



## CHAPTER II

### REVIEW OF RELATED LITERATURE

This chapter will be divided to be three sections. The first section is meaning of SMEs, the second section is Taiwan's background and the third section is the review of related literature on Taiwan's SMEs success factors.

#### 2.1 Meaning of SMEs

SME is the business in the small and medium size that was driven from an unique skill product using a local raw material that is flexible and feasible to the local people way of life and the world market demand. The product or service must not rely on the large manufacturers or business to supply the resources but provide a high international standard, which will generate income from outside Thailand with minimal initial investment. The mentioned business covers many industries, which include manufacturing, agriculture and service, which embedded in the skill of local people in the cities and urban where they dwell in or close to the business establishment. Thus, the business will generate income to its natives and bring the modernization and globalization to the region, which will be a shock absorber to the fluctuation of the future economy.

#### 2.2 Taiwan's Background

Before studying the literature of Taiwan's SMEs success, it should understand the background of Taiwan's politic and economics. From the research of Le-Taiwan-Student-Text Page offers some background for research into the questions of What strategies did Taiwan follow for its economic expansion and growth after World War II and what is behind of Taiwan's success. All of these are the background and will be supported to learning about Taiwan's success as :

Politics Background. When Taiwan was returned to Republic of China (ROC) in 1945, China's government was in the hands of the Kuomintang party

(KMT). The KMT wanted China to be a true “republic of the people,...by the people, and for the people”. But it was also embroiled in a civil war with Chinese communists. When the communists seized control of the mainland in 1949, the KMT relocated the seat of the ROC government to Taiwan.

They began to see benefits in the new arrangement, too. With U.S. aid, the KMT was preparing to defend Taiwan against any possible invasion by mainland communists. It also bought up huge estates on Taiwan, divided them into small units, and sold them at low cost to farmers.

Economics Background. That shift in land ownership was the seed from which Taiwan’s postwar economy grew. Hard working farmers soon turned out bumper crops of rice. Rice profits went into building factories. And that pattern of economic growth and upgrading continued steadily. For a long time, however, the KMT remained Taiwan’s only official political party, and it continued to influence the economy through its control of banks and utilities. Just as the dream of democracy seemed on hold, so did the goal of truly free market.

### **2.3 Literature Review**

Dr. Rong-I Wu (July 1999), the working paper series 989-02E, Taiwan Institute of Economic Research found that the factors behind the importance of the SMEs in Taiwan’s economic development are plenty. Three categories of factors are in order. The first belong to historical elements and the second the economic environments that are included of well-train labor force, and sound infrastructure. The third is related to government policy of investment promotion.

From the Book Reviews No.027, July/August, 2002, The topic of “Taiwan in the Global Economy: From an Agrarian Economy to an Exporter of High-Tech Products, by Peter C.Y. Chow said that one should remember also that assistance from the United States in the post War II period constitutes a significant factor in the economic development of the island even though it remains under constant threat from Mainland China.

Small and Medium Enterprise Administration, Ministry of Economic Affairs of Taiwan reviewed about the rise of small and medium enterprises (SMEs) in Taiwan that was closely connected with various comprehensive economic, educational, and social policies instituted by the government. This provided a healthy environment for the development of SMEs. Taiwan's small and medium enterprises can be analyzed in three different factors:

1. Political Factor
2. Economic Factor
3. Social Factor

Yoko Hagiwara, The bank of Tokyo-Mitsubishi, Ltd. Vo. 3 No. 12 December 1998, revises 2003. She has reviewed about the structural economic factors that helped Taiwan's small and medium sized enterprises can avoid the effects of the crisis and success in business. This strength is appropriate policy responses on the part of the authorities supported business activities as:

1. Emphasis on market mechanisms
2. Supports for industrial advancement

Panel Session on New Strategies for Economic Development by Representative, C.J. (Chien-Jen) Chen, Press Center (July 2002) refers to well known American scholar once said, Taiwan's success was "a product of the interaction of a number of forces economic, political, and social; endogenous and exogenous, constructive and destructive; fortuitous and planned; ideological and pragmatic" Nevertheless, He believe that we can identify at least six major factor that enabled Taiwan economic and political transformation and which suggest that it was no accident and conclude as :

1. A Peaceful Environment Factor
2. An Education and Industrious Populace Factor
3. Strong Leadership Factor
4. Robust Systems and Effective Institutions Factor
5. Planning Factor
6. Timely Foreign Assistance Factor