Chapter 9

Strategies for the Development of Emerging Markets by SMEs

SMEs have to a very large extent underpinned Taiwan’s economic development. The fact that Taiwan was able to achieve a world-renowned “economic miracle” was due in no small part to the activities of Taiwan’s export-oriented SMEs. In the last few years, the world’s emerging economies have been growing rapidly, and have become a major focus of international attention. The BRIC (Brazil, Russia, India and China) fever is far from over, Vietnam appears to offer almost unlimited business opportunities, and the Persian Gulf region is developing rapidly. Faced with the growing importance of these emerging economies, the need to diversify risk makes it important for Taiwan’s SMEs to expand into overseas markets. The question of how Taiwanese SMEs will adapt to the changing international business environment, and whether they will be able to formulate appropriate business strategies for developing the emerging markets, is a matter that warrants the attention not only of industry but also of Taiwan’s government and the university sector.

The four key themes addressed in this chapter are as follows: (1) Which emerging markets should Taiwanese SMEs be focusing on? (2) What opportunities do emerging markets offer SMEs, and what challenges will SMEs face in these markets? (3) What strategies can SMEs adopt when developing emerging markets? (4) How can the government help SMEs to develop emerging markets?

I Which Emerging Markets Should Taiwanese SMEs Focus On?

A rapidly changing global economic environment and the decline of Taiwan’s manufacturing sector have had a severe negative impact on the growth prospects of Taiwan’s SMEs. Both land and labor costs in Taiwan are high, and environmental awareness has been rising. In response, many SMEs have chosen to invest in China; over the last ten years, China has been the main focus of overseas expansion by Taiwanese SMEs.
In the last few years, the Chinese government has implemented a series of macroeconomic adjustment measures that have helped to cool China’s overheating economy. At the same time, intensive development in the coastal regions of southeast China has caused land and labor costs to rise, and the overall cost of investing in China has gradually increased. Following China’s accession to the WTO, the WTO’s non-discrimination and national treatment requirements have caused China to gradually abolish the preferential treatment that was previously granted to Taiwanese enterprises in many areas. As a result, it has become more difficult for Taiwanese-invested enterprises in China to build competitive advantage, and the level of risk that Taiwanese firms investing in China must bear has risen. There is now a clear need for Taiwanese SMEs to focus more on developing emerging markets other than China, so as to reduce the risk that comes from being too dependent on one market.

However, given the limited resources available to most SMEs and the disparities in market conditions between the many different emerging markets, SMEs need to think carefully when choosing where to invest. This chapter focuses on the emerging markets designated by the Taiwanese government as key development targets, the national markets that SMEs in Asia in 2007 have felt have the most development potential, the emerging markets that Taiwanese SMEs themselves believe offer the most potential, and the emerging markets that have attracted the most attention from Japanese and Korean enterprises, with the aim of identifying emerging markets that Taiwan’s SMEs might want to consider investing in.

1. The Key Markets to Which the Taiwanese Government Has Been Promoting Exports in the Past Few Years

Over the years, the Ministry of Economic Affairs has been constantly monitoring the changes taking place in the global economy to identify economies that offer significant potential as markets for Taiwanese exports, and has encouraged Taiwanese industry to step up exportation to these key markets so as to help Taiwan maintain its enviable foreign trade performance. As defined by the Bureau of Foreign Trade in 2007, the key markets included the major trading partners of Japan and South Korea, as well as several other important emerging markets; the list of economies included India, Vietnam, Saudi Arabia, the UAE, Russia, Brazil, South Africa, Malaysia, Turkey, and Spain. The government attaches particular importance to developing exports to India, Vietnam, and the six members of the Gulf Cooperation Council (with respect to which the Taiwanese government developed the Plan for Promoting Economic and Trade
The members of the Gulf Cooperation Council (GCC) include Saudi Arabia, the United Arab Emirates (UAE), Kuwait, Bahrain, Qatar and Oman; these countries are also known as the “Gulf States.” Within the GCC, the two countries with which Taiwan has the closest economic ties are Saudi Arabia and the UAE; these are also the two largest economies within the GCC grouping.

2. The Emerging Markets That Taiwanese Business Enterprises Believe to Offer the Most Development Potential

According to a survey conducted by the Chinese National Association of Industry and Commerce (Taiwan) in 2006, the emerging markets that Taiwanese business enterprises felt to have the most development potential were, in order: China (38%), India (26%), Vietnam (13%), Russia (10%), Brazil (7%), the GCC member nations (3%), Turkey (2%), and Mexico (1%). It can thus be seen that the emerging markets that Taiwanese firms believe to offer the most potential are the BRICs nations, Vietnam, and the GCC.

3. The Emerging Markets to Which Japanese and Korean Enterprises Attach the Most Importance

Geographically, Japan and South Korea are both in close proximity to Taiwan; as such, their views as to which emerging markets have the most development potential should constitute a useful reference for Taiwanese firms. According to the 2006 JETRO White Paper on International Trade and Foreign Direct Investment, both Japanese and Korean enterprises appear to feel that emerging markets within the Asia region constitute the best targets for investment. While actively investing in China, Korean enterprises have also been stepping up their investment in Vietnam and India. Investment in emerging markets by Japanese companies has been heavily concentrated in the BRIC economies and in Vietnam. The Japanese government’s 2006 Trade and Economic Development White Paper cited a survey conducted by the Japan Bank for International Cooperation, which gave the emerging markets that Japanese enterprises were most interested in investing in over the next 10 years as being, in order: China, India, and Vietnam. It can thus be seen that both Japanese and Korean business enterprises view the Chinese, Indian and Vietnamese markets as having particularly high potential.

On the basis of the information summarized above, it would appear that, leaving
China out of the picture, the emerging markets that should be of most interest to Taiwanese SMEs are Vietnam, India, and the GCC member nations.

II  The Development of Emerging Markets by Taiwanese SMEs – Opportunities and Challenges

This section will focus on the factors that motivate Taiwanese SMEs to invest in emerging markets, and on the problems that they face. Taking Vietnam, India and the GCC as case studies, it will explore the opportunities that these markets present for Taiwanese SMEs, and also the challenges.

1. Overseas Investment – Motivation and Difficulties

(1) Motivation for Investing Overseas

The data presented in the Ministry of Economic Affairs’ 2006 Survey on Overseas Investment by Manufacturing Industry showed a high degree of consistency in the motivation for overseas investment by Taiwanese SMEs. The three main factors leading SMEs to invest overseas were: strong potential for market development, the availability of abundant supplies of cheap labor, and pressure from overseas customers (Table 9-2-1).

Table 9-2-1  The Ten Main Factors Motivating Overseas Investment in 2006

<table>
<thead>
<tr>
<th>Motivating Factor</th>
<th>All Enterprises</th>
<th>Enterprise Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Small Enterprises</td>
</tr>
<tr>
<td>Development potential of local market</td>
<td>61.25</td>
<td>53.14</td>
</tr>
<tr>
<td>Abundant cheap labor</td>
<td>53.75</td>
<td>52.56</td>
</tr>
<tr>
<td>Pressure from overseas customers</td>
<td>35.75</td>
<td>35.70</td>
</tr>
<tr>
<td>Following the lead of a major Taiwanese customer</td>
<td>29.09</td>
<td>31.28</td>
</tr>
<tr>
<td>Ready supply of cheap raw materials</td>
<td>17.10</td>
<td>18.02</td>
</tr>
<tr>
<td>Falling profit margins in the industry to which the enterprise belongs</td>
<td>15.96</td>
<td>21.74</td>
</tr>
<tr>
<td>Ready availability of land</td>
<td>13.92</td>
<td>14.53</td>
</tr>
<tr>
<td>Incentives offered by the government of the country in question to stimulate foreign investment</td>
<td>9.06</td>
<td>8.14</td>
</tr>
<tr>
<td>Opportunity to make effective use of the enterprise’s resources and technology</td>
<td>8.64</td>
<td>6.86</td>
</tr>
<tr>
<td>Opportunity to benefit from most-favored nation status and preferential tariffs</td>
<td>7.38</td>
<td>7.44</td>
</tr>
</tbody>
</table>

Unit: %

Note: The percentages given in the table are the percentage of enterprises reporting the factor in question as a motivating factor; respondents were permitted to give more than one motivating factor.

An examination of the changes in motivation for overseas investment by medium-sized and small enterprises over the last three years shows that, in the case of medium-sized enterprises, the percentage of enterprises giving “following the lead of a major Taiwanese customer” as a motivating factor has risen from 22.88% in 2003 to 24.30% in 2006, while the percentage giving “incentives offered by the government of the country in question to stimulate foreign investment” as a motivating factor fell from 11.76% in 2003 to 8.80% in 2006. For small enterprises, the percentage of firms giving the availability of an abundant supply of cheap labor as a reason for investing overseas fell from 66.23% in 2003 to 52.56% in 2006; by contrast, the percentage of enterprises giving “following the lead of a major Taiwanese customer” as a reason rose from 27.64% in 2003 to 31.28% in 2006. The percentage of small enterprises giving “ready availability of land” as a reason for investing overseas fell from 18.02% in 2003 to 14.53% in 2006.

(2) Difficulties Encountered When Investing Overseas

Taiwanese SMEs generally lack the capabilities needed for comprehensive internationalization. Their main motivation for investing overseas is the desire to reduce costs, and their overseas investment tends to be excessively concentrated in China; for the most part, SMEs are unfamiliar with other overseas markets. Given their limited funding and manpower resources, their lack of internationalization capabilities, and their inadequate branding and marketing capabilities, it is difficult for SMEs to create any real synergy in their overseas investment activities. SMEs often find the process of developing emerging markets a challenging one.

The survey results presented in the Ministry of Economic Affairs’ 2006 Survey on Overseas Investment by Manufacturing Industry showed that the biggest problem experienced by SMEs when developing emerging markets (as reported by the SMEs themselves) was “intense competition,” followed by “rising labor costs.” The smaller the enterprise, the more likely it was that “rising labor costs” would be reported as a problem. Clearly, the general trend in emerging markets is for labor costs to rise. The third most widely reported problem was “cash-flow problems and difficulty in securing working capital”; the percentage of enterprises reporting this as a source of difficulty has risen steadily over the last three years.

Rising labor costs, cash-flow problems and difficulty in securing working capital, and “excessively high entertainment and other miscellaneous expenses” were more
likely to be reported as problems by smaller enterprises than by large enterprises (Table 9-2-2).

Emerging markets tend to display the following characteristics: a large population, with significant untapped market potential; ongoing liberalization and deregulation that create the potential for high economic growth rates; cost advantages that create the potential for dramatic growth in terms of industrial development and technology innovation, as well as some remaining structural problems with significant operational and exchange risk. Emerging markets are thus characterized by both high risk and the potential for high value-added creation; both the business opportunities and the challenges are enormous. The following sections will examine the opportunities and challenges that face Taiwanese SMEs seeking to develop the Vietnamese, Indian and GCC markets.

Table 9-2-2 The Ten Most Commonly Reported Problems Experienced by Taiwanese Enterprises Investing Overseas in 2006

<table>
<thead>
<tr>
<th>Item</th>
<th>All Enterprises</th>
<th>Small Enterprises</th>
<th>Medium-sized Enterprises</th>
<th>Large Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intense competition</td>
<td>58.91</td>
<td>58.20</td>
<td>60.50</td>
<td>59.00</td>
</tr>
<tr>
<td>Rising labor costs</td>
<td>30.65</td>
<td>33.84</td>
<td>31.34</td>
<td>25.05</td>
</tr>
<tr>
<td>Cash-flow problems and difficulty in securing working capital</td>
<td>28.25</td>
<td>31.05</td>
<td>28.17</td>
<td>23.71</td>
</tr>
<tr>
<td>Governmental inefficiency</td>
<td>23.16</td>
<td>22.56</td>
<td>19.72</td>
<td>26.00</td>
</tr>
<tr>
<td>Restrictions on sale of products in the local market</td>
<td>16.60</td>
<td>19.79</td>
<td>14.79</td>
<td>15.68</td>
</tr>
<tr>
<td>Unstable political or economic conditions</td>
<td>16.20</td>
<td>16.63</td>
<td>15.49</td>
<td>15.87</td>
</tr>
<tr>
<td>Excessively high entertainment and other miscellaneous expenses</td>
<td>14.94</td>
<td>18.72</td>
<td>13.38</td>
<td>9.56</td>
</tr>
<tr>
<td>Different social customs and ways of doing business</td>
<td>14.76</td>
<td>13.49</td>
<td>13.38</td>
<td>17.59</td>
</tr>
<tr>
<td>Difficulty in obtaining information</td>
<td>11.64</td>
<td>10.58</td>
<td>11.62</td>
<td>13.38</td>
</tr>
<tr>
<td>Difficulty in obtaining raw materials or production equipment</td>
<td>9.66</td>
<td>10.70</td>
<td>9.15</td>
<td>8.22</td>
</tr>
</tbody>
</table>


2. Investment in Vietnam, India and GCC

(1) Vietnam Following Accession to the WTO

a. Business Opportunities

(a) After Joining the WTO, Vietnam Has Cut Tariffs and Opened Up Its Markets

According to data published by the Vietnamese government, Vietnam’s WTO
pre-accession commitments included an agreement to reduce import duty on over 10,600 individual items over a period of 5 – 7 years, with a reduction in the average tariff rate from 17.4% to 13.4%. From the point of view of Taiwanese SMEs investing in Vietnam, these tariff reductions will facilitate direct exportation.

As regards market opening, since joining the WTO Vietnam has already opened up its service sector to a significant extent. The key sectors and sub-sectors where Vietnam agreed in its schedule of commitments to implement market opening included 11 key areas within the service sector (including construction, finance, telecommunications, travel, health and education), with a total of around 110 individual industries. Vietnam has also agreed to give foreign individuals and enterprises the right to trade freely, and to relax the quota restrictions applying to garment and textile exports. Vietnam has agreed to sign the WTO’s Information Technology Agreement, to participate in tariff adjustment initiatives with respect to certain chemical products, and to abandon its farm product export subsidies. It would appear that, from the point of view of Taiwan’s SMEs, the Vietnam market offers significant development potential.

(b) A Gradual Increase in the Incentives Offered to Taiwanese Investors

In the last few years, the Vietnamese government has adopted a number of concrete measures to encourage Taiwanese investment in Vietnam. These have included allowing Taiwanese companies to establish factories in special economic zones in coastal regions, allowing Taiwanese goods shipped through Vietnam to other parts of Southeast Asia to enjoy the same treatment as Vietnamese goods, and special incentives for establishing factories in the interior of Vietnam to manufacture goods for export to other ASEAN member nations. These policies constitute a significant incentive for Taiwanese SMEs to upgrade themselves and expand overseas.

(c) Investing in Vietnam Can Serve as a Springboard for Developing the ASEAN Market, and Will Enable Taiwanese Firms to Benefit from Preferential Tariff Rates When Exporting to the US and European Markets

Vietnam joined ASEAN in July 1995, and forms part of the ASEAN Free Trade Area. It has signed trade cooperation agreements with APEC and with the European Union, and has also signed a trade agreement with the US. Taiwanese SMEs that set up factories in Vietnam will be able to benefit from the special tariff rates that imports from Vietnam enjoy under the terms of these agreements. Vietnam could thus come to
constitute an important production location for Taiwanese companies seeking to develop the ASEAN market, or even the European or US market.

b. Challenges

(a) Following Vietnam’s Accession to the WTO, Taiwanese Firms Have to Face More Intense Competition in the Vietnamese Market

The negotiations to secure Vietnam’s accession to the WTO dragged on for 12 years. During this period, business enterprises from many different countries were already starting to invest in Vietnam, and since accession the scale of foreign investment has increased still further. As Vietnam has opened up its markets and achieved a higher level of transparency in terms of market operation and regulatory matters, while at the same time providing a level playing field for firms from different countries, the competition that Taiwanese SMEs seeking to develop the Vietnamese market have to deal with has grown steadily more intense. At the same time, it can be anticipated that the Chinese government will continue to put pressure on Vietnam to place restrictions on Taiwanese investment, which could have a severe negative impact on the efforts by Taiwanese enterprises to grow their market share in the Vietnamese domestic market.

(b) Labor Shortages Are Starting to Develop, Particularly with Regard to Technical Personnel

Besides creating more intense competition, the dramatic increase in foreign investment in Vietnam following the country’s accession to the WTO has also made it more difficult for Taiwanese SMEs operating in Vietnam to recruit the labor they need. In particular, because the Vietnamese electronics industry is only just getting off the ground, hi-tech manpower is in especially short supply. Faced with these problems, some Taiwanese firms investing in Vietnam have been collaborating with Vietnamese colleges and universities. While this strategy can provide a steady supply of labor for some firms, in the economy as a whole the problem of labor shortages is unlikely to be solved in the near future.

(c) Anti-dumping Measures by the US

Recently, the US government has established a special monitoring mechanism with respect to garment imports from Vietnam. Under the new system, even if no US company has requested an anti-dumping investigation, if the US Commerce Department
suspects that Vietnamese garment exporters are engaging in dumping in the US market, they can begin an investigation on their own initiative. These new measures will affect Taiwanese garment makers that have established factories in Vietnam.

(2) India–A Leading Provider of IT Outsourcing Services with a Huge Domestic Market

a. Business Opportunities

(a) Enormous Domestic Demand

The combination of a huge population and steadily rising per capita GDP has created substantial domestic demand in India. Today, India is the fourth largest consumer market in the world; it is estimated that more than 300 million Indians fall into the middle class, with significant consumption capability, and that the market for Fast Moving Consumer Goods (FMCG) includes nearly 400 million people.

(b) Deregulation, and a Gradual Lowering of Taxation Rates

The last few years have seen the enactment of several important new pieces of legislation that have made it easier for foreign companies to establish themselves in the Indian market; these include the Special Economic Zones Law and the Foreign Investment Promotion Law. The new measures adopted by the Indian government to stimulate foreign direct investment have been very effective. According to a report published by management consulting firm A.T. Kearney in 2007, India is now the most attractive destination in the world for service sector investment, a status that reflects the dramatic improvement in the Indian investment environment.

The Indian government has been actively working to cut tariffs, commodity tax and corporation tax; personal income tax rates have also fallen dramatically. According to the draft economic and trade policy objectives for 2007 – 2008, India is aiming to reduce the peak customs duty on non-agricultural products from 12.5% to 10%, closer to the average level for the ASEAN member economies (8%).

The combination of deregulation and tax reductions has brought about a significant improvement in the investment environment in India; this should be of great interest to Taiwanese SMEs.

(c) An Abundant Supply of Cheap Labor
The widespread availability of cheap labor is one of the biggest draws attracting foreign enterprises to invest in India. According to data compiled by India’s Bureau of Statistics in 2007, as of 2006 India’s workforce totaled 413.5 million people. With 63% of India’s population falling into the 15 – 64 age group, India has a population structure that will facilitate economic development, and that will provide a stable supply of labor for employers. A survey conducted by the Economist Intelligence Unit in 2006 showed that, over the period 2001 – 2009, labor costs in India’s manufacturing sector were very low by international standards. Taiwanese SMEs that in the past have relied on China for cheap labor now have the option of investing in India instead.

(d) A Wealth of High-quality, Low Cost English-speaking Hi-tech Talent

India has an abundant, stable supply of hi-tech manpower. It has more English-speaking scientific and technical talent than any other country in the world except the United States. India attaches great importance to science and IT education. The country has 272 universities and nearly 14,000 colleges; the Indian Institute of Science and the Indian Institute of Technology have played a particularly important role in cultivating the hi-tech talent that the Indian economy needs. According to statistics compiled by India’s NASSCOM association, as of fiscal year 2006 there were approximately 1.3 million IT specialists in India, of which 30.8% were working in information services and 32.0% in business process outsourcing; in 2007, the total was expected to rise to over 1.6 million.

In India, the cost of high quality, hi-tech manpower is much lower than it is in Europe or the United States. NASSCOM survey results showed that, in 2004 – 2005, the average annual salary for an Indian IT engineer with two years’ experience was around US$10,000, only one quarter of the figure for an IT engineer in Europe or the United States. With its wealth of English-speaking hi-tech talent, India could be the solution to the manpower shortages experienced by many Taiwanese SMEs in the hi-tech sector.

b. Challenges

(a) Linguistic, Cultural and Geographical Obstacles

For commercial purposes, English is the most widely spoken language in India. However, as a result of the numerous invasions that India has suffered, the country has
a complex ethnic make-up, including the aboriginal Dravidians and the descendants of Aryans, Mongols and Turks. The invading peoples brought their own languages with them, and today more than 1,600 languages and dialects are spoken in India, of which 15 are designated as official languages. Taiwanese SMEs may thus experience some language problems when doing business in India.

India’s caste system and the related division of labor have created a situation where low-level employees are often reluctant to take on greater responsibilities. This could cause managerial difficulties for Taiwanese companies investing in India. Geographically speaking, India is a considerable distance from Taiwan, so it takes some time to transport goods and resources between the two countries. These linguistic, cultural and geographical factors may present significant obstacles for Taiwanese SMEs seeking to develop the Indian market.

(b) India’s Infrastructure Is in Need of Improvement

The biggest problem facing a small or medium-sized Taiwanese manufacturing firm intending to invest in India would be the question of infrastructure – whether the roads, harbor facilities and electric power supply that the enterprise needs are in place. Currently, the infrastructure that India needs to support continued economic development – including telecommunications networks, power supply, water supply, and transport links, etc. – is far from satisfactory. Transport and power supply issues in particular could create major obstacles for Taiwanese SMEs trying to develop manufacturing operations in India.

(c) Complex Legal, Regulatory and Tax Systems

India has around 25,000–30,000 individual laws and regulations, a figure that continues to rise. Many of these laws and regulations have outlived their usefulness, and are no longer suited to present conditions. Taxation varies considerably from state to state within India. Even Indians can become confused by the country’s legal, regulatory and tax systems, so Taiwanese SMEs will find them even more difficult to come to grips with.

(d) Onerous Restrictions on Foreign Exchange Transactions and Difficulty in Obtaining Comprehensive, and Accurate Financial Information

India has complex, rigorous foreign exchange controls. While there are no restrictions
on remitting foreign exchange into the country, outward remittances are strictly controlled. The opening of bank accounts by foreigners is subject to government scrutiny, and applications must be made to the Central Bank in order to effect outward remittances. India lacks comprehensive, national-scale personal and corporate credit information systems, making it necessary to have individual creditworthiness surveys implemented by banks or credit rating companies. Generally speaking, even relatively basic business information is difficult to obtain.

(3) The Oil-rich GCC Member Nations – Seeking to Diversify Their Economies

Since the US invasion of Iraq in May 2003, oil prices have risen steadily. The six member nations of the Gulf Cooperation Council (GCC) have benefited greatly from this increase in oil prices, and have become a force to be reckoned with in the global economy. In the last few years, the GCC member nations have been trying to diversify beyond oil production into other industries, so as to reduce their dependence on petroleum. To exploit the business opportunities created by this “oil boom,” Taiwanese SMEs need to have a clear understanding of both the opportunities and the challenges that the GCC economies present.

a. Business Opportunities

(a) High Domestic Demand, an Abundant Labor Supply, and Immense Wealth

Oil revenue has helped to raise per capita income in the GCC member economies, creating substantial domestic demand. In the last few years, the populations of the GCC nations have grown rapidly, while at the same time large numbers of foreign laborers have been recruited to work there, ensuring an abundant labor supply. The framework provided by the GCC has made the Gulf States into what is effectively a single large market, and one that presents significant opportunities for Taiwanese SMEs.

(b) Light Industry Is Under-developed, the GCC Economies Are Heavily Reliant on Imports, and the Level of Demand in the Service Sector Is High

While the GCC region has highly developed oil production and petrochemical industries, light industry is under-developed. The GCC member nations are heavily dependent on imports of industrial machinery and equipment, agricultural machinery, and electromechanical equipment. Most consumer products – including textiles, food
products and other agricultural products, etc. – have to be imported too. Areas that offer particularly strong development potential for Taiwanese SMEs include textiles, building materials, iron and steel, and IT and communications products.

Demand in the service sector in the GCC nations is also very strong, with agriculture, fisheries and tourism all offering significant potential for Taiwanese SMEs.

(c) Preferential Tariffs, Efficient Customs Clearance Procedures, and No Discrimination against Taiwanese Companies

The GCC operates as a customs union; goods imported into the GCC area need pay import duty (at 5%) in only the first GCC member nation that they are imported into; goods can thus be transshipped within the GCC area without needing to pay import duty again. Tariffs on imported raw materials are lower than those on finished products, helping to keep production costs down for manufacturing firms. Customs clearance procedures at Dubai are very efficient; the whole process from the arrival of the container to entry into the warehouse takes less than one day to complete. Furthermore, there is no discrimination against Taiwanese goods. These factors will all facilitate development of the GCC market by Taiwanese SMEs.

b. Challenges

(a) High Transportation and Insurance Costs Due to the Frequent Conflicts in the Region

The Middle East is the scene of frequent wars and widespread terrorist activity, including suicide bombings; Taiwanese SMEs considering investing in the region therefore need to take security issues into consideration. Both the Iraqi invasion of Kuwait and the US invasion of Iraq caused severe disruption to trade in the countries concerned; in many cases, companies were unable to secure payment for goods that had been exported to the region. Overall, the level of risk is very high.

Taiwanese SMEs doing business in the region will face high transportation and insurance costs due to the risk of armed conflict and terrorism. After the US invaded Iraq on March 20, 2003, the IRA (which sets shipping charges for the Middle East region) decided that, as of April 1, 2003, the charge for shipment of 20-foot containers to the Middle East would be increased to US$150 per container, while the charge for 40-foot containers would be raised to US$300; in addition, a fuel surcharge of US$20 for 20-foot containers and US$40 for 40-foot containers would be payable on all
containers shipped to the region.

(b) Religious and Cultural Factors Affect Business Transactions in the GCC Area

Religious beliefs and the overall way of life in the Middle East are significantly different from Taiwan. When doing business in the Middle East, religious taboos must be respected; for example, there are certain periods of the year in which business may not be done. For example, many businesspeople and politicians in Saudi Arabia go abroad during Ramadan, making this an unsuitable time to try to do business in Saudi Arabia.

(c) Competition from Low-priced Chinese Goods

Individual Chinese provinces have been setting up trade offices in Dubai – the main entrepôt for imports into the GCC area – to promote Chinese exports to the region. The competition from low-priced Chinese goods is making life difficult for businesspeople from other countries; for example, many Indian traders who have been operating in the GCC market for many years are starting to withdraw from the market. Taiwanese SMEs trying to develop the GCC market will experience the same intense competition from Chinese goods.

(d) Entry Restrictions and Minimum Investment Requirements

Taiwan does not have formal diplomatic relations with any of the GCC member nations, which complicates the settlement of trade disputes. Taiwan does not have a representative office in the UAE, and Taiwanese businesspeople wishing to visit the UAE need to apply to the UAE consulate in Hong Kong to obtain visas. All of this tends to increase the cost of doing business in the region. In addition, Saudi Arabia imposes a minimum investment requirement; obtaining import/export permits and visas for Saudi Arabia can also be a complicated business.

III Strategies for Developing Emerging Markets

The term “emerging markets” covers a wide range of different markets. Taiwanese SMEs need to adjust their strategies according to the conditions that exist in each individual market. For example, Central and South America, Southeast Asia, Central Asia, South Asia and Eastern Europe all offer an abundant supply of labor, and thus
have the potential to serve as manufacturing bases for Taiwanese SMEs in their development of a global supply chain. The BRIC economies – Brazil, Russia, India and China – all have huge domestic markets with significant development potential; for Taiwanese SMEs, these economies could represent important export markets.

The following section presents concrete strategies that Taiwanese SMEs could employ when developing emerging markets such as India, Vietnam, and the GCC member nations.

1. Southeast Asia – Vietnam

(1) Getting a Clear Grasp of Vietnamese Law and Relevant International Agreements before Engaging in Collaborative Ventures

July 2006 saw the enactment of a new Enterprise Law and Investment Law in Vietnam, followed by accession to the WTO in early 2007. The business environment in Vietnam is changing rapidly; to successfully develop the business opportunities that this market offers, enterprises need to keep up-to-date with new developments, and familiarize themselves with the changes in both Vietnamese law and relevant international agreements. For Taiwanese SMEs seeking to develop the Vietnamese market, knowledge of Vietnamese law and WTO rules must be accompanied by strict adherence to all of these requirements when trading with or investing in Vietnam; only then will firms have any possibility of recourse in the event of a dispute.

(2) Keeping R&D in Taiwan While Using Vietnam as a Base for Manufacturing Goods for Export to Other Markets

Faced with the impact of both globalization and regional economic integration, while taking advantage of the opportunities created by market opening in Vietnam, Taiwanese SMEs will also need to make effective use of the free trade agreements that have been signed between Vietnam and the EU and US, as well as the ASEAN Free Trade Agreement. While keeping R&D and the formulation of business strategy in Taiwan, Taiwanese SMEs can use Vietnam as a manufacturing base to produce goods for export to other parts of the Asia-Pacific region, and even to Europe or the US. Taiwanese SMEs have so far made little effort to invest in the huge European market, partly because of cultural and linguistic obstacles. Collaborating with British companies offers one way to overcome these obstacles; some Taiwanese SMEs are already using technology supplied by firms in the UK to produce goods in Vietnam for export to the European market.
(3) Collaborating with Local Partners

With the gradual improvement in the business environment in Vietnam, there are now many areas in which Taiwanese SMEs could collaborate with companies already operating in Vietnam to develop the Vietnamese market. Initially, such collaboration would take the form of a partnership arrangement based on an appropriate division of labor; arrangements of this kind would help to reduce the level of risk borne by Taiwanese SMEs investing in Vietnam. Partnerships could be created through strategic alliances, joint ventures or technology collaboration. Potential partners would include large Taiwanese enterprises that are already operating in Vietnam, as well as Japanese and Korean companies, and even European or US firms. Some small and medium-sized Taiwanese car and motorcycle part makers have already formed alliances with other companies operating in Vietnam to develop the local market; in some cases, Taiwanese SMEs have invested in Vietnam at the request of their customers or of major international carmakers. Partnerships of this kind represent an effective strategy for developing the Vietnamese market.

(4) Development of Industry Clusters in Vietnam by Manufacturing Enterprises

Successful participation in industry cluster formation by Taiwanese SMEs requires careful analysis before investing. SMEs need to have a clear understanding of the segment of the value chain in which they will be investing. If implemented correctly, such investment can result in the successful creation of the vertically and horizontally integrated industry clusters that are such an important feature of Taiwan’s industrial structure. The formation of industry clusters helps to avoid the problems of duplicated investment and excessive concentration on one particular link in the value chain. Industries that offer significant potential for industry cluster formation in Vietnam include the IT sector, textiles, and car-making and car part manufacturing. Taking the IT sector as an example, the number of IT peripheral manufacturers operating in Vietnam is currently very limited. Of those peripheral makers that do have a presence in Vietnam, most have formed collaborative arrangements with other manufacturers. It can be anticipated that investment by Taiwanese SMEs in Vietnam will gradually expand to form comprehensive industry clusters that integrate up-, mid- and downstream production.

2. The BRIC Economies – India
(1) The Importance of Information Gathering, Visits and Appraisal, and the Establishment of Useful Contacts

Economic ties between Taiwan and India had been very limited for many years. India is a huge country of immense ethnic, linguistic and cultural diversity, and with pronounced disparities of wealth, which is very different from Taiwan in many respects. Taiwanese enterprises seeking to develop the Indian market need to do so in a gradual, stage-by-stage process. They should start by collecting as much information as possible about the area in which they plan to invest, making visits to the area if necessary, and should try to establish channels of communication both with the local government authorities and with other enterprises operating in the region; these are vital preparatory tasks for any Taiwanese SME thinking of investing in India. Once an SME has a clear picture of the conditions and consumer behavior patterns in the area in question, it can then go on to consider the feasibility of establishing a factory or distribution warehouse there.

(2) Collaborating with Carefully Selected Local Distributors to Develop the Market

Conditions in the Indian market vary considerably from state to state and from city to city. Indian distributors have a clear understanding of local culture and the local business environment; they generally also have good relations with the local government authorities. Almost all foreign companies seeking to develop the Indian market have relied on local distributors to market their products. Taiwanese SMEs generally do not possess the financial and other resources to undertake market development activities on their own, so collaborating with an Indian distributor makes sense for them, too. Collaboration of this type may involve setting up a representative office, repair center or sales office, and then working with local distributors to access sales channels. Of course, SMEs need to exercise caution when deciding which distributor to work with if they are to avoid being taken for a ride.

(3) Working with Indian or Japanese Corporations to Develop the Indian Market

The investment environment in India still presents many obstacles to foreign companies. One way round these obstacles is for Taiwanese SMEs to form joint ventures with Indian corporations, so that they can leverage the Indian partner company’s sales and marketing channels and its network of connections. A joint venture of this type can
make the process of developing the Indian market much smoother.

Another strategy available to Taiwanese SMEs is to collaborate with Japanese manufacturers operating in India. India has recently signed free trade agreements with several leading economies, including Japan. Many Taiwanese SMEs have been collaborating with Japanese companies for years, for example when developing the China market. India offers further opportunities for collaboration of this sort between Japanese and Taiwanese enterprises. Taiwanese SMEs could form strategic alliances with Japanese corporations to collaborate on marketing, or leverage existing partnerships between Japanese and Taiwanese firms. Joint ventures with Japanese companies would constitute another effective means of developing the Indian market.

(4) Establishing Manufacturing Facilities in Thailand to Produce Goods for Export to India

In the last few years, India has established a number of regional and bilateral trade agreements with neighboring countries, including a free trade agreement with Thailand. Japanese enterprises are already making effective use of this agreement by setting up manufacturing facilities in Thailand and then exporting the goods that they produce to India. Some Japanese consumer electronics manufacturers have abandoned the idea of having production facilities in India, deciding to ship their products from Thailand to India instead.

(5) Exploiting the Opportunities Created by the Growth of the Information Services Industry in India

India’s software industry has been very successful. The low cost of labor in India has encouraged many leading international corporations to outsource many of their business processes to Indian firms; India’s customer service centers and software firms have made the country the “back-office service center to the world.” By outsourcing non-core operations to India, Taiwanese SMEs can enhance their competitiveness and differentiate themselves from their competitors.

(6) Working with Leading Taiwanese Branded Vendors

The last few years have seen a significant increase in brand awareness and demand for branded goods in the Indian market. While some Indian distributors have achieved a high level of name recognition, few Indian manufacturers have a strong brand. Distribution in India is dominated by a handful of leading distributors; this situation,
coupled with India’s large size, makes the process of logistics management and after-sales service provision an unusually complex one. For Taiwanese SMEs seeking to develop the Indian market, an alternative to working with local Indian distributors would be to work with a leading Taiwanese branded vendor such as Giant or Acer; licensing or brand extension could then be leveraged to strengthen brand recognition for the SME in question.

(7) Leveraging Government Support to Recruit Indian Software Talent

India has an abundant supply of software talent, and wage levels in India are significantly lower than in Europe or the US. The recruitment of Indian software talent can help Taiwanese SMEs to develop new technology and achieve higher quality standards, while helping to ease the difficulty in recruiting skilled technical personnel that affects many SMEs. Even so, recruiting overseas talent can still be an expensive business, so SMEs will need support from the government in the form of subsidies. With this support, SMEs will be able to recruit Indian software talent, thereby overcoming their manpower shortages and enhancing the overall quality of R&D operations in Taiwanese industry.

3. The GCC Member Nations

(1) Acquiring an In-depth Understanding of Local Business Practices, Collecting Information, Undertaking Visits and Implementing Comprehensive Appraisal before Investing

There are significant differences between Taiwan and the six member nations of the GCC in terms of language, religion, culture and lifestyles. Generally speaking, people in Taiwan are unfamiliar with the economic and social structure of Islamic nations. Before attempting to develop the GCC market, Taiwanese SMEs will need to acquire an in-depth understanding of local customs, and business practices, etc.

Taiwanese SMEs thinking about investing in the Gulf region should visit the area first and collect as much information as possible; they could also make use of the services provided by TAITRA to attend or participate in relevant exhibitions, trade shows and trade promotion activities organized by the Taiwanese government or by GCC member nations. By actually visiting the Gulf region, SME managers will be able to get a much clearer picture of the state of market demand in these economies.

(2) Buyer Credit Checks Are Important to Minimize Credit Risk
Business practices in the Muslim nations of the Middle East differ significantly from those in the advanced nations where the rule of law is well established. It is common practice for buyers to delay making payment; the question of whether the buyer will actually pay for the goods in accordance with the terms of the contract is an important issue for SMEs exporting to the Gulf region.

Before agreeing to do business with a company based in the GCC region, Taiwanese SMEs should commission a credit-checking firm to undertake a buyer credit check on their behalf. Once the credit-checking firm has provided the SME with comprehensive information – including the financial status of the buyer, their past payment performance, whether the buyer is involved in any litigation, the current state of the industry to which the buyer belongs, and the credit-checking firm’s overall assessment of the buyer – a decision can then be made as to whether to go ahead with the transaction. For this purpose, SMEs can seek the assistance of the Export-Import Bank of the Republic of China, which has signed collaborative agreements with a number of leading international credit-checking companies; exporters can ask the Bank to have a credit check performed for them. SMEs that are worried about business risk might also want to consider taking out exporter insurance.

(3) Exercising Caution When Choosing a Local Distributor, and Utilizing Authorized Dealer Arrangements

In the UAE, once a foreign company has signed an agency agreement with a local distributor and has had the agency relationship registered with the Ministry of Economy and Commerce, the foreign company must obtain the agreement of the distributor before it can appoint a new distributor in the UAE. Agency relationships with distributors are thus “permanent.”

SMEs should seek the advice of a local law firm before signing a distributorship agreement in the UAE, so as to ensure that their own interests are protected. Rather than appointing a sole agent, SMEs should make use of authorized dealer arrangements.

(4) Using Dubai as a Base for Transshipment to Other Parts of the GCC Region

Establishing a subsidiary or transshipment facility in a free trade zone eliminates the need to appoint a local distributor or find a local partner, along with the attendant problems and risks. The best-known free trade zone in the GCC region is the Jebel Ali Free Zone in Dubai, the biggest port in the Middle East. Setting up a representative
office, logistics center or transshipment center in Dubai can help SMEs to keep operating costs down.

Individually, none of the GCC economies are very large. Within each economy, the consumer market can be divided into three main segments: the citizens of the GCC member nations, white-collar workers from other countries who are working in the GCC region, and goods sold to neighboring low-income countries in Africa. Besides setting up a central base in Dubai, SMEs seeking to develop the GCC market also need to decide which individual countries and market segments to focus on.

(5) Collaborating with Taiwanese or International Construction Companies

The business opportunities in the construction industry in the Middle East are attracting worldwide attention. Increasingly, the contracts awarded for construction projects in Gulf region countries cover not only the actual construction work itself but also planning, design, project management, and financing, etc. Both Taiwanese and other international construction companies are actively investigating the opportunities in this region. Some construction companies based in the advanced nations have been exploring the possibility of collaborating with Taiwanese firms to develop the Middle East market; for example, a leading German construction firm recently expressed interest in working with Taiwanese companies in the Gulf.

Taiwanese SMEs do not have the capabilities needed to take on a large-scale construction project on their own, but they can collaborate with larger Taiwanese construction companies or with German or other international corporations, supplying hardware, bathroom fittings, lighting equipment, home appliances, building materials or providing water or electricity supply repair services.

(6) Using Dubai as a Base for Marketing Activities, and Developing Joint Brands

Dubai functions as the main transshipment center for the Middle East region as a whole. Besides its own citizens, Dubai also attracts visitors from other parts of the Gulf region who come to shop there. Most international corporations operating in the GCC region use Dubai as their main base for marketing activities, and Taiwanese SMEs seeking to develop the GCC market could consider following their lead. Working with other Taiwanese SMEs to develop joint brands would help SMEs to avoid having to compete solely on price; the GCC region offers significant potential for brand-based marketing.
More specifically, Taiwanese SMEs could advertise in the media in Dubai and attend trade shows in the city, while implementing joint marketing activities to build brand recognition among local consumers. SMEs may also need to station technical personnel in Dubai to provide after-sales service to end users.

IV Policy Recommendations for Helping SMEs to Develop Emerging Markets

With the rapid pace of change in the international business environment, the ongoing trend towards regional economic integration and the growing importance of emerging markets, Taiwan’s SMEs find themselves facing unprecedented new challenges. The Taiwanese government should be working to create a business environment conducive to SME growth, helping to overcome obstacles to trade, and providing guidance and assistance to help SMEs deal with the problems that they encounter when seeking to develop emerging markets. In the following sections, policy recommendations are put forward for assisting SMEs to develop the Vietnamese, Indian and GCC markets.

1. Vietnam

(1) Establishment of a Vietnam Business Information Website to Provide a Comprehensive Range of Information about Investing in Vietnam

To help Taiwanese business enterprises obtain the information that they need about doing business with Vietnam following its accession to the WTO, in early 2007 the Taiwanese government established a dedicated Vietnam Business Information Website. At present, however, the content of the website is limited to eight specific areas, and it fails to provide the kind of in-depth information that Taiwanese SMEs need if they are to develop the Vietnamese market successfully.

It is suggested that the government should try to increase both the depth and breadth of this website’s content. The information provided should include details of the business environment in Vietnam, the current state of technology development in the country, hints on doing business in Vietnam, and legal and regulatory issues, etc. The provision of practical information regarding legal and regulatory concerns following Vietnam’s accession to the WTO is of particular importance. The website should aim to provide SMEs with comprehensive, accurate, and up-to-date information that meets SMEs’ real needs.
(2) Schooling and Healthcare Provision for Taiwanese Businesspeople Investing in Vietnam

Currently, Taiwanese SME owners investing in Vietnam are experiencing serious problems with regard to arranging schooling for their children and healthcare provision for themselves and their families. Medical personnel in Vietnam usually speak only Vietnamese (and in some cases French), creating a serious language problem. Industry associations have been lobbying the Taiwanese government to arrange better medical treatment provision for Taiwanese businesspeople in Vietnam; one solution would be to ask a Taiwanese hospital to establish a branch facility in Ho Chi Minh City.

As regards the issue of schooling for the children of Taiwanese businesspeople, the Taiwanese school in Ho Chi Minh City needs to be expanded, and additional schools may need to be established in Hanoi and other Vietnamese cities.

(3) Pushing for a Free Trade Agreement between Taiwan and Vietnam

Taiwan has had close economic and trade ties with Vietnam for many years now. Taiwan is Vietnam’s main source of foreign investment, and Vietnam runs a larger import surplus with Taiwan than with any other country. Vietnam’s accession to the WTO has made it an even more attractive target for foreign investment, and the formation of free trade agreements with ASEAN and with China is having a similar impact. Faced with the trend towards increased regional economic integration, the need for Taiwan to establish a free trade agreement with Vietnam has become more urgent than ever. If a free trade agreement can be signed, Taiwanese SMEs operating in Vietnam will have more scope for expanding their global operations; besides helping them to develop the Vietnamese market itself, such an agreement would also make it easier for SMEs to export products from Vietnam to other ASEAN member economies or to Europe and the US.

By studying the process whereby the US, Japan and Korea arrange free trade agreements, the Taiwanese government could develop the skills needed for successful trade negotiations, and then use these skills to bring about the creation of a free trade agreement between Taiwan and Vietnam. This in turn would put Taiwan in a stronger position when seeking to achieve greater participation in regional economic groupings such as ASEAN.

2. India
(1) Systematic Provision of Investment and Marketing Information

In 2006, the Taiwanese government asked the Taiwan External Trade Development Council (TAITRA) to establish an India Business Information Web site that would integrate information on doing business with India. In addition, the Industrial Development and Investment Center’s website includes a special section devoted to investing in India for the reference of Taiwanese business enterprises.

The content of these two websites could be enriched to make them more useful for SMEs; for example, the sites could provide more information regarding business opportunities for SMEs in India, the problems that SMEs can expect to encounter in the Indian market, and advice on marketing one’s products in India.

(2) Establishment of More Information Centers and Provision of a Wider Range of Consulting Services

The Ministry of Economic Affairs has invited the Indian government to establish an investment office in Taiwan to help Taiwanese companies interested in investing in India to deal with the problems that they may encounter. It is suggested that the Taiwanese government could establish additional information centers in those areas of India that have high concentrations of Taiwanese-owned firms, while also expanding the range of consulting and information services provided by these centers. For example, the centers could help Taiwanese enterprises to identify potential customers, arrange credit-checking services, help Taiwanese firms to set up distribution warehouses and logistics centers in India, provide assistance in the establishment of comprehensive service networks, and help firms to obtain legal advice when necessary.

(3) Promoting Collaboration and Exchange between Industry Associations and Other Business Organizations

The government should help Taiwanese enterprises to overcome the obstacles to investment in India, by promoting regular exchange activities at the governmental level (including visits to India by Taiwanese government officials and vice versa) and between industry associations and civic organizations.

Exchange activities at the governmental level could include the promotion of conferences to discuss bilateral economic collaboration, as well as arranging visits by representatives of relevant ministries (including the agencies responsible for SME affairs), and the organizing of trade shows and exhibitions. In this way, the government would be helping Taiwanese SMEs to identify opportunities for collaboration with
Indian companies on trade and on technology development, thereby facilitating the development of closer economic collaboration.

As regards exchange between industry associations and civic organizations, the government should be working to create channels for communication between these groups, so as to facilitate the sharing of information and the joint provision of services to Taiwanese SMEs. The government should also seek to develop contacts with Indian business associations such as the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Automotive Component Manufacturers Association of India (ACMA), to provide a foundation for concrete, effective business matching.

(4) Helping SMEs to Recruit Indian Talent

The government could help Taiwanese SMEs to recruit Indian talent in the following ways. Firstly, the government could expand the scope of operation of Taiwan’s overseas talent recruitment missions, thereby establishing new channels for the recruitment of Indian talent (especially hi-tech, engineering and software development talent). Secondly, the government could organize conferences for Indian residents in Taiwan, and promote the holding of recruitment fairs targeting students at India’s science and technology universities. If a recruitment fair of this kind were to be held on a regular basis (annually, for example), it would gradually build up a reputation. Thirdly, the government should strengthen and develop the functions of the Ministry of Economic Affairs’ HiRecruit overseas talent recruitment website, which serves as a platform for matching overseas talent with Taiwanese enterprises seeking to recruit overseas talent. HiRecruit could organize more activities relating to the recruitment of Indian talent, or even establish a dedicated Indian talent recruitment zone within the website. An international talent database mechanism would also be useful to SMEs. Fourthly, the government could provide more in the way of funding support. Because of their limited resources – including inadequate manpower – SMEs often find it difficult to undertake large-scale innovation and R&D activity. Funding support from the government would help to alleviate this problem.

(5) Helping SMEs to Outsource Business Processes to India

The Taiwanese and Indian governments could collaborate on the establishment of a trans-national service outsourcing information platform that would help to match Taiwanese companies seeking to outsource some of their business processes with Indian companies offering outsourcing services. A website similar to the J-Case
outsourcing information site could be established, incorporating a list of Taiwanese companies that are interested in outsourcing business processes to India, together with the size and business areas of Indian outsourcing firms and the specialist certification that they hold. The site could also be used to publicize examples of successful outsourcing, thereby encouraging more Taiwanese SMEs to make use of Indian outsourcing services. The government might want to consider setting up a dedicated agency to help SMEs to outsource R&D, design or customer service activities to India by simplifying the process and reducing the level of risk entailed.

(6) Negotiating a Free Trade Agreement with India, and Leveraging Economic and Trade Dialog Mechanisms to Strengthen Collaboration

Currently, the development of economic and trade ties between Taiwan and India is still very much in its early stages. Besides an investment protection agreement, the Taiwanese government is currently working to bring about the signing of agreements to avoid dual taxation and to provide transient customs clearance with India. The government should be engaging in both bilateral and multilateral (i.e., working through the WTO) negotiations to bring about the signing of a free trade agreement, while leveraging the various mechanisms available for economic and trade dialog to strengthen collaboration with India. If this can be achieved, it will significantly reduce the obstacles to trade and investment, enhance the ability of the two economies to complement one another, and further the development of a healthy bilateral economic and trading relationship.

(7) Helping SMEs to Develop Joint Brands

The government should be promoting the development of joint brands in key industries through the creation of a comprehensive support system that would include the provision of managerial expertise, information platforms, low-interest loans, and business matching services, etc. This would encourage Taiwanese SMEs to establish joint brands for developing the Indian market; the personnel of Taiwan’s representative offices in India could help SMEs to forge strategic alliances for this purpose.

3. The GCC Region

(1) Providing a Comprehensive Range of Business Information and Consulting Services

The differences between Taiwan and the countries of the Arab world – in terms of
language, culture and values – are very pronounced, and most Taiwanese SMEs have little knowledge or understanding of the GCC member nations. This situation creates significant potential for misunderstandings and disputes that could hinder Taiwanese firms’ exploration and development of the GCC market.

Besides organizing conferences, presentations and seminars to provide SMEs in Taiwan with the information they need regarding the GCC member economies, the government should also consider establishing a GCC Business Information Website to help SMEs identify and exploit business opportunities in the GCC region, understand the business environment in the region and become aware of the key issues to consider when investing there. A GCC Consulting Service Window should also be established to meet the needs of SMEs by providing useful consulting services. Service centers could be set up within the GCC member nations to help Taiwanese firms develop business opportunities in these markets.

(2) Arranging Agreements to Cover Mutual Administrative Assistance in Customs Affairs and the Elimination of Dual Taxation and Prevention of Tax Avoidance, Thereby Minimizing Obstacles to Trade

To reduce the obstacles to trade between Taiwan and the GCC region, the Taiwanese government should be working to sign agreements with the GCC member nations that would cover mutual administrative assistance in customs and tariff-related affairs, and the elimination of dual taxation and the prevention of tax avoidance. Priority should be given to establishing customs affairs agreements with Saudi Arabia and the UAE, taking the customs agreement between Taiwan and the US as a model. As regards the elimination of dual taxation and the prevention of tax avoidance, the Ministry of Foreign Affairs should be asked to obtain up-to-date information on the tax systems of the GCC member nations for analysis by the central government authorities responsible for financial affairs, so as to lay the foundation for the signing of an Agreement for the Elimination of Dual Taxation and Prevention of Tax Avoidance that would facilitate trade between Taiwan and the GCC region.

(3) Coordinating Collaboration between Taiwanese Companies to Secure Tenders

Billions of dollars worth of construction contracts are being awarded in the Middle East, creating enormous business opportunities. Taiwanese companies have a great deal of experience in undertaking construction projects in the Gulf region. The Taiwanese
government can help to coordinate the activities of Taiwanese firms, making it easier for them to secure tenders, and thereby boost exports of construction materials to the GCC economies by Taiwanese SMEs. The government will need to monitor developments in the construction sector in the Middle East, help Taiwanese firms to identify the areas where there is significant demand, and provide assistance to enable Taiwanese companies to secure tenders through horizontal or vertical integration. A Middle East construction sector tender information platform will also need to be established.

(4) Organizing Trade Delegations, Helping SMEs to Attend Trade Shows, and Providing Business Matching Services

The most effective methods whereby the government can help Taiwanese SMEs to grow their exports to the GCC region and secure business opportunities there are the organizing of trade delegations and the provision of assistance to help SMEs attend trade shows and exhibitions. In addition, it is suggested that the government should step up its efforts to organize sales promotion delegations, overseas visits to explore opportunities for strategic alliance formation, and high-level trade and investment delegations, while providing additional funding support to help SMEs attend major trade shows in the GCC region (such as the GITEX exhibition in Dubai). The government should also be encouraging companies and organizations in GCC member economies to attend international exhibitions held in Taiwan, thereby increasing the opportunities for successful business matching.

(5) Providing SMEs with Credit Checking Services and Assisting Them with Payment Prompting

There are significant differences between business practices in the GCC member nations and those applying in the advanced nations where the rule of law is well established. For Taiwanese SMEs exporting to the GCC region, the question of whether the buyer will make payment in accordance with the terms of the contract is often a major worry.

One means of mitigating this problem would be for the government to increase the number of Taiwan representative offices in the GCC region, and their manpower. A list of approved trading companies and distributors could be prepared for the reference of SMEs, and the government could also help SMEs exporting to the region to implement credit checks and payment prompting. With regard to credit checks, the government
could ask the Taiwan representative offices in the region to provide details of past transactions involving the companies concerned; with respect to payment prompting, the government could ask the GCC region representative offices of the Ministry of Economic Affairs and TAITRA to work with local chambers of commerce on this issue.

(6) **Focusing on Key Industries, and Promoting the Establishment of Joint Brands by SMEs**

The government could be working to promote the establishment of joint brands among SMEs in key industries where Taiwan enjoys a significant competitive advantage (such as car and motorcycle components, 3C product peripherals, functional textiles, machinery, medical devices, and construction) to help develop the GCC market. More specifically, the government could provide assistance in the areas of brand design, branding strategy formulation, marketing channel development, advertising, and participation in trade shows, etc.