

## Visions for Taiwan: Small & Medium-sized Enterprises Policy Creating a Fair, Reasonable Investment Environment

It is common knowledge that small and medium enterprises (SMEs) have made an important contribution to Taiwan's economic development. Banking on their clear labor cost advantage, agility and flexibility, the SMEs generated positive developments such as higher incomes, employment opportunities, and a very even income distribution. As a result the world called Taiwan's economic development an "economic miracle."

Particularly because the SMEs were able to create a large number of jobs on top of being the backbone of the local economy and providing locally oriented services, their income was also able to evenly contribute to income distribution. Even in 2010, SMEs were still providing 80 percent of all jobs nationwide. We could say SMEs are a stabilizing force in society and the main reason why Taiwan's unemployment rate remained low in the past. Only if people have a job, they have an income, which means employment is an important source of family income and an important factor in alleviating family poverty. Therefore the profits made by the legions of small and medium business owners became an important factor in equalizing income. Taiwan Brain Trust (TBT) believes that the core values behind vigorous SME growth are strengthening the SME cooperation system and bringing to bear the diverse vitality and innovation in our economy and society. It also means providing a large number of universally available jobs, narrowing the wealth gap, and giving people opportunities to realize their own values.

But as the newly industrialized nations quickly rose over the past two decades, Taiwan's SMEs gradually lost their past cost advantage,

instead competing on the basis of diversification, differentiation, and innovation. Demand and supply in the global market changed suddenly, after Southeast Asia, Latin America, China, India, and the Eastern European countries following the collapse of the Communist Bloc one after the other began to develop labor-intensive, export-oriented manufacturing bases. As a result Taiwan lost its previous cost advantage. In order to revive its previous advantage of cheap labor costs, Taiwan began a massive relocation in the late 1980s, moving its conventional manufacturing industry and the subsequently developed IT contract manufacturing industry overseas. From the 1990s, the government gradually liberalized indirect trade and investment with China, leading to an extremely high outflow of Taiwanese capital, particularly after Taiwan and China signed the Economic Cooperation Framework Agreement (ECFA) in 2010. Taiwan's total foreign direct investment stood at US\$17.4 billion in 2010, accounting for 17.67 percent of gross domestic fixed capital formation in that year. The fact that average gross domestic fixed capital formation had hardly grown, shows that the large scale exodus of Taiwanese businesses overseas had crowded out investment opportunities at home. As a result, domestic employment opportunities were severely affected with the average unemployment rate rising from 2 percent in the 1990s to 4.4 percent in the first decade of the 21st century. During that period an unprecedented high of 6.13 percent was registered in 2009. Average annual economic growth declined from 6.35 percent to 4.10 percent during the same period.

At the same time Chinese wages kept climbing higher in recent years, while domestic regulations

in China became stricter by the day. If, facing this dangerous situation, Taiwan's SME-based industries are able to respond to new trends in future-oriented markets at home and abroad, to exploit their agility and flexibility advantage, and realize a high degree of differentiation with view to specific market segments, then the differentiation of a massive number of SMEs will translate into the diversification of entire industries, thus lowering their volatility risk. This is an important advantage of the SME industry structure. In comparison to large enterprises, SMEs have rather slim management hierarchies which are an advantage for timely innovation decision-making. In contrast large corporations push the division of labor too far in their internal structure, which proves a disadvantage for thinking across the company and integrating resources.

With regard to these points Taiwan Brain Trust (TBT) would like to make the following concrete proposals: Multi-faceted startup programs should be promoted to build an entrepreneurial society that allows people to pursue self-motivated development and realize their own values. Public and private resources should be integrated to invigorate the local economy and build a balanced society with universally available employment in SMEs. Network-based innovation should be strengthened and SMEs should be linked across business areas to move toward a diverse, innovative knowledge economy. Future-oriented talent development should be promoted and the labor market should be made more flexible to consolidate the personnel base for SME development. The government should play a supporting role, whereas private SMEs should take the lead in a joint effort to develop international markets. SME financing and the business environment should be optimized for

continued efforts toward becoming a benchmark country in terms of SME development. A more robust accounting system should be established to improve SME capacity in financial and accounting management, and SME lending mechanisms should be strengthened.

In 2010 Taiwan had more than 1.2 million SMEs, accounting for 98 percent of all companies nationwide. SMEs employed 8 million people, or 78 percent of the total number of employed people. Therefore the importance of SMEs for the Taiwanese economy speaks for itself. SMEs are at a disadvantage in a fiercely competitive market be it with regard to capital, human talent, management, or research and development. Due to globalization, and following the signing of ECFA in particular, as cross-strait obstacles were further removed and the core-periphery effect emerged, Taiwanese investment in China continued to grow. Cheap Chinese products including products made in China by Taiwanese companies are imported into Taiwan in great quantities, putting further competitive pressure on Taiwan's SMEs. Therefore the government has the responsibility to come up with various policies and measures to assist the SMEs in improving business conditions. It has the responsibility to raise their competitiveness in the domestic and the international markets and foster their dynamic development, to enable these energetic and creative business owners to show off their entrepreneurial spirit in a fair and reasonable business environment. 