, hotel, and restaurant) suffered heavily, or for an extended period. The survey results indicated that as of April 2004 (one year on from the SARS epidemic), 12 per cent of enterprises felt that their operating revenue was still being affected by SARS. The main strategies adopted by business enterprises in response to SARS were to strengthen sanitation, introduce cost-cutting measures, and make adjustments to production or service contents, and one-third of enterprises did not adopt any special response measures. Moreover, 57 per cent of respondents stated that their domestic investment was not adversely affected by SARS and 25 per cent said otherwise. The size of an enterprise appeared to make little difference. On the other hand, 50 per cent of respondents reported a reduction

in confidence to invest in mainland China and 47 per cent stated that their confidence had not been affected.

## **Women's Entrepreneurial Activity**

Helping women to improve their economic welfare can benefit families and the economy, and can also reduce the problem of poverty. Many international organizations have been thus aggressively promoting women's entrepreneurial activity. In Taiwan, women have come to account for an increasingly large percentage of entrepreneurs. Of all the new enterprises that were established in 2003, 37.57 per cent had a woman as chairperson or business owner, higher than almost any other country in the world. In 1978, women accounted for just 10.15 per cent of business owners and 15.79 per cent of the self-employed. By 2003 these figures had risen to 15.14 per cent and 22.00 per cent, respectively. As women come to account for a higher percentage of Taiwan's entrepreneurs, the importance of female entrepreneurs within the economic system is increasing.

The factors affecting women's entrepreneurial activity in Taiwan are many. These include Taiwan's rapid economic growth, increased educational opportunities, gradual acceptance of job equality, growing service sector, emergence of the knowledge economy, growth of franchise operations, and government promotion. Since 1968 the Taiwan government has been providing special loans to young entrepreneurs so as to encourage the establishment of new SMEs. As of the end of 2003 the loan program had helped nearly 30,000 individuals, many of them women, to start their own businesses. The loans have thus made a significant contribution towards promoting entrepreneurial activity by

women. In recent years, the government has also organized special incubator facilities and guidance programs for female entrepreneurs. These measures have helped women to strengthen their business capabilities and undertake effective business development planning.

In 2003 there were 1,164,121 people heading business enterprises in Taiwan, of which 33.87 per cent of the total were women. By comparison, in 2002 women accounted for 46 per cent of the owners of unlisted companies in the US, and the figure for mainland China was only around 12.6 per cent. However, the average operating revenue of female-owned businesses is only around 30% that of male-owned businesses. Although both male-owned and female-owned enterprises are more likely to be oriented towards the domestic market, the trend is more pronounced among female-owned enterprises. Sole proprietorships are the largest single group of female-owned businesses, but their average size is quite small. The service sector accounts for 86.42 per cent of all female-owned businesses in Taiwan. The industry with the largest number of female-owned businesses is the wholesale and retail industry. In 2003 a total of 41,864 new female-owned businesses were established in Taiwan, accounting for 10.62 per cent of all female-owned enterprises, and 37.56 per cent of all newly-established enterprises. Female-owned businesses in Taiwan are highly concentrated in the major metropolitan areas of Taipei City, Taipei County, and Kaohsiung City. These three districts combined account for 38.46 per cent of all female-owned enterprises in Taiwan, and 55.93 per cent of the total operating revenue of all female-owned enterprises in Taiwan.



Self-motivated and externally motivated are the two main types of motivation for women to establish a new business. Women's businesses can be technology-oriented and non-technology-oriented. The examples of the first type are the chairperson of Chiu Ta Stationery and the founder of O'Girl Trading Corp., while the examples of the second type are the founder of Taohuayuan Workshop and the founder of Family-Life Co. Market and product positioning, funding sources, brand management, sales channels, and the problems encountered by female entrepreneurs are discussed with actual examples in Chapter 8 in detail.

The government in Taiwan currently provides various forms of assistance for entrepreneurial activity. Low-interest loans available to women, the Flying Swallow Plan, and the Flying Phoenix Plan are specifically for women, the other forms of government assistance are not gender-specific. In the future, government policy regarding the promotion of entrepreneurial activity by women is to emphasize the exchange and sharing of experience, and on strengthening entrepreneurs' knowledge in the areas of operational management, financial planning, technology and other specialized fields. The government will need to focus on building a suitable environment for entrepreneurial activity, the establishment of female entrepreneurial activity funds, and enhancing the visibility of female-owned businesses.

## **Guidance Policy and Measures**

The Small and Medium Enterprise Administration (SMEA) has been working to improve the overall business environment for SMEs, encouraging SMEs to collaborate with each other, and providing guidance to help SMEs achieve self-strengthening.

The overall aim is to develop Taiwan into an ideal location for the establishment, growth and development of SMEs. SME development policy is adjusted as necessary in line with the changes in the domestic and international economic environment and in SMEs' needs. At the same time, the SMEA tries to draw ancillary measures appropriate to SMEs' current requirements in order to enhance their competitiveness, thereby instilling new vitality into Taiwanese industry. Several topics are discussed in Chapter 9 on implementation of the SME guidance and service mechanism, establishment of an SME start-up and incubation platform, upgrading SMEs' technology and IT capabilities, strengthening SME management, building a first-class environment for SME development, and the resources allocated to SME development by the government.

One of the main emphases on the government's efforts to help SMEs strengthen their own capabilities has been the provision of various types of resources, along with attempts to ensure effective integration of external networks. These include strengthening the SME troubleshooting center and local SME service centers, continuing the promotion of the SME honorary instructor system and the industrial upgrading training activities, and expanding the publication of SME success stories.

The establishment of an SME start-up and incubation platform includes such measures as the provision of start-up information and inquiry services, the establishment of entrepreneurship and innovation colleges, organizing entrepreneurship and innovation fairs, holding the national new enterprise award competition, organizing the exchange of

experience between entrepreneurs, continuing manpower cultivation for entrepreneurial activity, continuing financial assistance for public and private incubator centers, promoting the establishment of an SME incubator center within the Tainan science-based industrial park, promoting the development of the Nankang software industry incubator center and other incubator center related work, helping SME start-ups to obtain working capital, and strengthening SME human resources development and training.

To upgrade SMEs' technology and IT capabilities, the SMEA needs to strengthen the information management capabilities of Taiwan's SMEs by continuing provision of guidance to help SMEs establish industry-specific on-line databases and e-commerce systems, establishing e-enablement and e-service teams, stepping up the cultivation of e-adoption talent, establishing electronic marketplaces and appraising their effectiveness, promoting on-line learning, adoption of broadband internet access, and SME information management applications, strengthening the provision of SME information management guidance service, and providing guidance for the enhancement of SMEs' quality management capability.

On strengthening SME management, the SMEA needs to improve the quality of SME management, and promote SME upgrading and transformation, help SMEs to strengthen their financial and accounting systems and to ensure they have adequate working capital through special purpose loans, expanding the government's efforts to promote the development of traditional local industries.

On building a first-class environment for SME development, the SMEA must ensure that SMEs' legal rights

are protected by helping SMEs to establish legal affairs systems, organizing related education and training activities, and providing information on laws and regulations, along with related consulting services, to SMEs. The SMEA can also help SMEs to secure government procurement business opportunities by providing information relating to government purchasing opportunities and government procurement law and seminars to help SMEs participate in government procurement.

In 2003, the government allocated resources totaling approximately NT\$690.6 billion to SME development, of which the government purchased goods and services worth NT\$653 billion from SMEs. The Ministry of Economic Affairs provided guidance to SMEs worth a total of NT\$18.72 billion. Special project loans for SMEs totaled around NT\$13.19 billion. Subsidies, allowances and compensation totaled NT\$597.45 million.

## **Prospects for SME Guidance Policy**

With the trend towards economic globalization and the development of the knowledge economy, the key factors affecting SME operations today are innovation, speed and markets. These three factors are closely inter-related. In the past, the assistance that the Taiwan government has provided to SMEs in these areas has taken many different forms and has made numerous contributions. However, many improvements still can be made. For example, there is a need for more provision of guidance to start-ups. There is also a need to revise the relevant laws and regulations for more flexibility and efficiency and to strengthen the existing SME guidance and credit guarantee systems.

The most urgent work is the revision of relevant sub-statutes of the SME Development Statute on such matters as regulations governing the provision of guidance for SME start-up, regulations governing the management of incubator centers and venture capital firms, regulations governing SME guidance measures, and regulations governing direct investment by the SME development fund.

In the future, for enterprise start-ups, the SME start-up guidance service center should continue to provide one-stop service by the same staffers. It should also strive to achieve an effective division of labor between itself and other agencies providing similar services. In particular, the activities of the SME start-up guidance service center need to be integrated with those of the instant solution center, and with those of the dual-track financing system being promoted by the instant solution center, the SME credit guarantee fund, and the joint guidance center, so as to keep the cost of communication and coordination to a minimum. In the area of innovation and incubation, efforts should be made to relax the legal framework and clarifying the status of persons working in the academic sector, strengthening the cultivation of SMEs in the service sector, development of new technology (access and applications). Finally, the SME credit guarantee fund should focus on five main areas: expansion of the direct credit guarantee mechanism, promotion of a new enterprise appraisal system, diversification of credit guarantee operations, strengthening the financial health of the Fund, and performing efficient service.