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Contents

Foreword 01
Column 1 Crisis Alert 02
Column 2 Regional Reports 04
Column 3 CM Knowledge 18
Column 4 CM Best Practice 20
Column 5 CM News Digest 23
Column 6 CM Publication 25
Be Prepared for the Economic Turmoil and Natural Disasters

Thailand, the world’s biggest rice exporter, is currently suffering from the worst floods in several decades. Not only one third of lands are flooded, Bangkok even declares three-day flood holidays in October. It is estimated that it would take at least one month to clear the flooded city, and the floods also result in the rise of global rice price. This flood may have impact on the annual GDP growth of Thailand with numerous SMEs (small and medium sized enterprises) influenced.

Faced with the continuous natural disasters in 2011 and restrained from limited resources, shortage and changes of the global supply chain, rise of labor cost, and finance access difficulties, SMEs face more management and business difficulties with needs for supports. In addition to floods, common natural disasters in APEC region include typhoon, earthquake, tsunami, and so forth; the caused production halts as well as rising prices could possibly force the global economy becoming unstable.

Bearing this in mind, when we are monitoring the possible economic crisis, we should also notice the economic harms caused by various kinds of natural disasters and climate changes. Thus, this monitor will continuously provide the latest news and information of global crisis—both environmental and economical—with relevant risk alerts for APEC SMEs to be prepared for the coming economic and environmental crises; this monitor also calls for governmental and organizational supports in assisting SMEs to face the constantly changing global economic environment.

In this issue, we will continue to draw our attention to the current global economic turmoil. In Crisis Alert section, it is indicated that the current US monetary policy, though its interest rates stay near zero, may not be very effective. Meanwhile, weak demands from European and American regions will continue to impact on export-oriented SMEs in APEC area. In Regional Reports section, our experts have studied the latest international economic situations and pointed out that the global problems are impacting on regional economies and the outlooks.

Also in this issue, our experts have highlighted the importance of brand development for APEC SMEs. Establishing and managing SMEs’ own brands are considered to help SMEs reduce possible external risks. It is also indicated that governments could play a supportive role to develop SME’s branding strategy.

In addition, we have invited Ms. Diana Smallridge, President & CEO of International Financial Consulting Ltd., to discuss how to manage possible risks coming from trade liberalization and globalization. As SMEs are facing continuously changing international environment and inevitable financial issues, Ms. Smallridge has also discussed some important aspects which SMEs need to bear in mind.

In News Digest section, we have also selected the most concerned news and provide in-depth analysis for our readers, including the disastrous Thai flooding that hit the global supply chains of automotive industry, the declines of economic confidence indices (ECI) in the European regions, and the “Currency Exchange Rate Oversight Reform Act of 2011” voted in US Senate on 12th October to investigate if China’s currency has been underestimated.

Since the global economic risks and uncertainties still remain considerable, it is necessary for all APEC SMEs to keep an eye on the latest international economic movements. This monitor will keep monitoring all the major global economic trends, giving SMEs hints and supports to be aware of possible risks and influences and to prepare for responsive strategies.

Robert Sun-Quae Lai, Ph.D.
Executive Director
APEC SME Crisis Management Center
The US Department of Commerce released its revised report on GDP on 28th July, providing a comprehensive revision on the 2003~2011Q2 GDP data of the US. The most significant factor for the revision is the fact that the economic recession in 2008 and 2009 during the economic tsunami has been found much more serious than what previous data suggested. On an annual basis, the average GDP growth rate from 2007 to 2010 is 0.1% a year, while at present that rate is -0.3%; this means the economic growth of US has been zero over the past four years and yet is becoming minus now.

According to the previous data, the total GDP of the US in the third season of 2010 should have surpassed the highest point before the financial tsunami, and the public consumption should have surpassed that point in the second season of 2010. In reality, however, the latest data show that the public consumption did not surpass its pre-tsunami highest point until the fourth season of 2010, two seasons later than the earlier estimation. The total GDP, on the other hand, has not surpassed its pre-tsunami highest point up to the present moment.

Soon after this report, the US Federal Reserve (Fed) announced in early August that there would be no rise of interest rates within the following two years—a rare statement that occurred for the first time in nearly one hundred years; the benchmark interest rate would be kept at the current historical low point of 0~0.25% until no earlier than mid-2013. Moreover, the bond market indicator that has predicted seven US recessions since 1970 shows that the economy has about 60% chance of contracting within 12 months. Should economic recession occur in the US, the federal funds rates may stay near zero and last longer than expected.

The ten-year bond yield rate of the US fell to 1.6714% on 23rd September, a new lowest point since at least 1953. While Fed already cut the federal funds rate to nearly zero, why there has been no apparent response in the economy?

Richard Koo, Chief Economist of Nomura Research Institute in Japan, offers some explanations in his book *The Holy Grail of Macroeconomics: Lessons from Japan’s Great Recession*. While the asset values of enterprises have shrunk dramatically due to some reasons with their debts remaining the same, to balance their balance sheet, the enterprises will not only choose to allocate their cash to debt repayment but also refuse to borrow even if rates are at zero.

In Japan in 1996 and 1997, companies changed their operation mode from a pursuit of maximum profits to an attempt to minimize debts. However, no enterprise investment would exist if every company adopts this mode, and, furthermore, corporate debt repayments would make it difficult for the banks to lend out money taken from household deposits. Under such circumstances, the money multiplier may drop to zero and even negative. There would be no funds demand in the market, with an ineffective easy monetary policy
Currently the overall economic environment lacks energy, and governments in the US and Europe have almost run out of their tools to boost economy. Too much capitalism in the US has caused a serious gap between rich and poor, while the socialism in Greece has brought too heavy a burden on the government, with its people unmotivated for working. The prolonged economic slowdown is primarily due to the fact that it takes a long time for the governments and people to recover their savings.

Under these circumstances, the ebbing demand and retrenchment in the US and Europe will put the APEC export-oriented SMEs (small and medium sized enterprises) at risks of revenue fall, especially for those enterprises targeting at US and EU markets. Therefore, it is our advice that these SMEs should make preparations as early as possible, steering to emerging markets, so as to diversify the risks and alleviate the impacts of the weak demands from the US and Europe.
The unemployment rate for September stood at 9.1%, the third month in a row when it has stayed at 9.1%. Employers added 103,000 jobs in September, up from 57,000 jobs added in August. Employers need to add 125,000 a month just to keep up with population growth. More than 200,000 jobs a month need to be added to significantly reduce the unemployment rate.

The US employment picture remains bleak. Beyond the 14 million currently unemployed, there are millions underemployed. Many of the unemployed are long-term unemployed; 6.2 Americans or nearly 45% of all unemployed have been without work for over six months. Private employers added 137,000 jobs in September, mostly in healthcare and technology. However, the gains in private payrolls were offset by declines in public sector employment, which cut jobs by 34,000.

The main reason for the high unemployment is the weak economy, especially weak consumer spending. However, employers are also extremely cautious in adding workers. Companies are putting off hiring by increasing overtime and hiring workers on only a temporary basis.

Some recent economic indicators, however, have painted a somewhat brighter picture regarding the economy. September automobile sales rebounded to its highest level since April. Chain-stores showed year-on-year sales growth of 5.5%. Consumer sentiment is improving, and retail and food-service sales increased by 0.8% in September. These recent figures suggest that the US is likely to avoid a recession for the rest of this year. That is, there will be no “double-dip” recession.

Nonetheless, this high volatility in economic indicators has been the norm in the current economic recovery. The current recovery is herky-jerky, making it very difficult for firms to plan and invest, based on expectations of a consistent macroeconomic recovery. This uncertainty keeps overall investment and hiring low.

Financial market conditions in the first half of 2011 were to some extent supportive of economic growth, as loans to consumers and large businesses grew. While industrial and commercial loans to large- and medium-sized firms increased, small business lending remained suppressed. Total small business loans (under one million) continued to decline in the first half of 2011, but at a diminished pace. The analysis shows that small firm borrowing continues to have a difficult time emerging from the financial crisis. Surveys of lending officers show that they are still worried about the balance sheets of small companies and ability of small businesses to pay back their loans.
Canada

Following two months of little change, Canada’s employment rose by 61,000 in September. This increase pushed the unemployment down to 7.1%, the lowest since December 2008. The Consumer Price Index rose by an annualized 3.1% in August, mainly as a result of higher prices of gasoline and food purchased in stores. This follows increases of 2.7% in July and 3.1% in June. This 3.1% inflation rate is above the 1.9% target inflation rate of the Bank of Canada. Despite the spike in inflation, the Bank of Canada has kept its policy interest rate at 1%, in light of the still high unemployment rate.

A recent Bank of Canada survey of business sentiment showed that Canadian businesses are braced for a slowdown in demand. Slower US growth was the main reason for faltering confidence. The survey showed that indicators of inflationary pressures have started to moderate, with a majority of firms reporting that input pressures and capacity constraints are decreasing. Moderating inflationary pressures and declining business sentiment provide further rational for the Bank of Canada to keep interest rates at 1% for the foreseeable future. (The author is Professor at University of Southern California.)

Northeast Asia

Internationalization of Chinese Yuan and Euro Issues

Naoyuki Yoshino

Euro Problem

When the economy was converging and the economic shocks were not so large, the common currency, Euro, worked very well. Even in Asia, many people were talking about the possibility of common currency in Asian region when the Euro was working well. However, single monetary policy together with multiple fiscal policies caused serious problem in Euro region. Greece and several other economies in Euro region had accumulated huge budget deficits and created fiscal crisis. If Greece had its own currency (Drachma), then their exchange rate would have been depreciated. The Crisis of Euro would have been Greece’s single problem and would not cause many problems to other European banks.

Banks in Germany, France, and Italy purchased Greece bonds since their interest rates were higher than their own government bonds and there were no exchange rate risks (all were issued in Euro). If Greece government bonds were issued in Drachma (its own currency), the demand for Greece government bonds would have been much smaller, and Greece problem would have been faced with problems much earlier.

50% discounts of Greece bonds would calm the market temporarily; however, the deep causes of current crisis were not settled yet. Greece and other economies in Europe have to obey strong fiscal discipline to keep their own government budget deficits under control. Otherwise the government debt crisis would come out again and again in future.

Regional Currency

Turning to Asia region, the common currency would not be easy to establish in Asia region due to (i) the lack of political will, (ii) too much divergence in various economies in Northeast Asia, (iii) the fact that trade liberalization is still underway and very slow to move.

Could Chinese Yuan be a regionally traded currency in Asian region? To be an internationally accepted currency, the following conditions have to be satisfied;

(i) Capital inflow and outflow of China have to be liberalized so that anybody can transact RMB freely at any time;
(ii) RMB would be the lowest costs to use as a
medium of exchange in Asian region;

(iii) RMB will keep its stable value so that the Central bank of Asian region and business sectors are willing to use RMB as a store of value;

(iv) Exchange rate of RMB must be determined from the market rather than the current fact that the value of RMB is set by the central bank (or by the government). Otherwise nobody can believe the value of RMB since it is set arbitrarily by either the Central bank or by the Chinese government.

**Japanese Yen**

Japanese Yen was attempted to use as Asian regional currency; however the Japanese yen did not become the currency used in Asia. Japan has created production networks in Asia. Many manufacturing industries started to set up their factories in Southeast Asia, China and other Asian economies. Japanese Yen could have been a regional currency if it were based on the regional production network transactions.

However, the manufacturing products were assembled in Asia, and the final destination was mainly to the US. Importers of US paid in dollar to Asian economies. Asian manufacturers receive US dollar when they sold their products to the US. Therefore Asian producers prefer using US dollar to pay Japanese manufacturing industries as their payment. They did not want to use Japanese Yen since their final sales were directed to US and Asian producers received US dollar.

From Japanese experience, it will be required for China to become an importer of various products assembled in Asian economies. If China become a big importer of various products from Asia, RMB will be used for transaction, and it will become regionally traded currency in Asia.

**Flexibility of Exchange Rate of RMB**

RMB has to be freely moved across the border, and the value of RMB has to be determined by the market. Namely, the exchange rate of RMB must be moved by market mechanism.

The following figure (figure 1) shows the result of policy estimation of how to achieve RMB internationalization from the fixed exchange rate. This figure also shows that the best way is to adopt gradual currency basket system to achieve its free floating. Four policies were compared:

1. Fixed exchange rate policy all the time,
2. Gradual currency basket regime,
3. Sudden change to basket currency system,
4. Starts Floating system immediately.

If the cumulative losses were compared, the policy (2) shows the lowest value which means the best policy. RMB internationalization requires the introduction of gradual basket currency system in order to achieve its goals of freely floating exchange rate system. (The author is Professor of Economics, Keio University.)

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**<Figure 1> Policy Estimation to Achieve RMB Internationalization**

<table>
<thead>
<tr>
<th>Policy</th>
<th>Stable regime</th>
<th>Adjustment</th>
<th>Instrument value</th>
<th>Cumulative loss (value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>Dollar-peg (A)</td>
<td>-</td>
<td>( i^* = 4.34 )</td>
<td>17.04</td>
</tr>
<tr>
<td>(2)</td>
<td>Dollar-peg (A)</td>
<td>gradual</td>
<td>( v^* = 0.58 )</td>
<td>1.80</td>
</tr>
<tr>
<td>(3)</td>
<td>Basket-peg (B)</td>
<td>sudden</td>
<td>( v^{**} = 0.68 )</td>
<td>1.91</td>
</tr>
<tr>
<td>(4)</td>
<td>Floating (D)</td>
<td>sudden</td>
<td>( m^* = 0.016 )</td>
<td>2.67</td>
</tr>
</tbody>
</table>
Vietnam’s economy has been through a difficult period since 2007. There are some positive signs, but the economy still faces some significant macro instability. The worst thing is that the government has limited intervention instruments.

Like any other emerging market, Vietnam had a high inflation rate as a result of huge capital inflow and substantial growth throughout the last ten years. Inflation in the first nine months of 2011 is about 16.63%. During 2007-2011, the average inflation rate was 13.8%, compared to the annual growth rate of 6.5%.

Because of the State Bank of Vietnam implementing a ceiling on the interest rate at 14%, the high inflation creates a negative real interest rate. In addition, the Vietnamese currency has continuously depreciated against the USD. It is the only currency in Southeast Asia to fall against the USD in 2011.

Due to the unstable macroeconomic environment, the Vietnamese government had to reduce the money supply in order to control inflation. This tightening of monetary policy caused a three year long bear trend in the Vietnamese stock market; its index lost more than 64%, from 1,150 points in the September 2007 to 414 points this month.

The instability in the Vietnamese bank system and inefficient investment are two important problems. Because of negative interest rate, people have no incentive to save money. Some banks are still struggling with bad loans and liquidity risks, as a consequence from the local banking crisis in 2008. The government is worried about the externality and does not want to allow these banks to go bankrupt. Credit growth was reduced from 38% yoy (year over year) in 2009 to 17% in 2011. Economic growth was badly affected.

Furthermore, due to major investments in infrastructure and policy-orientated changes, productivity in Vietnam has fallen. This low productivity means that Vietnam needs to invest more to maintain growth.

With a large budget deficit and a low foreign exchange reserve (USD 12.4 billion on July 2007, roughly equals to eight weeks of import) the government has limited intervention tools. The government has to use administrative means to manage the economy, which are not market-friendly in the long-run.

Investors in the Vietnam stock Market expect some M&A (mergers and acquisition) to happen between banks in the near future. All investors hope that more complex investments will be developed in the financial markets, such as forwards, options and other derivatives. But the government may still apply strong administrative powers to guarantee that the financial system is monitored effectively in the short-run.

In order to increase Vietnam productivity, the large state-owned firms should go public for IPO (initial public offering). The government should shift more resources to small and medium enterprises (SMEs), invest more in technology, and reinforce the “real sector”. (The author is professor at Renmin University of China, Beijing and The University of Birmingham, UK)
Global Problems Impacting on Regional Outlook

Kenneth Waller

**Australia**

The IMF (International Monetary Fund) has warned that Australia would not be immune from a global recession that impacted on the Asia Pacific region. The Fund reaffirmed Australia's outlook for growth of 1.8% in 2011 and 3.3% in 2012. A major banker has noted that Australia is well placed to weather another global financial storm due to the underlying health of the economy. The economy grew 1.2% last quarter, the fastest pace in four years. Household and retail spending are positive, the investment boom continues, exports are performing well and manufacturing rose to USD 2.5 billion in August, showing some resilience in spite of concerns about the emergence of a two speed economy. A key positive has been the release of new labour figures showing unemployment fell to a lower-than-expected seasonally adjusted 5.2% in September from 5.3% in August. However, consumers are still cautious. The latest Westpac-Melbourne Institute consumer sentiment survey index stood at 97.2 points, below the key 100 level, indicating a degree of pessimism.

The parliament has passed legislation to introduce a price on carbon in 2012. The lower house of Parliament passed 18 pieces of legislation to tax 500 of the biggest carbon-emitting companies. The average household is expected to pay about USD 9.90 a week in extra living costs, including USD 3.30 on electricity; for many, these increases will be offset through a lower tax impost.

Australia’s trade boom is set to continue for another ten years at least according to a study by HSBC. Already Australia’s terms of trade are at the best they have been in 140 years. Australia’s trade growth is forecast to average 7.7% over the five years, and the nation's overall trade growth could increase by 129% by 2025. Latest trade report showed exports hit a record USD 28.4 billion in August. Mineral and energy commodities, the value of which will soar to USD 215 billion this financial year will remain Australia’s major export. However, growth is also expected outside the mining sector, in particular food exports was highlighted as a growth area based in part on rising foreign direct investment in food assets. Mining activity is forecast to grow 10% this year as higher prices drive a surge in the value of exports.

Prior to the release of the jobs figures most economists were predicting the Reserve Bank of Australia (RBA) to cut interest rates in November due to the worsening of the European debt crisis. However the official rate was retained at 4.75% to head off inflationary pressures. The central bank aims to keep underlying inflation in a 2% to 3% range on average. From minutes of the RBA September meeting, members believe the Bank is well positioned to raise rates further if inflation accelerates, or to cut rates if global economic threats emerge.

**India**

India’s economy expanded by more than 9% and the IMF has forecast growth of nearly 8% this year, despite the world's economic travails. Finance Ministry’s chief economic adviser Kaushik Basu announced that the drivers for GDP growth during the 12th plan were in place, including a robust domestic savings and gross domestic investment rate of 34% and 36%, respectively.

Currently the fourth-largest economy in the world, India may yet overtake Japan to become the 3rd-largest economy. 2010 data shows that the Japanese economy was worth USD 4.31 trillion.
with India very close behind at USD 4.06 trillion.

Research group Moody’s Analytics has raised concern over India’s sharply slowing economic growth arising from the 12 interest rate increases since March 2010. Moody’s forecasts a slower growth from an expected 7.8% year-on-year in the first half of 2011 to 6.5% by mid-2012. Inflation remained high at 9.72% in September and that could trigger further monetary tightening. Some economists expect another 25-basis point rate hike late October, which would push the benchmark lending rate to around a three-year peak of 8.50%. The Reserve Bank of India reported that the economy faces inflation of close to 10% in the September-November period but prices should moderate from December – meaning the peak of the 18-month rate rise cycle is near.

To ease rising prices that impacted on economic growth, Indian Finance Minister Pranab Mukherjee said it is imperative to raise farm outputs to a sustainable level. Costly food prices, despite good rainfall in the past two years, and rapidly intensifying price pressures in non-food commodities have led to a persistent inflationary crisis. Food grain output will likely exceed the government’s target of an all-time high of 245 million metric tons this crop year following slightly above-average monsoon rains.

Although the economy continue to register impressive GDP performance, Indian Prime Minister Manmohan Singh stressed the need for India's economic expansion to be more all-encompassing so as to reach the more than 700 million Indians who are subsisting on less that USD 2 a day and 420 million more living in extreme poverty.

India’s current five-year plan has been aptly titled "inclusive growth". Singh says India needs to "ensure that growth is widely spread so that its benefits, in terms of income and employment, are adequately shared by the poor and weaker sections of our society". The government has introduced schemes to benefit poor families. These include a unique government employment program that guarantees rural households at least 100 days of work a year. Such scheme, combined with India’s growth, has helped to tens of millions out of poverty in recent years.

The Finance Ministry is set to deliberate on the budget amidst weak domestic and external environment that could threaten to trim revenues, and increasing demands for socio-economic programs. Economists believe that budget discussions will be challenging because of the weakening growth momentum and high inflationary scenario in India as well as global uncertainties.

Manufacturing activity is slowing with companies deferring investment as credit costs build up, and this could threaten to lead to a broad-based economic slowdown.

**New Zealand**

GDP is expected to get a much needed boost for the second half of 2011 amidst rebuilding efforts of Christchurch and the 2011 Rugby World Cup (RWC). The economy slowed in the second quarter due to weak performances by the construction, wholesale trade and manufacturing sectors. GDP grew 0.8% in the first quarter and 0.5% in the second quarter of the year. Annual growth stayed at 1.5%.

New Zealand’s reconstruction of the earthquake-devastated city of Christchurch costing about NZD 20 billion is equivalent to the economy’s 10% of GDP. According to Reserve Bank Governor Alan Bollard, this will boost growth and inflation pressures. Reconstruction activities should provide “significant stimulus” in the medium term. Bollard said the high concentration of work in one region “will boost medium-term activity and inflationary pressures for an extended period” and it would therefore be inappropriate, all else being equal, for monetary policy to be stimulatory during the reconstruction period.”

The Governor has also underscored the need to improve disaster planning and risk management saying that “we must also be conscious of New Zealand’s characteristics as [an economy]. In contrast to many other developed economies, we are geographically and economically isolated. If we face large challenges, we may do so with little external financial support.” Citing lessons from Christchurch, Bollard said the “initial economic and reputational hit from a disaster such as a major earthquake can be considerable”.

A MasterCard report has suggested that the 2011 Rugby World Cup (RWC) could, in the long
run, boost New Zealand’s economy by USD 1.2 billion. The report examines the value of RWC 2011 by looking at the short-term commerce flow through international fans spending in bars, clubs, shops, hotels, bookmakers and at football grounds, along with spending by sponsors and organisations on marketing, including the international media.

Meanwhile, the New Zealand Institute of Economic Research (NZIER) quoting surveys of 11 private and public sector forecasting operations, showed a consensus for higher economic growth for the year to March 2012 - 2.6%, against 2.1% in the June survey.

Residential building growth in the year to March 2013 ranged from 24% to 59%. Without the reconstruction rebuild, the overall growth for the next three years would average 2.7%, instead of the 3.1% now expected.

Employment growth forecast for the March 2012 year improved to 1.7% from 1.3% in the previous survey, rising to a strong 2.5% for next year. Inflation is forecast to remain around 2.7% over the next three years, near the top of the Reserve Bank’s target band.

Manufacturing sector growth continued to slow for the fourth consecutive month in September although remaining positive according to the Business New Zealand/Bank of New Zealand performance of manufacturing index (PMI). The PMI was at 50.8 for September from 52.7 in August (any reading above 50.0 indicates that manufacturing is generally expanding; below 50.0 that it is declining).

Despite global economic gloom New Zealand consumer confidence remains positive. The latest ANZ-Roy Morgan Consumer Confidence survey fell slightly over the past month but remains positive, with the index slipping slightly from 112.6 to 112.2.

Tourism will continue to boom according to the Ministry of Economic Development as the increasingly well-travelled Chinese population is tipped to more than double holiday dollars spent in New Zealand to USD 604 million by 2013, up from only USD 265 million spent in 2008. The Department estimates also showed major spending by visitors from the UK, the US, Japan, Malaysia and the highest spending by Australian visitors – rising from USD 1.69 billion this year to an expected USD 1.9 billion by 2016. (The author is Director, Australian APEC Centre at RMIT University.)
The International Monetary Fund (IMF) released its update on world economic outlook in late September, in which it downgraded 2011 and 2012 global GDP (Gross Domestic Product) forecasts by 0.3% and 0.5% respectively to 4.0% and 4.0%. This is a large slowdown from 5.1% growth in 2010. Olivier Blanchard, the IMF Economic Counselor, pointed out that the world is suffering from the confluence of two adverse developments. The first is a much slower recovery in advanced economies, while the second is a large increase in fiscal and financial uncertainty, which has been particularly pronounced since August. Despite those settings, the IMF thinks that the outlook for Latin America (henceforth, Latam) remains strong, although downside risks have come to the fore with the fact that commodity prices will provide less momentum in the future. Latam as a whole still needs further macroeconomic tightening in order to build room for policy maneuvering and to contain demand pressure. But in most economies in the region, monetary tightening can take a pause until uncertainty abates.

### Maintaining the Growth Momentum

Growth in Latam remains strong, supported by buoyant domestic demand, easy external financial conditions, and still favorable terms of trade. The IMF projects Latam GDP to expand by 4.5% in 2011 and then moderate to about 4.0% in 2012, with output remaining above potential GDP. Growth will be led by many of Latam’s commodity exporters, particularly Argentina, Chile, Paraguay, Peru, and Uruguay. All of those economies are expected to grow near or above 6.0% in 2011 and likely moderate toward potential in 2012, in the range of 3.5% to 5.5%. In the case of Brazil, growth has already begun to moderate, with activity expanding by 4.0% in the first half of 2011, compared with 7.5% in 2010. Near-term growth will likely slow below potential and bring inflation towards target, in part reflecting less favorable external outlook. Growth in Mexico was fairly robust in the first half of this year, but negative spillovers from the anemic US recovery will keep growth around 3.75% for 2011-2012.

### Inflation Pressure Still High

For the region, inflation is forecast to recede from 6.75% in 2011 to 6.0% in 2012, with considerable intra-regional differences. In the inflation-targeting economies like Brazil, Chile, Colombia, Mexico, Peru, and Uruguay, inflation is projected to stay within the target range during 2011, but near or above the upper bound for Brazil, Peru, and Uruguay. In other economies, such as Argentina and Venezuela, inflation will likely remain in double digits, reflecting expansionary policies.

### Near-term Downside Risks

A sharper slowdown in advanced economies, notably the US, would dampen growth, particularly in economies dependent on trade, tourism spending, and remittances such as the Caribbean, Central America, and Mexico. A prolonged global risk aversion could increase external financing risks for the Latam through a reversal in capital inflows and a sharp adjustment of current account imbalances and exchange rates. The strong presence of Spanish banks in the region could raise some tail risks. Lastly, a sharper policy-based slowdown in China could dampen the outlook for Latam’s commodity exporters through trade channel and its impact on commodity prices.

### Policy Should Address Two Offsetting Forces

Policies in Latam will need to be designed
to contain domestic overheating pressure and the buildup of financial vulnerabilities, while at the same time to respond appropriately to the souring external environment. In this context, the IMF suggests that efforts to normalize monetary policies to a neutral stance should be welcome. But in some economies where inflation pressure has lessened, a temporary pause in monetary tightening could be considered until uncertainty abates. By contrast, fiscal consolidation should continue to maintain debt sustainability. However, social and infrastructure spending still need to be protected.

Brazil Central Bank Cut Rates Again

Unlike the previous rate cut, the Brazil Copom’s decision to cut the Selic rate by 50 basis points to 11.5% on 19th October was widely expected. In the short statement, the Copom mentioned that the decision is part of an adjustment process in monetary conditions to mitigate the impact from a more restrictive global environment. Still, according to the communiqué, a gradual adjustment in the Selic rate is consistent with the scenario of convergence of inflation to the target path in 2012. (The author is Vice President, Citi Taiwan.)

West Europe

Dramatic Events After the Creation of the Euro

Julius Sen

Events during the month under review were amongst the most dramatic and perhaps significant since the creation of the Euro.

The broad outline of an approach designed to deal with the Greek crisis, recapitalise the banking system in Europe, and contain the contagion effects of a Greek default (now considered inevitable), were generally agreed. There would however appear to be no agreement on Eurobonds or fiscal union at this stage.

At the same time, crucial details remain to be sorted out, and it is in this area that most of the uncertainty remains. Also, the level of IMF (International Monetary Fund) and international involvement will possibly be determined only at or after the G20 summit on the 23rd of October.

In effect, this level of organised intervention suggests that the Eurozone is proceeding down the route of deeper integration – an issue with enormous political, commercial and strategic implications.

The key elements of an expected agreement are as follows:

Bank Recapitalisation

· European banks, particularly those that are considered ‘systemically important’ will need to maintain reserves of 9% or more;

· They will thus need to recapitalise, first from private sector sources, and if that fails, from official sources;

· Estimates of the costs of recapitalisation: EUR 100 – 400 billion.

Containing Contagion

· The European Financial Stability Facility (EFSF), which will become the European Stability Mechanism (ESM) in due course, will leverage its EUR 440 billion to above EUR 2 trillion

· The resources of the IMF and others may be
called upon to supplement this effort.

Dealing with Greece (and some others)

- Greece will be allowed to default on its debt to about 50% of the total debt stock (but this process will be orderly with government bondholders fully protected);
- Portugal and Ireland will be allowed similar, though smaller, defaults.

At the same time, a host of other measures are being contemplated. These include:

- Measures to tighten banking regulation through tougher stress tests and other policies to be determined by the European Banking Agency (EBA);
- Continuation of consolidation strategies to reduce debt in economies throughout the EU;
- Encouragement of growth strategies.

It is unlikely that the EU will agree on the proposal to create Eurobonds or to formalise structures of fiscal union, as both of these are considered politically difficult.

In parallel with these developments, the UK launched a programme to improve liquidity in the economy (quantitative easing) through the injection of GBP 75 billion into the banking system.

This was followed by an announcement that SMEs (small and medium sized enterprises) in the UK would be given access to a special fund of GBP 200 billion to meet their investment requirements. Details have yet to be disclosed.

The full implications of these developments are currently being assessed and will be included in next month’s report. (The author is Associate Director & Senior Programme Advisor, International Policy Unit, London School of Economics and Political Science.)

East Europe

Financial Market Stress Eases, but Strain Not Over Yet

Kuo-Yuan Liang

Since the five major central banks announced on 15th September to jointly provide European banks with unlimited three-month-term US dollar funding for a 1% interest rate starting from 1st October to the rest of the year, developments in the European debt crisis have been relatively constructive. The liquidity measure removed the urgency to dispose risky assets for cash in a fire sale manner. With the support now in place, banks can have time to slightly relax and begin adequate preparations for the time when the funding expires.

In addition, Euro Area parliaments have now confirmed the changes to the EFSF (European Financial Stability Facility) rules, as agreed in the second bailout of the time Greece on 21st July. With the newly equipped EFSF finally in function, European leaders have moved one step forward on the quest for an ultimate solution towards the Euro debt crisis. During the weekend of 8th-9th October, German and French leaders met at Berlin, and agreed to work towards the recapitalizing of banks. In order to have a comprehensive plan be present at the 3rd November G20 meeting and hopefully earn support from emerging market economies, Europe has advanced the European Council meeting of European Union leaders for a week to 23rd October to provide more ample time. It is expected the size of recapitalization would range from EUR 100~200 billion, which comes after another stress test with realistic scenarios, or immediately after a 30~50% haircut on Greek debt holdings. Any
plan of likewise scale, in my opinion, is far from concluding the European debt crisis. However, it would form a portion of the ultimate plan, and it also shows the best that can be done at this moment before upcoming general election in France, and later in 2013, in Germany and Italy.

Due to the positive developments over the past month, the stress on East European foreign exchange markets have somewhat eased, but their relative weakness to the Euro continue to indicate that funds are still flowing back to the western part of Europe. The reason is that banks still find themselves in the need to sell assets for cash. It is not only because the liquidity measure could never turn permanent, where they would have to find cash in preparation for its expiration but also to ensure they can survive the harshest adverse stress test scenario, or meet mandatory capital requirements when a deeper Greek debt haircut is demanded. This is to avoid being forced to accept government capital injections under unfavorable conditions.

In addition, recapitalizing banks at this moment will be a complicated task. European bank shares are now generally traded at 0.4~0.5 times their book value per share, as markets are suspect of their accounting books. Recapitalization (henceforth, recap) means the government buys newly issued shares of a bank at a price, and then becomes part of the ownership of banks that would shoulder further losses as they happen. Hence, if recap is not done after a decent haircut of problematic assets such as Greek bonds, or at a very deep discount to their book value, it would only expose the already vulnerable European sovereigns to greater risk, with the existing shareholders gaining a windfall.

However, banks too dislike a recap – even in a case where their Greek exposures were written down further, they could opt to reduce risky assets to maintain sufficient capital adequacy ratio. However, this implies less credit is offered into the economy, and would have second round effects that weigh on the already dim economic outlooks, something national capitals wish to avoid. Taking in government capital at a steep discount is also equally challenging capital raising with share price below book value per share is an infringement to the rights of existing shareholders. Hence, whichever way Europe decides to institute the recap, the best strategy for banks at this moment is to reduce their risky asset portfolio sooner than later, or they risk being forced to take in government capital with undesirable conditions. With the understanding that any recapitalization plan is a very complicated matter and that every involved party’s interests conflict with one another, it is reasonable to expect that some time will be needed and that there will be some quarrels between the sovereigns and the banking industry. Nevertheless, I am respectful of the political wisdom of European politicians, thus I have always been confident that Europe will find a solution, as I see Europeans leaders know exactly what they are doing.

These Euro Area developments have significant impacts on the East Europe region. The makeup of the recap plan will by and large determine if banks will continue to dispose assets, and at what rate they are doing so. If the plans the Europeans send to the G20 is received by emerging market economies only lukewarmly, the sell-off seen in late August and early September may re-emerge, once again putting pressure on East Europe markets. SMEs (small and medium sized enterprises) may face tougher and thinner credit lines; all this depends on how the recap plan is taken into action. (The author is President, Polaris Research Institute & Honorary Professor, College of Technology Management, National Tsing Hua University)
According to the figures co-published by the Ministry of Finance, Central Bank, and Federal State Statistics Service (Goskomstat) of Russia, the general economic performance of Russia shows steady growth in the first half year of 2011. The growth rate of its nominal GDP (Gross Domestic Product) reaches 14.78%, with a 7.21% growth in domestic purchase, and an 83% bump in investment. Its import and export sector also evidence a substantial increase. However, due to a higher growth in import sector, there is a 0.8% slight declination showing in the net export.

In the monthly updates, the IPI (Industrial Production Index) shows a slight growth of 10.7%, and the unemployment rate declines from 5.0 of the last August to 4.7 of this August with a small drop in the salary. The CPI (Consumer Price Index) has only a little change, but its WPI (Wholesale Price Index) increases 44.8% from last year. In general, Russian economy remains steady except that the retail figures in the peak season have not presented impressive growth. Higher risks lie on its increasing external debt with a USD 30 billion increase in external debt this August comparing to the figures of last August. Now the total external debt reaches USD 538.6 billion.

Regarding Russia’s financial policies on domestic and international affairs recently, Russia has been preparing for the last stage of entering WTO (World Trade Organization) in the last two years. However, according to recent Russia President speeches, opinions within the economy have become more hesitated and passive about joining a multi-lateral economic system. It is turning to strengthen bi-lateral FTAs (Free Trade Agreements) and industrial cooperation with neighbor economies like Korea, China, Ukraine, and other economies in central Asia. Although it is not possible to examine the accurate reasons of Russia's policy change at this moment, it is reasonable to understand why Russia has slowed down the integration process with multi-lateral economic system. Under the events of European debt crisis and the doubts toward the economy of the US, it could be an applicable way to lessen the impact. However, not entering WTO may slow down Russia's domestic industrial integration, which could lead to negative impacts on Russia's productivity and the growth of its NI (National Income) in the long term.

As for the Middle East, economies except Turkey, Israel, Saudi Arabia, and the United Arab Emirates (UAE) at the region, including Egypt from North Africa, are facing challenges of political and economic instabilities. Egypt, for example, took a serious hit since the January turmoil. According to figures from Central Bank of Egypt, its GDP declines 4.3% in Q1, and a residual increase of 0.4% in Q2. The economic growth of Egypt increases only 1.8% this fiscal year before June, which is way worse than the performance of the last fiscal year, with an impressive 5.2% bump. In addition, Central Bank of Egypt also reported that the total net foreign investment is USD 2.2 billion in the fiscal year from 2010 to 2011, which shows a serious 67.6% decrease from the last fiscal year. Egypt's FDI (Foreign Direct Investment) even presents USD 65 million loss in the first half year of 2011. Under the circumstances that the economy shows no recovery, Central Bank of Egypt has decided to keep short-term interest rate intact in mid-October.

Except the economies like Egypt, facing challenges after turmoil, some economies are in the
middle of upheaval. Take Iran for example, the US Department of Justice accused Iran for involving a conspiracy of assassinating the US ambassador in Saudi Arabia. On 13th October after the accusation, President Obama said the most stringent sanction will be imposed on Iran, and the US will mobilize worldwide members to isolate Iran. The US is currently striving for the support from United Nations Security Council. While UK and France are in for the support, US will send representatives to campaign for the support in Beijing and Moscow. In addition to Iran, Syria is also under turmoil, indicating that Middle East is still a region with higher risks for investment in the future. (The author is Vice President, Taiwan Institute of Economic Research.)

Global Commodity Market

Economic Slowdown in Emerging Economies Will Affect Commodity Prices

Hwa-Nyeon Kim

There was a modest increase in warning signs of a crisis in the global commodity market in the last one month period (mid-September to mid-October 2011) as well as a downward turn in prices. Vulnerable macroeconomic data and sovereign debt risks from Europe continued to weigh down on the commodity markets. And most commodity prices fell on investors’ concerns over the impact of Europe’s debt crisis on the contraction of global commodity demand. Moody’s downgraded Spain’s credit rating by two notches from Aa2 to A1 and Italy’s credit rating by three notches from Aa2 to A2, while also warning France that it may lose its triple A credit rating. In order to ease the European debt problem, there was unconfirmed news that Germany and France agreed to boost the European Financial Stability Facility (EFSF) to EUR 2 trillion from the current EUR 4.4 billion. However, all the issues regarding Europe’s debt risk are still uncertain and it will take some time to solve the problem. Thus, worries over the contagion of the European fiscal crisis continue to spread into the raw material markets.

If there is a big event worth mentioning in mid-November, it is the G20 summit which will be held in Cannes France in early November. The G20 summit is widely regarded as the key deadline by which euro ministers must have solved the eurozone debt crisis. The summit takes place in a context where the absolute priority is to find solutions for the stability of the eurozone. Ahead of the G20 summit, the European Union summit on 23rd October will also be important. Many people expect that a comprehensive policy action for the eurozone debt crisis will be panned out at the EU summit. Therefore, if concrete solutions are decided upon at these important summits, they will act to further increase commodity prices.

The top two commodity indices, the CRB (Commodity Research Bureau) spot Index and LME (London Metal Exchange) non-ferrous index, have shown significant decreases from mid-September to mid-October. The CRB spot index (year 1967=100) moved up from 503 to 534 and the LME index (April 1999=1,000) from 3,163 to 3,826. The averages for the CRB index and the LME index decreased 5.2% and 12.9% respectively. The changes of two indices are larger than those during the previous month. This implies that downward trends within the commodity indices have become more apparent. In terms of price variations, the daily price changes of these two indices were also bigger than those seen during the mid-August to mid-September period, indicating an increase in investment risk.

As for energy prices, the WTI (West Texas Intermediate) near month futures price moved
within the range of USD 75.67 and 87.96 /barrel and Dubai crude prices between USD 96.76 and 108.2 /barrel during the same period. The WTI oil price average from mid-September to mid-October was smaller than that for the previous month, with the average price of WTI decreasing 4.7%. The average price of Dubai crude oil also decreased 3.5%.

Among non-ferrous metals, or more commonly known as base metals, there were no price increases in the last one month period. Copper and lead prices fell the most following the previous period, with the average price of both metals dropping 16.1% and 14.5%, respectively. Prices for the remaining metals such as zinc, aluminum, tin and nickel have also shown decreasing price patterns.

In terms of commodity demand, China’s growth and imports are key variables to affect commodity prices. For example, China accounts for 40% of the global copper demand. However, China’s GDP expanded 9.1% year-on-year in the third quarter of 2011, the slowest pace since the third quarter of 2009. The growth rate was consecutively down from 9.5% in the second quarter of this year and 9.7% in the first quarter. The IMF (International Monetary Fund) also lowered its forecasts for Asia’s growth rate and warned that Asia faces risks due to the fallout from the eurozone debt crisis and a slowdown of the US economy. The IMF expects Asia will grow 6.3% in 2011 and 6.7% in 2012, which are below its previous forecasts of 6.8% and 6.9%, respectively. This means an escalation in the eurozone crisis is spreading to emerging economies and affecting global commodity demand. Consequently, a deteriorating economic outlook will undermine commodity demand. Therefore, as demand growth is limited, SMEs in especially the manufacturing sector will see a further decrease in commodity prices and lower production costs. (The author is Research Fellow at Samsung Economic Research Institute)

<Table> Changes in Raw Material Prices - 16th September to 15th October, 2011

<table>
<thead>
<tr>
<th>Index</th>
<th>Crude Oil (USD/barrel)</th>
<th>Non-ferrous Metals (USD/ton)</th>
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<td>CRB</td>
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<td>Min</td>
<td>503</td>
<td>3,163</td>
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<td>Max</td>
<td>534</td>
<td>3,826</td>
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<tr>
<td>Average</td>
<td>512</td>
<td>3,391</td>
</tr>
<tr>
<td>Last Month Average</td>
<td>540</td>
<td>3,893</td>
</tr>
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Note:
1. The CRB index recorded 100 in 1967 and LME non-ferrous index recorded 1,000 in April 1999.
2. The WTI price is based on the near month futures price traded in NYMEX and non-ferrous metal prices are based on the spot prices traded in LME.
I. Importance of Brand Development for APEC SMEs

In the era of globalization, standardization and open innovation enable consumer products to deliver certain basic quality and functions. Because SMEs are unable to compete with large enterprises in corporate resource and production scale, they usually choose to become a part of the supply chain of large manufacturers rather than engage in brand building.

However, during 2008 when western economies experienced the financial crisis, we found that when a reversal occurred in the end market, the SMEs in the supply chain which had no contact with consumers were first affected by the reversal. Many economies where small and medium suppliers mainly supply parts and components and intermediate goods, such as Chinese Taipei, Japan, South Korea, Thailand, and Singapore, experienced a serious fall in industrial production and export (World Bank, 2009), accordingly influencing employment and consumption in these economies.

When facing such external economic impact, the government is required to deal with the issue through various macro-financial and monetary policies. However, mentioning individual SMEs’ strategies to cope with business cycles, we are of the opinion that in the economies mainly engaging in supplying parts and components and intermediate goods, governments are required to assist SMEs in developing downstream products or related service to make more contact with consumers.

This will help SMEs moderate the direct impact of sudden large quantity of order losses as a supplier. Although brand developing needs various supports of internal and external conditions, it has become a key SME policy for export-oriented economies to consider.

In fact, when observing APEC members, especially East Asian export-oriented economies, we have found that among industrial development and transformation strategies, brand developing becomes one of important soft power strategies. Taking the Brand Promotion Program in China, OTOP (One Tambon One Product) in Thailand and the brand strategy in Japan as examples, these economies adopt either direct assistance given to export-oriented SMEs or indirect ways of improving the economy image to help SMEs establish their brand awareness and identification.

Through brand building or reengineering, SMEs in APEC export-oriented economies will have a chance to integrate high-quality products with brand management activities which communicate with consumers and create perceived value and further enhance their presence and competitiveness in the global market.
Furthermore, in the era of post financial crisis, actively developing products and service to meet the need of each market and building private brands are also considered as great opportunities and important strategy options for APEC SMEs to pursue growth and to manage increasing market competition due to weak consumption in the western economies and growing consumption in the emerging market—such as China.

II. Critical Issues APEC SMEs Face in Brand Developing

When SMEs in APEC export-oriented economies develop their brands, they may face the following main adverse conditions compared to developed economies:
1. Smaller market hinterland and lower average disposable income,
2. The consumption structure mainly built on non-durable consumer goods with low entry barriers,
3. The market preference still lying on product functions, and
4. Many fakes and inferior quality products in the markets.

Based on these features, SMEs in APEC export-oriented economies generally have no sound domestic market, so they have lower incentive to develop their brand. Furthermore, the market structure in small and medium export-oriented economies likely present two opposing extremes, where a small number of large state-owned enterprises and numerous SMEs exist simultaneously.

Large state-owned enterprises stay in the monopolistic market over a long period of time, and they are not organizations that keep learning and encourage innovative thinking. This reduces their incentive and momentum to make innovation and improve efficiency. On the other hand, owners of SMEs have less correct sense on brand developing and are lack of funds and talents required for the subsequent development. Therefore, SMEs in APEC export-oriented economies have to overcome both challenges of competition from large manufacturers and the lack of resource in respect of brand developing.

III. APEC Must Highly Value Brand Developing as an Important SME Policy

However, from experiences of non-core economies in Europe, such as Sweden, Denmark, and Finland, it is found that some niche SMEs with comparative advantages have chances to successfully develop an international brand.

The reason why these economies have developed international brands earlier than APEC export-oriented economies does not lie in the leadership in technology and manufacturing qualities, but this is due to the fact that is that the freely competitive market structure has inspired plentiful innovative and creative momentum of enterprises, with correct cognition of brand developing and management from owners and organizations.

In addition, considering experiences in Chinese Taipei, we have found the largest barrier that SMEs face in brand development is more about the conception difficulties rather than competitiveness on funding and technology.

First of all, there is a lack of determination of “making changes and re-integrating required resource”. SMEs are unwilling to give up the low-risk OEM profit model and have less intention to bear additional cost, uncertainty and risks from establishing a brand.

Second, even though owners have the intention to develop their private brands, most of them hurriedly set into action and expect short-term outcomes without fully understanding necessary strategic steps and resources required for brand development. This accordingly results in poor cost-benefit in branding activities, and it makes owners soon have the idea of pulling back.

Thus, to accelerate brand development of APEC SMEs and increase SMEs’ control over the market, we believe that the first task for developing economies is to establish a more fairly and reasonably competitive environment in the domestic market such as limiting government procurement from exclusively benefiting domestic monopolistic or large brands.

Furthermore, for all APEC economies, with or without active industrial policies or SME policies in place, SME competent authority can make efforts to inspire brand awareness of SMEs and introduce correct brand management cognition. (The author is Vice President, Taiwan Institute of Economic Research.)
Unless You Are Born Thinking Global...

It used to be that new companies would first tackle the domestic market by generating sales locally, before thinking about going abroad. They would build a client base and reputation domestically and then consider expanding into international markets. Nowadays, companies are formed necessarily with a view to seeking global opportunities from the very outset.

This is as a result of growing international competition and the emergence of global supply chains which means buyers are therefore willing to transact with suppliers regardless of their jurisdictions and are more demanding of performance, quality and price.

.... You May Die Local

That is not to say that things have changed all that much. Businesses have always had the same basic goals that they have always had – to stay in business, to overcome competition, to increase revenues, and to minimize costs. But, what is changing – rapidly so in some cases – is the complexity and predictability of the environment in which businesses pursue their goals. To underestimate the degree to which competition has become global is to risk survival.

International Business Has Become Less Predictable and More Complex

It is most certainly the case that as SMEs (small and medium sized enterprises) explore the emerging possibilities of doing business in a more integrated, globalized world, the risks they face are more complex and difficult to understand. Today’s exporting environment is marked by the ever-increasing granularity of production processes leading to the final export transaction. The kinds of flows of intermediate goods and services into or out of various companies and economies, and the frequency with which these flows can occur, are growing day by day, as exporters grow more intricately linked into global supply chains.

The Role of SMEs in International Business Has Changed

Moreover, the role of SMEs in international business has changed. In the past, the typical role of an SME in international business was consistent. SMEs generally resided in one location, began exporting as an adjunct to domestic sales, and supplied goods or services either to larger home economy exporters or directly to end buyers or projects in other economies. By comparison, today’s SMEs must be more dynamic and flexible.

Success Depends on Being Able to Tap into International Networks

Most exporters are now intricately linked
into global supply chains from which they import or to which they export intermediate goods and services. To survive, securing international markets is critical to the success of most business – large or small.

Firms that can take advantage of this evolving business environment can gain ground on their competitors by being able to increase productivity, grow their operations faster, and mitigate market risks. By extension, this also impacts how businesses think and act in the areas of trade and investment.

Just as export transactions have changed, so too have the financing and risk management requirements for exports.

**Access to Finance and Risk Mitigation Is Crucial for SMEs at All Times**

And, one of the most crucial factors to achieving success in international markets is access to finance. Surveys of SMEs in nearly every economies highlight the truth that has become universal - that finance is one of their top three challenges.

However, that is not to say that all export transactions need financing. Indeed, the majority of world trade is on open account or cash terms. Rather, having access to finance is like having a generator in case a power outage causes blackouts. You need your line of credit especially when there is a crisis, but if you manage your cash flow well, you may not need to access it during normal times.

**The 2008–09 Global Financial Crisis Precipitated a Contraction in the Real Economy and in Trade**

The global financial crisis hit all elements of the global supply chains. It started with the liquidity crisis facing banks in the US and Europe when capital markets seized and bank lending – particularly to support trade – severely retrenched. The large OECD (Organisation for Economic Co-operation and Development) corporate buyers were hit hard by banks cutting credit lines and credit insurers cutting credit limits. The suppliers to these large buyers faced delayed payments. Banks to the suppliers and sub-suppliers themselves cut lines. As a result, not only were there financial “blackouts”, the petrol to run the financial “generators” was impossible to access.

Under these circumstances, banks in emerging markets were under stress to meet the financing needs of local SMEs - whether to issue letters of credit on behalf of the local buyer to import goods, or provide term lending. Of course, the same was true in developed markets. The consequence is that all parts of the global supply chain were affected by the crisis, but not all equally and at the same time. Lack of credit can quickly become more of an insolvency issue, when companies who otherwise are healthy and have good demand are faced with cash flow challenges as their customers delay payment to them.

**How to Survive the Next Crisis**

As the world economy continues to teeter and uncertainty about future prospects persists, SMEs would be wise to think hard and follow these suggestions:

1. **Be Aware of Risks**

   Risk is inevitably associated with international trade transactions, arising regardless of whether or not goods/services are sold on credit. As soon as an exporter or seller begins to produce goods/services to sell to someone else, there is the risk that they may be unable to ship the goods/deliver the services, or

   - if they can do so, they may not be paid. Understanding what risks can exist and how they could materialize is crucial to survival. Avoid naïveté and don’t assume that the buyers or partners or even banks that you have been working with all along continue to remain in the same position.

2. **Undertake Scenario Planning and Cash Flow Management**

   Imagine a scenario in which the big client you have landed is now bankrupt and you have already shipped your goods to them. Calculate what this will mean to your expected cash flow to see whether you can weather the storm. Imagine a scenario in which two clients default and check your survivability. Set aside some rainy day reserves and make sure that your line of credit has some room.

3. **Insure Your Accounts Receivable**
Better yet, call a credit insurance company or your local Export Credit Agency/Export-Import Bank and see if they can provide you with insurance against non-payment from your buyers—either for your whole portfolio of buyers, or a single transaction which is of importance to your cash flow. The bonus is that these insurers can access a database of buyers from around the world and can issue an opinion about whether or not you can be confident of payment.

4. Establish a Relationship with the National Development Bank, Export-Import Bank, National Trade Office

No matter how small your company is, if you are engaging in international business, you should know and become known to your government agencies. (The author is President & CEO of International Financial Consulting Ltd.)

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CALL FOR PAPERS

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Thai Floods Disrupt Global Auto Supply Chains

The worst floods to hit Thailand in five decades are affecting three-quarter of this economy. The industrial park located in Ayutthaya in northern Thailand, where Japanese businesses gather, became another flood-invaded area on 16th October. Most of these businesses are automotive and IC manufacturers. It is inevitable that the flooding in Ayutthaya causes a further global supply chain suspension on automotive and high-tech industries. According to Bloomberg, JAMA (Japan Automobile Manufacturers Association) reported that 1.6 million vehicles were produced by Japanese automakers in 2010, that is, 90% of Thailand’s car production volume. It is estimated by JAMA that the flooding are going to cut Japan carmakers’ output by 6,000 units a day.

Due to Thai floods, leading Japanese automakers, Toyota, Nissan, Honda and Mazda closed their Thai factories in succession. According to Nihon Keizai Shimbun, three Toyota assembly plants in Thailand were forced to shut down due to part shortage in local supply chains. Although Mazda’s local plants have not been subjected to floods, they are forced to halt production since components supplies were disrupted by the flooding. In addition, the halt in production for Honda is estimated to be extended for two to four months. Because Honda’s Thailand factories are also responsible for supplying auto components to Indonesia and Philippines, the shutdown is going to seriously impact on the production in Southeast Asia. The disruption of supply chains of Toyota and Nissan is going to suspend their production in Thailand for at least a month. Payungsak Chartsutthipol, chairman of the Federation of Thai Industries, said that there are a large number of Thai factories supporting foreign automakers and the disruption of supply chains is going to affect areas outside Thailand. As Thailand is the hub of auto industry of Southeast Asia, the suspension of supply is expected to inflict heavy losses on thousands of vehicle output.

European Business Confidence Is Witnessed a Comprehensive Drop

German Ifo announced on 21st October 2011 that October German business confidence index dropped to 106.4 against 107.4 in September, while the expectations index fell for the fourth consecutive month in October to 97 from 97.9, hitting its lowest level since June 2010. Surrounded by economic dismay caused by Greece and Spain, German corporate gave a gloomier outlook for the coming six months. Economists suggest that so far German companies are still able to cushion impact of European debt crisis by exploiting from high interest rates. However, once Europe, the biggest export market of Germany, encounters economic standstill or recession, German economy is certainly going to be injured.

In addition, France INSEE announced on 21st October that October business confidence index of France declined to 97 from 99 in last month, due to concerns about demand drop caused by a slowdown in global economic growth and European debt crisis. There has been a sharp plunge of France’s business confidence index and consumer confidence index since September, hitting the bottom level since the financial crisis started at the beginning of 2009. Judge from the indices of Germany and France, it is certain that EU zone is facing an economic downturn.

United States Senate Passes the Bill for RMB Exchange Rate

The United States Senate voted through Currency Exchange Rate Oversight Reform Act of 2011 on 12th October, requesting the US government to review whether China is intentionally devaluated its currency, so as to adopt any penalty on the so-called currency manipulation.
The bill asks the US government to introduce retaliatory tariffs to economies which subsidizes exports of its products by undervaluing its currency. There are three main points regarding to the bill: (1) Countervailing Duty Provision: it requires the US Commerce Department to be responsible for conducting investigations to determine whether foreign governments are manipulating currency value and to levy Countervailing Tax on imported merchandise of the reported economies; (2) Currency Misalignment: it asks the Treasury to report twice every year on whether any economy benefits from unfair trade and hinders Balance of Payments; (3) Consultations with priority economies: it requires the Secretary of the Treasury to seek advice from the International Monetary Fund (IMF), so as to enable adjustment of currency with other economies.

The Chinese Ministry of Commerce gave a firm opposition to the pass of the bill of Renminbi exchange rate, saying that the US bill runs seriously counter international norms and is sending a wrong signal of trade protectionism to the outside world. Meanwhile, according to US legislative process, the bill still needs to clear the House of Representatives, dominated by Republicans, and to be signed by US President Barack Obama before becoming a law.
In previous issues we already introduced several publications on crisis management, from the economic crisis caused by debts to the energy crisis caused by climate change and opportunities of new green energy. Now we would like to introduce another book related to the current environmental crisis, *A World without Bees*, written by Alison Benjamin, a deputy editor of the Society Guardian, and Brian McCallum, an apiarist. The book investigates the cause and effects of the strange case of the thousands of billions of vanishing honeybees over the world. The economic implications behind this event may be more serious than one can imagine: in our world, more than 90% of economic crops rely on bees to pollinate, and pollination in one single year can yield up to more than USD 60 billion economic profit. Once the bees vanish, there would be a serious impact on many crops of vegetables, fruits, cotton, medicinal plants, and even the livestock industry, which depends on forage; in the meanwhile, the prices of many raw materials will increase sharply. If the environmental crisis continues to worsen, the world may be faced with a food crisis.

During the past years, about one third or more honeybees have vanished in the US, with some apiarists even reporting their bee loss as more than 90%. Besides the US, similar events have also been happening in Canada, Europe, Asia, and South America. These events are considered as caused by Colony Collapse Disorder (CCD), a disease or symptom leading to massive deaths of honeybees, such as the damage caused by mites since 1980, and the massive loss of bees since 1894. Nevertheless, while previously bee loss occurred only in some specific regions, now it has become a collective disappearance of bees all over the globe.

**Constant Crises**

What exactly are the factors that have caused the constant loss of bees? In this book, Benjamin and McCallum attempt to find the reason for such a weird death or vanishing of bees. There are various possibilities, ranging from the apiarists’ habits to transport bees continuously, the artificial feeds given to bees, the threats of infections and parasites, the planting of bio-fuel crops, the poisonous pollen of genetically modified plants, the spreading of chemical pesticide and various other insecticide, the dispersing of artificial hormone, the living pressure under modernized compact development (such as electromagnetic radiation), to global warming and climate change.

All and all, these are suspected to be the primary factors for CCD, but there is no expert so far can determine which one of these kinds is the most direct and significant cause. No matter what tools are being used and which source materials being tracked, the reports lead to one and the same
conclusion: while there are more than one cause of bees’ massive vanishing, a happening more likely to be resulted from the cross-influence of many different factors, it is human beings that is the main reason for a sharp decrease in bees’ chance of survival.

Without Bees . . .

Bees may be regarded as a banner bearer—a role of messenger—of how the environmental change impacts creatures; the vanishing of bees, therefore, is not only a pre-disaster warning but also a guide to the earth’s health. The authors also point out the fact that there are eleven crops utterly dependent on bees’ pollination in the US, which are alfalfa, apple, almond, cotton, orange, soybean, onion, broccoli, and carrot and have an annual production value of USD 11.86 billion.

Should the bees vanish, the economic impacts can be as extensive as damaging the livestock and medicinal industry that rely on entomophilous crops, and some manufacturing industries that use bee wax. Now the world is already suffering from an increasingly high food price, which is due to the shortage in food production. In a worse scenario noted by the authors, the world population is estimated to grow from the current 6.7 billion to 9.2 billion as of 2050, and the existing agricultural system will not be able to feed all that much population, not to mention the crowding-out effect resulted from the competitions between farmlands and water sources as well as from the demand for bio-fuels.

Merely a Tip of an Iceberg

People have been paying more and more attention to such related issues as the economic crisis, debt crisis, energy crisis, environmental crisis, and climate change, realizing that various kinds of crises have been lurking around us, and that we cannot afford neglecting any of them. The phenomenon explored in A World Without Bees is probably merely a tip of an iceberg, and a small part among all the many issues. From this tiny part, however, we could get a glimpse to the change of the global environment, and hence could even make preparation beforehand to respond correctly.

For APEC SMEs sensitive to the global environment, it is important to remain cautious to various kinds of crises and be ready in advance. The mysterious massive vanishing of honeybees may not have any direct impact on some enterprises, but it is necessary for them to pay close attention to what these phenomena imply: the impacts of environmental change, the lurking of crises, the economic significance, and the possible consequences and challenges that awaits.
Correction Announcement

It has come to the attention of APEC SME Economic Crisis Monitor that a misleading description should be corrected in the APEC SME Economic Crisis Monitor No. 13, page 15, Column 2 Regional Reports: *East Europe*—“International financial shockwaves may damage regional economy”.

We sincerely apologize for the typographical error in describing Mr. Liang Kuo-Yuan’s title, which should be “The author is President, Polaris Research Institute & Honorary Professor at College of Technology Management, National Tsing Hua University”.