SMEs in selected countries in East Asia

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Abstract
With a sustained high single to double digit economic growth and development in recent decades, East Asia economies are increasingly playing the role of a global growth pole, and are fast emerging as a manufacturing and information technology hub of the world economy. One of key characteristics of the East Asia region is the presence and importance of a large small and medium-sized enterprises (SME) sector comprising the majority of enterprises in all the region’s economies. Although it is important to recognize that the challenges SMEs face, and the corresponding policies aimed at strengthening their competitive performance, may vary due to a great diversity of economies and development experiences among the countries in the region, the broad contests faced by East Asian SMEs are similar. Thus, the paper examined the issues and challenges to East Asian SMEs in a renewed global market environment, with special focus on four economies in the region, including China, Hong Kong, South Korea, and Taiwan. The importance of SMEs in their nation’s economy is demonstrated. The difficulties, challenges, and opportunities for SMEs in the new economic environment after the 2008 global financial crisis are discussed. In order to enhance SMEs competitiveness in the changing business environment, it argues that not only industrial structure, but also the labour market and management systems which SMEs operate in, need to be reshaped and transformed. And in so doing, a transitionary and evolutionary change in SMEs across East Asian economies should occur, and simultaneously, distinctive management systems, institutional structures, and business models may emerge.
Introduction

More than 1.5 billion people, about 38% of the population of Asia or 22% of the world population, live in geographic East Asia. The region is one of the world's most density inhabited places, with 133 inhabitants per square kilometer (340/sq mi), being about three times the world average of 45/km² (120/sq mi). East Asia is the home of P.R. China (hereafter refers to as China), the second largest economy in the world, and three of the four ‘Tigers’ (Hong Kong, South Korea, Taiwan). With a sustained high single to double digit economic growth and development in recent decades (CIA World Factbook 2010), the region is increasingly playing the role of a global growth pole, and is fast emerging as a manufacturing and information technology hub of the world economy.

One of key characteristics of the East Asia region is the presence and importance of a large small and medium-sized enterprises (SME) sector which makes up the majority of enterprises in all the region’s economies. Although it is important to recognize that the challenges SMEs face, and the corresponding policies aimed at strengthening their competitive performance, may vary due to a great diversity of economies and development experiences among the countries in the region (Chia et al 2007), the broad challenges faced by East Asian SMEs are similar. Influences, such as globalisation, technological innovation and demographic and social change, as well as the level of technology deployed, innovative ability, financial support and entrepreneurship, can be found in the business environment, impacting as both external and internal factors. Consequently, the way SMEs develop in a changing globalized environment has become a key issue.

This chapter will be providing an overview of SMEs in East Asia, by looking at their historical development and examining their current economic situation, with special attention on four main economies in the region, including China, Hong Kong, South Korea, and Taiwan. The importance of SMEs in their nation’s economy is demonstrated. The difficulties, challenges, and opportunities for SMEs in the new economic environment after the 2008 global financial crisis are discussed. The paper shows that institutional support forms a backdrop to the growth in the number of SMEs in East Asia. The paper also asserts that a strong, dynamic and efficient SME
sector will ensure the nation’s sustainable economic development in a changing globalized world.

Definitions
Table 1 illustrates that there is no general, legally binding definition for SMEs globally. SMEs have been defined against various criteria, such as different sectors, the number of workers employed, the volume of output or sales, the value of assets employed, and the use of energy (ILO report 2003). For example, the OECD (2001) defines establishments with up to 19 employees as ‘very small’; with up to 99 as ‘small’; from 100 to 499 as ‘medium’, and with over 500 as ‘large’. However, many establishments in some developing countries with 100 to 499 employees, which according to the OECD definition would be considered ‘medium’, are regarded as relatively large firms (ILO report 2003).

Table 1 Some differing definitions of SMEs in most Asian economies

<table>
<thead>
<tr>
<th>Economy</th>
<th>Category of industry</th>
<th>Criteria/Country's official definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>Manufacturing</td>
<td>&lt; 100 employees</td>
</tr>
<tr>
<td></td>
<td>Non-manufacturing</td>
<td>&lt; 50 employees</td>
</tr>
<tr>
<td>Indonesia</td>
<td>SME</td>
<td>&lt; 100 employees</td>
</tr>
<tr>
<td>Japan</td>
<td>Manufacturing, Mining and transportation construction industries</td>
<td>&lt; 300 employees or invested capital &lt; £0.42 million</td>
</tr>
<tr>
<td></td>
<td>Wholesale Trade</td>
<td>&lt; 100 employees or capitalisation &lt; £0.13 million</td>
</tr>
<tr>
<td></td>
<td>Retail Trade and Services</td>
<td>&lt; 50 employees or capitalisation &lt; £41,920.843</td>
</tr>
<tr>
<td>Korea</td>
<td>Manufacturing</td>
<td>&lt; 300 employees, £10.89 – 43.57 million of capital (assets)</td>
</tr>
<tr>
<td></td>
<td>Mining and Transportation</td>
<td>&lt; 300 employees Construction; &lt; 200 employees Commerce and other service business; &lt; 20 employees</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Small and medium industries</td>
<td>&lt; = 150 full time workers or with a shareholder fund of &lt; £3.64 million</td>
</tr>
<tr>
<td>Philippines</td>
<td>SME</td>
<td>&lt; 200 employees, asset size &lt; £0.63 million</td>
</tr>
<tr>
<td>Singapore</td>
<td>Manufacturing</td>
<td>fixed assets &lt; S$ 15 million</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>&lt; 200 employees and fix assets &lt; £4.98 million</td>
</tr>
<tr>
<td>Taiwan</td>
<td>Manufacturing, Mining and construction industries</td>
<td>&lt; £0.93 million and &lt; 200 employees</td>
</tr>
<tr>
<td></td>
<td>Services industries and others</td>
<td>&lt; £1.24 million of sale volume and &lt; 50 employees</td>
</tr>
<tr>
<td>Thailand</td>
<td>SME</td>
<td>&lt; = 200 employees or fixed assets &lt;£1.49 million</td>
</tr>
<tr>
<td>Vietnam</td>
<td>SME</td>
<td>No fixed definition, generally &lt; 500 employees</td>
</tr>
</tbody>
</table>

Note: Local currency has been converted to GBP (£) based on exchange rate at www.xe.com.

Source: Cunningham and Rowley 2008
In addition, the definitions of SME differ from one country to another, as they can be based on a nation’s economic situation. For example, the European Union defines a SME as fewer than 500 employees whereas South Korea classifies SME as fewer than 1,000 employees. Some countries even do not have fixed definitions of SMEs internationally (for example, Vietnam, UK) (www.ciionline.org). Further, within a country or region, definitions of SME are different at different stages of economic development. For example, in China, the definitions and criteria of SME have been adjusted four times since 1949. On February 19, 2003, a new Standards on the Small and Medium-Sized Enterprises document was published to relevant government agencies with the approval of the State Council in China (see Table 2). The standards apply to the government statistics for work and replace the old classification standards, which came into effect in 1988. They also replace the supplementary standards published in 1992.

Table 2 National Standards on SMEs in China

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Employees numbers</th>
<th>Annual revenue (RMB million)</th>
<th>Total assets (RMB million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>&lt;300-2,000</td>
<td>&gt;3,000-30,000</td>
<td>&gt;4,000-40,000</td>
</tr>
<tr>
<td>Construction</td>
<td>&lt;600-3,000</td>
<td>&gt;3,000-30,000</td>
<td>&gt;4,000-40,000</td>
</tr>
<tr>
<td>Transport &amp; Posts</td>
<td>&lt;500-3,000</td>
<td>&gt;3,000-30,000</td>
<td></td>
</tr>
<tr>
<td>Postal service</td>
<td>&lt;400-1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale &amp; Retail</td>
<td>&lt;100-200</td>
<td>&gt;3,000-30,000</td>
<td></td>
</tr>
<tr>
<td>Retails</td>
<td>&lt;100-500</td>
<td>&gt;1,000-15,000</td>
<td></td>
</tr>
<tr>
<td>Hotel and Restaurant</td>
<td>&lt;400-800</td>
<td>&gt;3,000-15,000</td>
<td></td>
</tr>
</tbody>
</table>

Statistics benchmark: The payroll is the year-end employment number; the revenue of industrial enterprises is the annual sales revenue; the revenue of construction enterprises is the year-end completed revenue; the revenue of wholesale and retail enterprises is the annual sales; and the revenue and total assets of enterprises in the transportation and posts sector and hotels and restaurants are operating revenue and combined assets respectively.

Source: State Economic and Trade Commission, China 2003

**SMEs in East Asia**

Even though the definitions of SMEs are varied, the importance of SMEs in contemporary East Asian economies has been demonstrated. It is evident that East Asian SMEs are the largest source of domestic employment across all economic sectors, in both rural and urban areas (Joshi and Ganapathi 2008). SMEs are very active in some spheres, engaging in multiple product lines, small-series production,
and the service industry (Park and Kim 2011, Hall and Harvie 2003, Wang and Tsai 2010). The SME sector is also seen as a major and sustainable generator of employment and income for citizens working outside of the State sector (Cunningham 2011). SME development holds the added allure of being a key component of wider economic development and poverty alleviation, especially in developing and transitional economies (UNESCAP 2009). Moreover, a vibrant SME sector helps promote competition and a culture of entrepreneurship, which are both conducive for economic growth (Gries and Naude 2010).

Table 3 describes the share of number of enterprises, employment, export, and the contribution to gross domestic product (GDP) by SMEs for the four East Asian economies. On one hand, it demonstrates that SMEs have contributed significantly to the overall figure. On average, they represent some 98.7% of all business, provide almost 64% of total employment, and contribute over 50% of the national export and 47% of industrial output respectively. On the other hand, statistics also illustrate that SMEs’ relative roles and contributions to their national economy differ. For instance, it shows that Taiwanese SMEs are focused more on domestic demand while export is still a major business activity of SMEs in other economies. Consequently, the SME sector in Taiwan plays a crucial role as a local job provider and thus a stabilizing force in society rather than a major driver for the nation’s export growth. While similarities in economic, historical, institutional, and social influences on the development of SMEs are evident in China, Hong Kong, South Korea, and Taiwan, thus, underlying conditions and trends are different in each of these four economies.

Table 3 The role of SMEs in selected East Asia Economies

<table>
<thead>
<tr>
<th>Economy</th>
<th>Share of total establishment (%)</th>
<th>Share of employment (%)</th>
<th>Share of export (%)</th>
<th>The contribution to GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. China</td>
<td>99</td>
<td>40</td>
<td>62.3</td>
<td>60</td>
</tr>
<tr>
<td>2. Hong Kong</td>
<td>98</td>
<td>48</td>
<td>94</td>
<td>48</td>
</tr>
<tr>
<td>3. Taiwan</td>
<td>98</td>
<td>78.06</td>
<td>17</td>
<td>31</td>
</tr>
<tr>
<td>4. S Korea</td>
<td>99.9</td>
<td>87.5</td>
<td>30.9</td>
<td>49.4</td>
</tr>
</tbody>
</table>

China is a communist country which adopted an open door policy in 1979 and has transformed from a planned state to a socialist market economy. Nowadays, China plays a major global role. As the world’s second largest economy and the largest exporter, international trade is the largest contributor to the nation’s GDP, accounting for 44.2% of the national total in 2009 (SSB 2010).

The early development of SMEs in China was promoted largely due in part to creating employment for recently redundant rural labour, and in part in order to lease the impact of mass lay-offs from both state-owned enterprises (SOEs) and urban collectively-owned enterprises (COEs). Over the last thirty years, the role of SMEs in Chinese economy has gradually transformed from ‘the fringes’ to ‘a supplement’, and then ‘an important component’ of this market based socialist economy (Cunningham 2011). SMEs have become engines of China’s rapid economic growth. Every year they contribute around 59% GDP, 50% of tax revenue, 68% of foreign trade volume, and 75% of urban employment. They are also responsible for 65% of the invention patents and 80% of new products in China. Moreover, Chinese SMEs not only maximize the efficiency of the nation’s resource allocation and distribution by mobilizing and utilizing local human and material resources, but also stimulate the growth of certain sectors. (Cunningham 2010a) While there is a radical reshaping of the economy in terms of enterprise ownership, the mind-set of the Chinese government is also changing. It has largely de-emphasized ownership and extended supports to all sorts of firms, especially SMEs. A 2003 law on SME promotion affirmed SMEs role in the economy (Xinhua News Agency January 2 2003). After global financial crisis in 2008, in the face of the severe survival predicaments, especially in the shortage of electricity, labour, and capital, moreover, the first nation-level special plan for SMEs was issued by the Chinese government on Sept 22, 2011 so as to build the public service platform network and improve SMEs' capacity (China Daily September 26, 2011).

Hong Kong

Hong Kong has been a special administrative region of China since 1997. As one of the world’s most open trade economies with a very high economic development level, the economy of Hong Kong is made up mostly of SMEs. In the end of 2009, for example, 98.9% of 12, 204 manufacturing business units were with employees of
fewer than 100 persons, while 98.3% of the 273,350 service business units were SMEs (engaging fewer than 50 persons) (www.gov.hk/en/about/abouthkg/factsheets).

Due to its geostrategic position, a channel and an entrepôt for trade in goods and services, Hong Kong SMEs differ from their East Asian counterparts as they are highly dependent on international trade and finance (Bjerke 2000). In 2010, the value of goods and services trade, including the sizable share of re-exports, is about four times of its GDP. Hong Kong’s SMEs are also largely involved in service industry. As the 12th largest services exporter in the world, Hong Kong’s service sector accounted for more than 90% of the territory's GDP and constituted a share of 88% of total employment in 2009 (CIA World Factbook 2010). Except in the very broadest sense, further, the Hong Kong government’s role is to provide a suitable and stable framework for commerce and industry to function efficiently and effectively with minimum interference (Siu et al 2006). Economic planning is not practised by the government. Hence, economic policies of free enterprise and free trade stimulated the huge growth of SMEs, but also exposed them to the global economic slowdown.

Taiwan

Taiwan’s SMEs have been recognized as the key driving force of the country’s economic development over the past half century (Tai and Huang 2006). In contrast to China and South Korea, indeed, Taiwan has typically been viewed as a diverse ‘small firm’ economy (for example, Hamilton 1996, Bjerke 2000, Hall and Harvie 2003, Wang and Tsai 2010). As family-based or family-like relationships dominate and support social interaction in Taiwan, the majority of Taiwanese SMEs are family businesses (Gabrena and Hwang 1996).

The emergence of SMEs in Taiwan is closely associated with domestic conditions, global economic developments, and the government’s economic, social, and educational policies (Siu et al 2006, Wang 2007). For instance, the earliest Taiwanese SMEs were encouraged by the Nationalist government as a means to overcome the shortages of food and other essential domestic commodities. The expansion of export-oriented SMEs in labour-intensive industries in the 1950s has been a result of an effort by the Taiwanese government to use limited state resources to speed up economic growth. From the 1970s to the mid-1980s, again, Taiwan’s export
promotion policy and its open economy have laid a solid foundation for the further development of Taiwanese SMEs (Ahn 2001). As the government relaxed its grip on the New Taiwan dollar, the increasing labour costs, and along with growing environmental awareness, Taiwan SMEs have gone through industrial restructuring and become more service-oriented in the past two to three decades (SMEA 2011). Some SMEs moved their operations to mainland China and Southeast Asian countries in search of cheaper labour and new business opportunities, while others were forced to become more innovative, upgrade their operations and partner with companies from developed economies to cope with the increasingly adverse conditions. With continued government support, most economists believe that SMEs will maintain their position as the mainstay of Taiwan’s economy for years to come (Wang and Tsai 2010).

South Korea

South Korea presents another variation in comparison with other three economies. A dual structure, which combines small number of successful large enterprise groups with the marginalization of a large number of SMEs, forms the country’s industrial development (Hall and Harvie 2003, Park and Kim 2011). It was not until the late 1990s that positive measures were implemented to encourage SME promotion in South Korea (Gregory et al 2002). The increasing focus on the promotion of SMEs has been encouraged on the basis that they offer greater economic benefits than that of large firms. In 2010, for example, the total amount of production and value added in Korean SMEs accounted for 46.4% and 49.2% of the national total output respectively (SMBA 2010). Therefore, South Korean SMEs are not only a major player with regard to the total number of companies and overall employment, but also generate a core part in production and value added that contributes to the economic growth (Yang 2009).

Although the government development strategy has been changed from a ‘Chaebol-led economy’ to one that promotes the joint development of SMEs after the 1997 Asian financial crisis and the 2008 global financial crisis, the political battleground centres on largely domestic SMEs are still far weaker (The Financial Times 2010). A lack of competitiveness of Korean SMEs was criticized by economists as a key factor behind high youth unemployment and the shirking services sector (Wang and Tsai
Moreover, a centre-periphery relationship gradually formed between Korean SMEs and big business in the long term export-based industrialization strategy (Financial News 2011). As vertically integrated organisations, many Korean SMEs have become subcontracting companies for the large conglomerates (Kong 2000). With vertical rather than horizontal relationships between the conglomerates and SMEs, it is argued that a contract based unilateral relationship restrains the expansion of SMEs business activities and results in a high dependency of SMEs on the conglomerates (Park and Kim 2011).

Table 4 Comparisons among the selected economies, East Asia

<table>
<thead>
<tr>
<th>Economy</th>
<th>Economy character</th>
<th>Development strategy</th>
<th>Export-focused (% of GDP)</th>
<th>SME majority</th>
<th>Gov. support on SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Socialist-market economy</td>
<td>A mix of SOEs and PEs</td>
<td>Yes (44.2%)</td>
<td>Privately-owned</td>
<td>Substantial intervention</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Free economy</td>
<td>SME-dominated</td>
<td>Yes (400%)</td>
<td>Service-oriented</td>
<td>Limited support</td>
</tr>
<tr>
<td>Taiwan</td>
<td>Capitalist economy</td>
<td>SME-networked</td>
<td>Yes (130%)</td>
<td>Family business</td>
<td>Selective intervention</td>
</tr>
<tr>
<td>South Korea</td>
<td>Highly-industrialized economy</td>
<td>Joint-development between big businesses and SMEs</td>
<td>Yes (43%)</td>
<td>Innovation-oriented</td>
<td>Actively involved</td>
</tr>
</tbody>
</table>

Table 4 summarizes the similarities and differences among the selected East Asian economies, in relation to the SME sector in particular. While most East Asian economies are export-oriented, the SME sector, an important economic role in virtually all economies, has been the most vital contributor in the exporting business. In the case of Taiwan and Korean SMEs, even though they do not export, their products feed into the production of goods that do. It is estimated that, for instance, SMEs’ contribution ratio for export in South Korea increases up to 71.5%, if parts and components supplied for exports of large sized firms are added (Park and Kim 2011). Moreover, it is clear that SMEs in East Asia are at different stages of evolution in their respective economies. As a result, the variations at the degree of the state’s intervention in the economy, the support provided by the external businesses environment, and the social roots of business organisation determine different paths and strategies in SME development across the economies in the region.
SMEs in a changing globalised world

Although constraints and policies vary from each economy, there are similarities in the challenges faced by SMEs across East Asian countries. Among all, structural changes due to both internal and external pressures present the most serious challenge to SMEs in the region.

Dramatic decline in market demand

It is argued that on average, SMEs are more oriented toward the domestic market and therefore, are less likely to be the worst-hit by the global economic slowdown in comparison to large firms in the region (ADB 2009). However, while a strong incorporation into international trade and finance has been the most important contributor in East Asian countries’ GDP growth, SMEs account for most businesses in the region (see Table 2). Statistics also demonstrate that SMEs, especially those ones towards the medium-sized end of the scale, play an important role in the process of the nation’s economic development in East Asia, especially for the exporting business (see Table 3). Further, a number of studies confirm that SMEs are highly sensitive to changing tendencies and environments (for example, Gray and Mabey 2005, Siu et al 2006, Cunningham 2010b). Therefore, the great dependency on exports in most East Asian economies intensifies a high degree vulnerability of SMEs to the downturn of the world economy.

While it is well documented that SMEs face problems such as difficult access to credit and poor technological and managerial capabilities, moreover, the 2008 global financial crisis has indeed exacerbated these problems. Unlike large firms, export-oriented SMEs have little flexibility to cope with plummeting demand, cancelled orders, scarcer financing, and delayed payments (Economist Intelligence Unit 2010). Data from the National Development and Reform Commission (NDRC) showed that, in the first half of 2008, 67,000 Chinese SMEs, each with sales income exceeding 5 million Yuan, collapsed, laying off more than 20 million employees (APEC 2009). Industry officials attributed Chinese SME difficulties mainly to the growing costs of production (materials and labour), the declining needs of overseas markets, and the fast appreciation of RMB (Xinhua News Agency July 31 2011). While HSBC’s survey results reflect Korean SMEs’ pessimistic view of the nation’s future economy.
(SMEWORLD 2008), the study conducted by the Ministry of Economic Affairs, Taiwan found that approximately 55% of their SME respondents were greatly affected by the crisis (Chung 2010). The business in Hong Kong, mostly SMEs, also had begun shrinking and the profit margin had narrowed in many sectors since 2008. The Federation of Hong Kong Industries (2009) reported that in 2009, nearly 90% of manufacturers had less orders than before, with an average reduction of 36% in order volume and 30% in profit compared with the previous year. Steep fall of GDP growth among the economies in the region, due to the contraction in international trade in the 2008 global financial crisis (Figure 1), means that SMEs in East Asia have been severely affected by the downturn in the international economy.

![Figure 1: GDP Growth (1999-2010)](image)

Source: CIA World Factbook 2010

Various approaches and policies have been actively taken by governments so as to rectify and foster SMEs in the region (Economist Intelligent Unit 2010). In order to overcome the over-dependency on exports, for instance, Chinese SMEs have started to prompt a strategic shift to focus on the domestic market rather than western consumers (Economist Intelligent Unit 2011). SMEs in more advanced economies, such as Taiwan and South Korea, have been upgrading themselves into high-value-added enterprises to achieve high growth (Park and Kim 2011, Tai and Huang 2006, Wang and Tsai 2010). Further, intra-regional trade among East Asian economies has risen considerably in recent years, noted by ADB (2009).
While SMEs continue to demonstrate more flexibility than large firms in terms of market entry and exit (SMEA 2011), however, some scholars pointed out that the fierce competition in the Chinese domestic market and a fragmented internal market with huge regional differences in consumer tastes and distribution channels, create greater barriers for SMEs to enter. In addition, other economists argue that the current long supply chain across national borders via intra-regional trade does not insulate East Asian economies from the demand cycle outside the region (Economist Intelligence Unit 2010). Although the gradual upturn in the economy began in the second half of 2009 (Figure 1), with continued danger of an asset bubble forming and a renewed economic downturn due to the debt crisis in several consumer nations, further, uncertainties will remain amid increasingly complicated domestic and overseas conditions. While restructuring industrial competitiveness by shifting the driver of the recovery from an export engine towards a more regional- and domestic-focused market demands, SMEs, the major force of all economies in East Asia, are challenged by the rapid pace of change in the global business environment.

More intense competition for human talent

While a number of studies have addressed the significance of a well-motivated, highly skilled workforce as being a key to the success of smaller firms (for example, Storey 2004, Kotey and Slade 2005, Sels et al. 2006), finding and retaining skilled staff has been a major and growing problem for SMEs across the world (for example, Hornsby and Kuratko 2003, Gray and Mabey 2005, Cunningham 2010b). In response to the 2008 global crisis, moreover, SMEs in East Asia have been encouraged to transform themselves from labour-intensive manufacturing to innovation-oriented operations (for example, Hall and Harvie 2003, Park and Kim 2011, UNESCAP 2009, Wang 2007, Wang and Tsai 2010). As the knowledge-based growth depends largely on the quantity and quality of its human resources (SMEA 2011), thus, human talent has become the main factor affecting SMEs competitiveness. However, a deteriorating labour market, along with rising unemployment rates and a rapidly aging population intensifies the competition for human talent, and the shortages of human talent which have been affecting SMEs have been exacerbated.
Figures 2 and 3 exemplify essential social-demographic changes faced by East Asia economies. It is clear that an increasing serious aging of the population has become a common phenomenon across all four economies. For instance, the number of people over 65 in Taiwan accounts for 10.9% of the island's total population in 2011, while the population of elderly persons aged above 65 will be 14% of the total population in Hong Kong, estimated by The Hong Kong Council of Social Service (2011). In the case of China, life expectancy in China has improved from 48 years in 1960 to 74.51 by 2010 (with women in 2010 having a life expectancy of 76.77 years), while the Under Five-Mortality Rate had been reduced from 209 per 1,000 live births in 1960 to 21 by 2008 (SSB 2010). Whilst population aging opens up opportunities for economies to invest in human capital formation that may stimulate economic growth and mitigate the possible negative economic effects of an older population, it also results in fiscal problems to the government as well as potential of labour shortage in the labour market (Banister et al 2010).

Source: CIA World Factbook 2011
In the meantime, unemployment rate climbed sharply in 2009 in all economies (Figure 4). In China, the rise of official urban unemployment to 4.3% in 2009 brought it to its highest level in the last five years. Jobless urbanites jumped to 8.86 million by the end of the fourth quarter of 2008, up more than half a million from the third quarter of 2008 (SSB 2010). Officially, in the third quarter of 2008 more than 10 million migrant workers lost their jobs, while 670,000 factories closed. Although Hong Kong and Taiwan’s labour markets assure inter-sectoral shifts of employment as they are better characterised as integrated and well functioning rather than segmented and inefficient (Ahn 2001), the rise in unemployment rates in Hong Kong and Taiwan has been more pronounced in comparison to the ones of China and South Korea (Figure 4). For instance, the unemployment rate in Taiwan hit a record high of 5.8% in May 2009 after almost a year of consecutive monthly rises, while Hong Kong for the three-month period ending February 2009 registered its unemployment rate as 5%, which was 1.7% higher than a year earlier (CIA world factbook 2010). Hence, an aging population and high unemployment rates have undermined the labour market. Consequently, SMEs are facing more intense competition for human talent while rationalizing their operations to enhance the efficiency of resource utilization and strengthen the overall structure of their business in the coming years.

Source: CIA World Factbook 2011
Overall, the above-mentioned problems are mutually affected and inter-related. They add to the difficulties of and increase the pressure on SMEs. Facing the ever changing external business environment and a declining internal labour market, how to gain their competitiveness becomes a key challenge faced by not only SMEs themselves but also the economies they operate in.

Conclusions
This chapter examined the issues and challenges to East Asian SMEs in a changing globalised world. Whilst globalisation brings opportunities to SMEs in East Asia in terms of higher efficiency and advanced practices, it poses threats to their development. Yet, the impact of the renewed global business environment did not apply equally to all economies.

In order to enhance SMEs competitiveness in the subsequent credit crunch and global recession, it is apparent that not only industrial structures, but also the labour market and management systems which SMEs operate in, need to be reshaped and transformed. Vertical alliances between big businesses and SMEs within and beyond the national boarder should be promoted so as to ensure a rapid engagement of SMEs in global production and trading system. Not only intra-trade but a mutual learning
from each experience in the region should also be fostered. In so doing, a transitional
dand evolutionary change in SMEs across East Asian economies should occur, and
simultaneously, distinctive management systems, institutional structures, and business
models may emerge.

The examination on SMEs in East Asia also provides a useful theoretical departure
point to analyse the changing dynamics of management systems in a globalized
environment. Although some East Asian SMEs are operating internationally, the
impacts of the change in global business environment can take a long time before the
outcome to businesses become internalised and stabilised. Thus, more empirical
studies are needed so as to understand the complex relationship between the changing
business environment and the impacts on SMEs with respect to economic, social, and
cultural factors. In addition, future research from a long-term perspective on the
changing impacts on SMEs development in the region is encouraged.
Reference:


Joshi, R. and Ganapathi, B. (2008) Current status of SMEs and entrepreneurship education and training intervention in select South and South-east Asian countries, the University press


