APEC’s Continuous Attention on Natural Disasters Impacting on SMEs

The APEC 33rd Small and Medium Enterprise Working Group (SMEWG) meeting has been held in Bangkok, Thailand on 15th ~16th December. (For further information and related documents of 33rd SMEWG Meeting, you are also free to visit: http://www.apecsmc.org/, which has the latest updates.) Before the 33rd SMEWG Meeting, APEC SME Workshop on Innovation, Entrepreneurship and Cloud Computing was co-organized by Chinese Taipei and USA and held on 13th December in Bangkok as well.

In this time, the agenda of the SMEWG meeting specially adds an item of crisis management, which shows that APEC still pays much attention to the issue of responding to crisis. In this agenda item, Thailand reported the impacts of one of influential natural disasters in APEC region, floods, on the economy and the follow-up strategies they adopt. Also, our center has made a presentation about measures that we take to help SMEs deal with a variety of risks and potential economical and natural crises.

More importantly, APEC SMEWG will cooperate with APEC Emergency Preparedness Working Group (EPWG) in a multi-year project for assisting SMEs in coping with natural disasters. Our center will be the executive unit of this plan, which content contains setting up the network of natural disaster preparedness, crisis monitoring, study and holding the training workshops for APEC SMEs.

Highlights of this month’s issue are centered on a series of measures taken in the attempt to solve European debt crisis and the hope on the emerging markets. On the Crisis Alert section, we consider that the total demand decline in western economies as governments in these economies face pressure on their balance sheets and political deadlock. Emerging economies, under the influence, may foresee excess capacity, declining economic growth, rising unemployment rate and increasing social tension if no further measures are taken. Meanwhile, on the Crisis Management Knowledge section, we invite expert to take a deeper look at the African market by looking at its current development and potential economic growth in the near future.

This issue also has a special interview with Victoria Lu, Lucoral & Lupearl’s Managing Director, providing a new perspective in viewing crisis management about how Lucoral & Lupearl successfully turn the limitations to new opportunities and applied several strategies to overcome encountered difficulties and challenges.

We also select some of the most concerned news and interpret them for readers including global equity market’s rally on G6 and China’s coordinated moves to stem European debt crisis, China housing prices continuously fall and PBoC Lowers Reserve Ratio Rates (RRR) in early December, and US Thanksgiving and Black Friday sales surges to a record. Meanwhile, we also introduce readers a book “The Necessary Revolution: How Individuals and Organizations Are Working Together to Create a Sustainable World” which is published in 2010 and written by Peter Senge and his co-authors. This book aims to help enterprises ensure short-term performance with corporate sustainable development in the meanwhile, assisting them to establish a sustainable growth pattern through some key strategies and management tools.

The stability of the global economy is worsening, and the global economic risks and uncertainties remain considerable. This monitor will keep monitoring the latest global economic situations and help all APEC SMEs to pay attention to the major global economic trends and be aware of the potential risks.
While the whole world is concerned about the spread of the European debt crisis, a silent storm is forming in the emerging economies. The eurozone is trying to relieve the sovereign bond market in the area and western economies are accelerating the deleverage process. With the high debt level, the GDP in the euro zone has significantly declined and further adversely influence the global trade and the emerging market.

In accordance with the data published by the Bank for International Settlements, loans made by European banks as of the end of June, 2011 amounted to about USD 500 billion to Africa and the Middle East, USD 1.5 trillion to Asia, USD 850 billion to Latin America, and USD 1.3 trillion to Central and Eastern Europe. With deleveraging, western economies will withdraw from the emerging market through international trade and financial capital, which may result in depression in the emerging market, especially when European banks reduce their loans to these markets.

In addition, since governments in western economies face pressure on their balance sheets and political deadlock, there is no further measure implemented to stimulate the economy, making the total demand decline in these western economies; and accordingly it may lead to excess capacity, declining economic growth, rising unemployment rate and increasing social tension in the emerging economies.

In viewing the condition of the emerging market, jumbo loans have resulted in enormous bad debts occurring in the banking system. China and India will be unable to make a strong response as they did in 2008. In accordance with an analysis report by Bloomberg, local government of China, namely Tianjing City, has borrowed around RMB 500 billion so far in order to duplicate New York City in the Yujia pu Financial District in Binhai New Area including the “Rockefeller Center”, the “Lincoln Center”, and the “Hudson River”. However, the local government might need succor in the future like New York City in 1970s, which is one of local governments facing financial distress in China.

Furthermore, according to the prospectus of urban construction investment bonds, Bloomberg gathered statistics on debt data as of 10th December 2011 from 231 companies on the local government loan platform. It was found from the results derived that the total debt of the 231 companies on the local government loan platform amounted to RMB 3.96 trillion (equivalent to USD 622 billion), exceeding the size of the European Financial Stability Facility (EFSF). And banks were the debt-holders for most of such debts.

However, the statistics for June 2011 published by the National Audit Office of the People’s Republic of China showed that there were 6,576 companies in total on the local government loan platform in China with an aggregate debt of RMB 4.97 trillion, accounting for a half of the total local government debt of RMB 10.7 trillion.
This means that the total debt of 231 companies investigated by Bloomberg (accounting for 2% of the number of total companies in China) accounts for 79.7% of the official total debt of 6,576 companies, indicating that the officially published data significantly underestimates debts of the local government loan platform.

In addition to serious underestimation of official data, it is noted that local governments in China often raise new debts to repay old debts through debt renewal. Once banks no longer offer debt renewal, the problem of urban construction investment bonds might burst out at some point.

Taking Chinese Taipei as an example in the APEC region, the latest international trade statistics published by the Ministry of Finance, Chinese Taipei showed that the total trade value of imports and exports for November 2011 decreased by 4.5% compared to the same month in 2010, seeing the first negative growth over the past two more years. The annual growth rate of export dramatically dropped to 1.3% from 11.7% in October, and imports saw a big decline of 10.4% turning from a growth of 11.8%. The warning of downturn trends has raised worries about the potential recurrence of economic nightmare as caused by the financial crisis three years ago, which is expected to be more serious afterwards.

In the foreseeable future, the exports and economic growth of Chinese Taipei will continue to considerably depend on the electronic information industry. However, the global economic trend has indicated that the US and Europe, the largest markets for the electronic information industry, are facing long-term economic adjustment under a worry of “Lost Decade”. Since the demand of major markets may probably stick in the mud in the long term, the increasing demand in the emerging markets, especially in China, becomes the hope of many SMEs in the APEC region. However, as analyzed above, there are numerous uncertain factors existing in the emerging market. In terms of China, SMEs even have to face “hard landing” risks.

For the period from January to November, 2011, the annual export growth rate of Chinese Taipei to China was only 9.1%, far lower than 37.1% in the last year, mainly due to significant slowdown in exports of the electronic information industry. These data, in fact, may also indicate some challenges that APEC SMEs are facing now. China has not been transformed from the “World Factory” into a “World Market”. Therefore, it should not be overly expected that the emerging market will become the “Noah’s Ark” for subsistence of SMEs when facing the global recession in the future.
In November, the US unemployment rate fell sharply to its lowest level in 32 months, 8.6%. The number of jobs added was modest at 120,000, with low private sector hiring offsetting job cuts among government workers. The biggest gains in jobs came from the retail and hospital sectors. However, about half of the improvement in the unemployment rate came from people dropping out of the labor force.

Still, more than two years after the recession has officially ended, the unemployment rate remains stuck at above 8.5%. It is in fact in the double digits for young people and those without a high school diploma. Nearly six million Americans have been out of work for over six months.

One reason the US economy has been slow to add jobs is that the US labor market has become more rigid. For at least the past decade, Americans have been reluctant to change occupations. The lower the rate of job turnover, the longer it takes the economy to reallocate workers from regions and sectors in decline, to those sectors in ascent, and the longer it takes for the unemployment rate to fall.

To lower the unemployment rate further, and to expand the economy, the US needs more policy stimulus. The 2% payroll tax cut enacted for 2011 is likely to be extended for one more year--although even that is uncertain, given the deadlocked Congress. No other fiscal stimulus measure has the possibility of passing before the November 2012 election. The only available stimulus would therefore be monetary.

The US Federal Reserve seems to be open to a more expansionary monetary policy in 2012. Given the already close to zero policy interest rates, the main option left for the Fed is to continue with quantitative easing. In particular, in the first half of the year, it is highly likely that the Fed will purchase rather large amounts of the debt of the US government-backed mortgage lenders, Fannie Mae and Freddie Mac. Many market participants expect the Fed to buy about USD 550 billion of this mortgage debt, but other economists are recommending that the Fed buy up to USD 2 trillion.

The Fed purchase of mortgage debt will lower mortgage interest rates, stimulate the re-financing of existing mortgage debt, and put more money into the pockets of homeowners/consumers. A USD 600 billion Fed mortgage purchase should yield about USD 20 billion in interest payment saving per year for homeowners, raising their consumption and stimulating the economy by about 0.2%. A USD 2 trillion Fed purchase of mortgage is estimated to stimulate US GDP by 0.5%. Given that the US economy is forecasted to grow only at about 2% in
Canada

The Canadian economy expanded in the third quarter at a 3.5% annual pace, driven by strong exports, especially in energy and manufacturing exports. The rise in manufacturing exports was made possible with the ramp up in manufacturing production, as supply disruptions caused by the Japanese earthquake were dissipated. Given that the expansion in the Canadian economy in the third quarter was related to temporary factors such as the reaction to the Japanese earthquake, some analysts believe that the sharp growth in the Canadian economy is only temporary. These analysts believe that growth from the fourth quarter onward will be much more subdued.

Reflecting this caution, employers have been slow to hire. In November, Canada lost 18,600 jobs, raising the unemployment rate to 7.4%. (The author is Professor at University of Southern California.)

Northeast Asia

Proper Monetary Policy Faced with Worldwide Economic Recession

Naoyuki Yoshino

The bubble phenomena of US sub-prime housing loan and Japanese real estate are caused by the excessive money supply and excessive low interest rate policy. The market expectations of rising stock price and rising housing price will cause continuing bubble phenomena, while the expectations of lowering stock price and housing price will continue to lower actual stock and housing price. Similarly in China, many households prefer to purchase houses as a portfolio since inflation is rising. Deposits are vulnerable against inflation since deposit rate of interests do not rise as the same pace of the inflation rate. If many households prefer to buy real estate and housing, it will push up property prices further and prolong the bubble phenomena. Market expectations are known to cause bubbles and create downturns on the economy. In order to avoid worldwide depression, proper monetary policy is necessary to be taken immediately by careful observing each economy.

Three Indicators to Be Observed

The following indicators are important and should be carefully examined by the central bank of each economy.

(1) Figure 1 depicts the bank loan divided by GDP. Both USA and Japanese case show excessive increase of bank loans compared with GDP. After the burst of the bubble, bank loans contracted too much in both economies. The central bank should conduct its monetary policy so as to make bank loan/GDP ratio as smooth as possible.

<Figure 1> Bank Loan/GDP Ratio

(2) Among bank loans, housing loans and real estate loans increase too much compared with total bank loans. Housing market and office spaces adjust very slowly since the construction
of buildings takes time to complete. Excessive demand for sub-prime housing and real estate force banks to increase loans to those sectors. After a while, these markets reveal too much supply of housing and office space, and the prices of housing and office space drop severely.

(3) Affordability of housing is the third measure to watch. Figure 2 shows US housing price in comparison to household’s average annual income, which was about 2.5 times. However it started to rise very quickly to about 4.5 times. After the burst of housing bubble in the US, it started to fall suddenly. The house price of some large cities of China reveals 20 or more times of household’s annual income. If the high price of housing continues, houses might not be affordable by households, and the prices of housing will decline drastically.

<Figure 2> USA Housing Price/Income

**USA Housing Price / Income**

Establishment of the Deposit Insurance System in China

The bubble phenomena always affect banking crisis especially when the bubble bursts. Since excessive bank loans to housing and real estate sector can be observed during the bubble period, the drop of housing price and real estate price forces banks to face with loan defaults. When banks face with loan defaults, some depositors run away from banks if the deposit insurance is not well established.

Right after the sub-prime loan crisis, USA introduced blanket guarantee of transaction account and increased the insured deposit from USD 100,000 to USD 250,000. Japanese government introduced blanket guarantee for deposit of transaction accounts as well, since large corporations are transacting huge amount of money in their transaction. Deposit insurance of 10 million yen was not enough to guarantee the liquidity account of corporations. The measure of blanket guarantee of transaction accounts was introduced, and these accounts do not pay interest rate. However, they are guaranteed full amount to secure corporate payment system.

US introduce the same blanket guarantee program followed by Japanese experience. China does not have deposit guarantee system. It is needed to establish deposit guarantee to households to a certain amount and the full guarantee of deposits for transaction purposes. Otherwise, depositors would become uncertain of their bank deposits and financial turmoil would create bank run.

**Two Ways to Establish the Deposit Insurance Corporation in China**

There would be two ways to establish deposit insurance system in China. One would be to establish a new deposit insurance corporation collecting insurance premium from various banks. The merits of independent deposit insurance corporation work independently from the central bank operation. The deposit insurance corporation could allow problem banks to separate their account into two accounts, namely good assets and bad assets. Good assets can be captured by the rescue banks. Deposit insurance system would speed up the process of the resolution of problem banks by healthy bank without any delay.

Another way to create the deposit insurance corporation would be to set up inside the central bank. However, the monetary policy and bank resolution policy have to be clearly separated. Otherwise there will be moral hazard problems from the problem banks. Good assets could be rescued by the central bank as a lender of last resort. Problem bank has to be examined from its operation and its management responsibility. The stability of the financial system facing with some bank defaults is quite important, making the financial system in good order. (The author is Professor of Economics, Keio University.)
Typically, Singapore is a small open economy with advanced and technologically driven industry. It strongly advocates free market arrangement. Dependence on exports leads to a close connection with its major trade partners which inevitably deteriorates economic robustness. Although this is efficaciously cushioned by government intervention, the inherent vulnerability should not be ignored when the global downside risk is more than what the government can protect against.

**Trade**

Singapore is heavily reliant on trade. Trade to GDP ratio is as high as 400%. Generally, oil and non-oil exports are discussed separately with consideration of different risk profile and supply motivation.

Singapore’s primary export partners include Malaysia (12.4%), Hong Kong (12.2%), China (10.8%), EU (10.4%), Indonesia (9.7%), US (6.8%), while primary sources of imports are EU27, Malaysia and US, followed by other Asian economies. Not surprisingly, its trade performance is heavily related to major partners’ economic conditions. Especially, imports from or exports to regional economies that have smaller overall elasticity than those from or to other economies. Thus EU, US, Japan and China together play a key role in the variation of Singapore’s external trade.

After having experienced a major deceleration in exports since the last quarter of 2010, Singapore’s external trade began to rebound in November 2011. Domestic non-oil exports rose by 1.6%, compared to a severe contraction of 16% in the preceding month. The slow recovery of the US economy and tightening fiscal policy in the euro zone are the main driving forces behind the previous slowdown. The decline in trade with the EU and US are 20% and 11%, respectively. Yet the expansion of non-oil exports to eastern Asia outweighed the declining western trade. It is likely that the staggered volume will be persistent in the near future. This is because there is no sign of robust recovery in US, nor any ease in the EU’s economic recession, but they might be offset by a temporary growth of exports to Japan and China. Noticeably, retained imports of intermediate goods (NORI) strongly grew by SGD 3,135 million. Doubling NORI implies a high probability of a subsequent boost next quarter, in regard to 47% of its exports consisting of re-export, but it remains unclear how long it will last.

In recent years, Singapore trade growth rate has fluctuated wildly ranging from over 20% to -16%. High volatility may contribute a substantial amount of sovereign risk to foreign direct investment.

Another risky component is oil exports. As Singapore is the 18th largest exporter of oil in the world, it expanded its domestic oil exports by 39% up to November on a year-on-year basis after a 43% increase in preceding month. Continuous expansion was caused by sharply intensified demand in local economies and China.

**Industry**

Traditionally, chemicals are the major industry sector in Singapore. It is well integrated with oil exploration and refinery industry. Electronic production is also important in manufacturing. Both sectors will boom with exports. After April 2011, the price index of Singapore's manufactured products rose steadily, a 2.5% gain was registered in October 2011. The mild up-trend in price levels is stimulating the augmentation of manufacturing supply and will probably persist over a period without any adverse external impact.
Tougher Times Ahead for the Asia Pacific Region

Kenneth Waller

Australia

GDP grew by 1% in the September quarter, following a 1.4% rise in the June quarter and taking the annual rise to 2.5%. Growth is being driven by mining in Western Australia and Queensland; considerably lower growth is being registered in other states. The unemployment rate climbed a little to 5.3% in November, matching the highest level this year. There are mixed forecasts of unemployment; some point to a lower of the rate to 4.8% for the two years to 2012-13 whereas others see the rate rising to 5.7% through mid-2012.

In late November, the Treasurer issued the Mid-year Economic and Fiscal Outlook 2011-12 (MYEFO) which forecast solid growth, low debt and a (marginal) return to budget surplus in 2012-
Despite a significant deterioration in global conditions in recent months which reduced USD 20 billion from government revenues. Real GDP is expected to grow by 3.25% in 2011-12 and 2012-13, a downgrade of 0.75% for this financial year 2011/12 and of 0.5% in 2012/13.

In spite of the gloomy global economic outlook Australia’s government is confident the economy is “growing solidly” and is well-placed to weather global economic turmoil from the fiscal crisis in Europe. Capital expenditure by businesses is forecast to rise 32% to a record AUD 158 billion (USD 161 billion) and Australia was the only economy in the Group of ten to avoid a recession during the global credit crisis. The OECD has recently predicted Australia will be among the fastest growing developed economies in 2012 with the economy set to continue to benefit from a resources boom that is resulting in unprecedented investment which is helping to sustain economic activity.

Nonetheless, the economy will inevitably suffer effects from the European debt crisis. Although direct exposure of Australia to a slowing in European demand is low, the indirect exposure, through the effect on some important trading partners including importantly China, could be significant. The Euro area accounts for only about 4% of Australia’s merchandise exports. A fall in the AUD would help mitigate to some extent at least an economic slump in Europe. While the AUD reached a record high in July 2011 there is now some modest weakening as a consequence of concerns arising from Europe on the global growth (and commodity) outlook.

NAB Business pointed to improving business conditions in November and business confidence was largely unchanged, with a slight positive improvement in the index in recent months. HSBC noted that overall business conditions and the confidence numbers have been broadly stable in recent months. However, local business confidence is likely to falter as the European debacle unfolds. A recent private survey shows that consumer confidence dropped in December to a four-month low as concern mounted about rising unemployment and the fallout from Europe. Retailers are heavily discounting across all forms of consumer durables.

The Reserve Bank of Australia (RBA) lowered the cash rate by 25 basis points to 4.25%, effective 7th December 2011, after cutting it to 4.5% from 4.75% on 1st November. The RBA noted reduced pressure on CPI (Consumer Price Index) inflation rates and growing risks to global growth as the determinants of the decision. On a year on year basis, inflation remained above the target but is now starting to decline as production of key crops recovers. The RBA predicts that inflation is likely to be consistent with the 2–3% target in 2012 and 2013. The November and December cuts in the official rate marked the first consecutive cuts since the global financial crisis in 2009. Some are expecting a further cut when the RBA meets next in February. After some hesitation and some political flak, Australia’s big banks have passed on most of the December interest rate cut to mortgage holders but they are warning that rising funding costs as a consequence of European crisis will mean that any further rate cuts may not necessarily lead to corresponding reductions in mortgage interest rates.

Australia’s terms of trade have now peaked and will decline somewhat in the near term; they will however remain relatively very high. The forecast for agricultural export earnings has been cut on concern that the European debt crisis may dampen global economic growth and hurt commodity demand. The total value of Australia's agricultural, forestry and fisheries exports will rise 6.2% this financial year to USD 38.36 billion, down 0.6% from an estimate in September according to the Australian Bureau of Agricultural and Resource Economics and Sciences. However, overall export earnings are forecasting gains in the wheat, barley, cotton, sugar and beef sectors.

The resources boom is forecast to continue next year, taking export earnings from energy and minerals 15% higher to a record USD 206 billion. However, these forecasts could shift downwards as a consequence of the European debt crisis on global activity.

Resource projects in Australia valued at AUD 456 billion (USD 457 billion) have cushioned a slump in manufacturing and services hit by a record currency and subdued consumer spending; the gap between resource-related industries and other sectors has created a “patch work” economy. One industry hard hit by the strong Australian dollar is the International Education sector. The International Education Association has reported...
a sharp drop in Australia’s income from foreign students. The sector declined by 15% in the last year, with both New South Wales and Victoria losing more than USD 1 billion in income.

**New Zealand**

Newly re-elected New Zealand Prime Minister John Key faces tough challenge but will take a great degree of confidence about his election victory. The Institute of Economic Research (NZIER) forecasts a weaker economic outlook for the economy. The global economic outlook and some slowing in reconstruction were two key drivers in the downgrade of expectations. GDP is predicted to grow 2.2% in the year ending March 2012 and to grow by 3% in 2013 and in 2014. Previous forecasts were for growth of 2.6% in the current year and 3.7% for the out years. The disruptions from the 22nd February earthquake in Christchurch created a drag on growth while aftershocks delayed the economic boost expected from the rebuilding process. Construction is likely to be one of the biggest drags on growth in the latest quarter although a rebound is expected in 2012 as the Canterbury rebuild picks up. The weaker growth will also mean the government’s expectations of returning to surplus by 2014/15 year will be under pressure.

The Reserve Bank left the Official Cash Rate unchanged at 2.5% this month. A weaker economy and subdued inflation is likely to lead to gradual changes in rates over the period ahead with the direction unclear at this juncture. Some forecast that the official rate will remain on hold until later next year. Annual headline inflation returned to within the Bank’s 1% to 3% target band in the December quarter and downward pressure on the price of imported goods will keep inflation low early next year.

GDP is expected to have risen 2.2% for the year to end August. The Rugby World Cup would have made modest positive contribution to growth. The Business NZ-BNZ Performance of Manufacturing Index fell to 45.7 last month from 46.6 in October, the lowest level since June 2009. Households and business are expected to remain cautious about spending and investing. Business investment is expected to grow at slightly slower rate than previously forecast, up 7.2% in 2012, just over 8% in 2013, and around 6.5% in 2014. House prices in real terms are flat.

Export commodity prices remain elevated and the primary sector will post a record NZD 27 billion in export value for the year to June 2012 despite a weak global economy and a high exchange rate. Exports to Europe and the United States have declined but more than offset by exports to China. Exports are forecast to grow solidly next financial year and to slow in 2013 with some rebound in 2014. However, export growth forecasts have been adjusted downwards.

**India**

The Indian economy is weakening. Factory output is flat, growth slowing, the rupee is at record lows and inflation is stubbornly high. Earlier official predictions of a 9% growth and lower inflation this year appear to have been over-ambitious. Inflation persists and high interest rates are impacting adversely on investment and growth. The commitment to reforms is seriously under pressure and the political system is stalled with a moribund parliament unwilling to embrace reform proposals.

The economy expanded 6.9% in the second quarter following growth of 7.7% in the first. Headline annual inflation dropped to a year’s low of 9.11% in November from 9.73% in October. It seems unlikely that the revised growth target of 7.5% this financial year will be achieved. Actual outcome could be nearer 7.0% or lower.

Indian corporations have been hit by waning business confidence due to deferred investment projects, the rising cost of credit and political indecision. Data shows that India’s industrial output was far below expected figures, falling by more than 5% in October from a year earlier. There are fears that initial numbers on the advance tax paid by companies this quarter showed almost no increase from last year.

The government’s efforts to move on long awaited reforms are stalled in parliament. Policies aim to attract more foreign capital with three new policies which include a new mining law, a new law that allows FDI in pensions, and a controversial plan to allow foreign supermarket chains to invest in India’s retail sector that worth USD 450 billion; the latter proposal was withdrawn after being introduced due to strong political opposition.

The rupee has fallen to historic lows this
month. Down more than 20% so far this year the record-low rupee is dampening consumer spending and cutting company earnings. Of major concern is that the poor performing currency will add to inflationary pressures and cause a hike in oil prices. The Reserve Bank intervened in the currency market last week by reducing trading limits for banks in the foreign exchange market, and making it difficult for market players to maintain speculative positions. The central bank has also raised the interest rate ceiling on foreign currency. The rupee bounced back 2% following these measures but is likely to remain under pressure.

The Reserve Bank retained the official cash rate at 8.5% in December, ending 13 successive rate hikes. This pause was expected due to the economic slowdown. Successive rate hikes have angered businesses and impacted on investor confidence notwithstanding claims by the central bank that tackling inflation has to take priority over short-term growth. The current rate is the highest reached in a decade. (The author is Director, Australian APEC Centre at RMIT University.)

Chaotic Situation Remains, But Some Confusion May Be Clear Soon

Julius Sen

The month under review was again completely dominated by the euro zone crisis, and culminated in a major effort by EU leaders to find a comprehensive to the various policy measures needed, during their summit of 8th and 9th December.

Although the summit failed to secure an agreement on treaty change, advocated by Germany in particular, it did succeed in an intergovernmental agreement (outside the structure of the EU), with 26 of the 27 members joining in.

The European Central Bank (ECB) insisted on these national commitments to debt reduction and fiscal austerity as a pre-condition to intervening in the market to buy government bonds (indirectly) and to provide emergency finance to major EU banks.

Following the summit, the ECB confirmed that they would provide unlimited liquidity to EU banks for at least three years, at rates of interest of 1%. This has provided a lifeline for EU banks that would otherwise have had to raise EUR 250 billion over three years to refinance their operations.

The EU regulator for banks also revised upwards (to EUR 115 billion) the amount that would need to be injected into the banking system to cover all their risks.

At the same time, Standard & Poor’s (the rating agency) downgraded the credit worthiness on a number of European banks and also put 14 European economies (including Germany and France) on a watch to a possible downgrade.

Market reactions to these various measures and developments were quite mild and muted, though bank shares continued to struggle. There was however no market crash, and nor did the value of the Euro drop significantly on international exchanges.

Taken together, these developments suggest continuing uncertainty about what is going on, and whether we are closer to a solution or a collapse.

While confusion on the economics of the
situation continues, concern is now growing over the political complexities of finding a solution to the crisis.

For the UK, they are now on the sidelines, prompting rejoicing amongst some conservatives who would prefer to see Britain leave the EU altogether, and anguish amongst many others (including parts of the business community) who want greater integration.

But since the UK economy depends on EU economic growth (in banking, services and manufacturing) for their own survival, this position is deeply contradictory.

Growth strategies for European economies have also been abandoned in pursuit of debt reduction and consolidation measures. This has triggered a mild recession and kept unemployment levels high. This in turn is creating social and political tension that several governments are finding it hard to manage.

As of writing (15th December), there is rising concern in Europe that a few economies could find it difficult to get domestic parliamentary agreement to the pact, or that they could find appropriate policies to revive growth and restore competitiveness.

Be that as it may, the timeframe for actually concluding a comprehensive agreement is March 2012, with detailed negotiations on creating a new legal structure to continue until then - which means that this drama will continue for some time.

This was also confirmed by Angela Merkel who has repeatedly made it clear that the crisis will take years to resolve, and seems very relaxed about the strategy Germany is following.

In terms of substance, the proposed new pact will require signatories (17 euro zone economies plus the other 9) to agree broadly to the following:

- Automatic and enforceable sanctions for any economy which runs up a deficit of more than 3% of GDP;
- ‘Golden rule’ built into Eurozone members’ budgets against running a deficit other than for investment in growth (borrow only to invest);
- Structural deficits not to exceed 0.5% of GDP;
- Scrutiny of national budget proposals by an EU Commissioner especially empowered to do so;
- Private investors not required to take losses, as in the Greek bailout;
- European Stability Mechanism (ESM) brought forward from 2013 to 2012, with decisions based on a qualified majority not unanimity;

In addition, it was further agreed:

- To provide an additional USD 200 billion available to the IMF to deal directly with bailout requests by EU economies finding it difficult to borrow money
- To proceed with a financial transactions tax for the euro zone.

Events are now moving so quickly and across such a wide range of policy fronts, that it is becoming increasingly difficult to read the situation with any clarity. Hopefully, some of the fog of confusion will clear away over the next few weeks.
Liquidity: an Increasing Concern to East Europe

Kuo-Yuan Liang

On 26th October, European leaders and bankers finalized the details of a second Greek rescue package, and a more comprehensive set of measures to salvage the multi-annual crisis. The ratification process encountered several obstacles, namely that the Greek PM George Papandreou riddled with the idea of putting the bailout package to a referendum and that for a long time the Italian PM Silvio Berlusconi also couldn’t win market approval as bond yields rocketed. Both stepped down in the first half of October, followed by the respective establishments of technocratic governments.

Afterwards, Germany’s majority party, the CDU, enacted party guidelines to seek establishment of a Euro Area exit rule. This was followed by calls from German and subsequently France to embrace a fiscal union, or at least take significant steps in moving toward that direction. On 23rd November, the European Commission proposed a set of new fiscal regulations. Finally, in European Council meeting on 8th-9th December, European leaders, excluding the UK, agreed on new fiscal rules that signified the intention to pursue a fiscal union. I consider these achievements constructive, but not committed enough to ensure the fiscal union becomes a reality.

As politics progress, markets have frequently demonstrated their powers in urging politicians to move on quickly, but given the grueling nature of political processes, European politics continue to disappoint regarding the quick establishment of a fiscal union. Despite a new fiscal treaty in working progress, liquidity conditions worsened to a point, where on 1st December, global central banks and the European Central Bank (ECB) once again teamed up to extend the US dollar liquidity support program provided to European banks. On 8th December, the ECB announced it would start providing banks three year term loans (Long Term Refinancing Operations, LTRO) via its lending facility. These extraordinary measures have relaxed liquidity concerns somewhat. Banks can now buy high yielding European government debt and use them as collateral to obtain long term funding from the ECB, which effectively makes the LTRO a central bank sponsored government bond purchase program, or Quantitative Easing (QE).

This LTRO move has brought positive effects to the markets. Italy and Spanish bond yields dropped significantly in 20th December auctions, as the new de facto QE will give banks the opportunity to make an arbitrage profit and ease liquidity tightness. However, it would not help European banks meet the new capital ratio requirements due June 2012. Banks still have to sell riskier assets to meet regulation demands. We have seen banks take action to sell business, branches and joint venture stakes in East Europe economies. The difference is that they now don’t necessarily have to move the cash retrieved by asset sales out of East Europe, as the liquidity conditions in their home market improves, thereby letting the funds stay within the region. Currently, whether the cash stays or leave does not depend on the Euro Area circumstances, but more on the particular conditions of each East Europe economy.

As I have elaborated in this month’s other article, several East Europe economies have been identified as more vulnerable, with relatively large foreign exposures associated with the GDP or foreign reserves or both. In addition, some also have large foreign bank claims, as well. Looking into the foreign exchange markets of major East Europe, between 16th November and 16th December, the Polish Zloty and Czech Koruna have strengthened somewhat against the euro, while the Hungarian Forint slumped quite a bit. It is understandable, as Hungary is the economy I identified as most vulnerable of the three
economies, and the fact that its investment rating was downgraded recently.

Although the liquidity and balance of payment problems that East Europe economies have been experiencing over the past few months have somewhat eased, it is not over. We do not know how long European banks will continue to buy sovereign bonds with the ECB on their back, nor do we know whether markets would once again consider moving cash out of the region. East Europe economies should use this temporary period of calm to prepare for next year’s important challenges, such as the debt issuance peak that will start next February. (The author is President, Polaris Research Institute & Honorary Professor, College of Technology Management, National Tsing Hua University.)

Russia and Middle East

While Russia Has a Stable Economic Prospect, the Middle East Is Still Faced with Political Tensions and Economic Uncertainties

Ming-Hsin Kung

Even though the global oil price has been low during the second half of 2011 because of the economy of the US and Europe, Russia is still expected to see a stable and optimistic annual economic growth in 2011. According to Russia’s Ministry of Economic Development, with the agricultural production growing by more than 10%, the manufacturing production growing by 4.7%, and the annual export of food reaching 18 million tons, Russia has got rid of the food supply problems it once faced last year and in the first half of this year.

Moreover, the consumer price index (CPI) annual change rates are expected to be controlled fewer than 8%, and many indicators have also come back to their original level before the financial tsunami. In general, the GDP growth rate of Russia this year is estimated to be more than 4.1%, making Russia a steadily growing economy among the emerging economies. As to the prospects of 2012, Russia may still be able to keep growing steadily if not considering political risks.

When it comes to the prospect of Russia’s energy export, Gazprom expects the gas production will grow by 3.5% in 2012, much higher than the year-on-year growth rate of 0.3% in 2011. In addition to the expansion on the supply side, after an unexpected turn appeared in the Russia-China energy cooperation, India has become more active recently, with an in-person negotiation between the presidents of Russia and India. A statement after their meeting indicates clearly that India will participate in the equity investment of Russia’s new gas and oil projects.

This move will also ensure India’s supply sources of gas and oil. Consequently, although the economy of the US and Europe will certainly impact the global oil price next year, given that the energy export market of Russia has also gradually turned to the emerging markets and has been diversified as well, the energy export sector—which has a significant influence on Russia’s economy in terms of industrial structure—is expected to maintain a cautiously optimistic performance in the next year.

Another factor that will influence Russia’s economy in 2012 is the domestic investments. Although Russia has just been accepted as a new member of WTO this month, opening to investment is much more important than opening to the import
In view of the policies under Russia’s current ruling party, the tariff seems unlikely to be substantially and voluntarily reduced in the short term regarding the tariff and non-tariff measures of trade in goods, with some products facing higher rather than lower tariff; these measures may probably also be supported by the opposition party. However, on such issues as stimulating a rebirth of Russia’s economic structure, the most important strategic aim of Russia’s joining in WTO should be introducing new investments from the international arena, so as to balance the economy’s current situation of state-owned enterprises leading the economy.

However, political leaders including the president of Russia have also realized that the most important key factor influencing the current Russian economy is the improvement on the investment environment. This issue includes how to advance a stable financial order, to reduce regulations, and to resolve problems of investment protection, tax and labor, so as to induce more private investment. Before achieving these difficult aims, nevertheless, currently Russia’s primary attitude towards foreign investments is still focused on relatively large investment projects with the participation of foreign governments.

Now Russia hopes to sign an agreement with ASEAN related to free trade area by the end of the year, including cooperation in terms of nuclear power, outer space, transportation, education, nano, biotechnology, and food safety. Although it is still unclear now whether Russia’s strengthened economic cooperation with South Asia and Southeast Asia will help its own economy get rid of the influences brought by the weak economy of Europe in the next two years, the gradual integration into the world economy and trading system is in line with Russia’s national interests in the long term. Moreover, this will also stabilize the political situation of Russia, with its parliamentary elections just finished and its upcoming presidential election.

 Mentioning the risks and prospects of the Middle East and North Africa, although the formal withdrawal of the US army has brought some political risks to Iraq, the ruling of Shiites will keep Iraq in a certain stable relationship with Iran. As a result, the internal political risks in eastern part of the Arabian Peninsula may not be higher than before. However, Iran has proclaimed to hold a military exercise near the Strait of Hormuz, a vital transit route for international oil shipments. Besides, the US House of Representatives has just passed a further international financial sanction against Iran, enhancing the instability of this area’s international politics.

Also, the Arab League is ready now to take a series of sanctions against Syria, which may probably make the economy’s domestic politics more seriously unstable, even to the extent of civil war. Moreover, as Libya and Egypt are currently at a transition period with a “power vacuum” and rather difficult domestic economy, the political stability remains a serious problem for the northern part of the Arabian Peninsula and for North Africa. And this will bring a certain degree of risks to the global crude oil price next year. Also in view of the impacts of the weak economy of Europe over the crude oil and raw material products, and equipment and tourism industries in the Middle East and North Africa, it can be expected that the business risks facing the SMEs in these two regions will remain relatively high in the first half of 2012. (The author is the Vice-President of Taiwan Institution for Economic Research.)
Global Commodity Market

New Geopolitical Risk: Sanctioning Iran

Hwa-Nyeon Kim

There was a slight increase in warning signs of a crisis in the global commodity market in the last one month period (mid-November to mid-December 2011) as well as a downward turn in prices. Although European Union (EU) leaders endorsed a series of rules tightening budget surveillance and institutionalizing limits on public spending, the sovereign debt risks from Europe continued to weigh down on the commodity markets.

At the summit, 27 EU leaders agreed on the new fiscal compact that the European Central Bank (ECB) demanded before it purchased any more of Italy’s and Span’s debt. The euro zone already has restrictions on their fiscal deficits and sovereign debt which are set out in a series of rules known as the Lisbon Treaty.

However, economically stronger nations such as Germany and France have complained that the enforcement of the existing treaty has not been rigorous enough and states that have exceeded the debt or budget ceiling have not been penalized severely. Consequently, the new fiscal compact was needed as only tough rules would convince financial markets that troublesome states such as Greece and Italy would be able to repay their debts and ensure that another sovereign debt crisis never happens again. The main rule is to forbid deficits exceeding 3% of GDP. However, the UK rejected the proposed deal and many details remain to be worked out, including how the treaty will be enforced. Thus, worries over the contagion of the European fiscal crisis still continue to spread into the raw material markets.

One thing that needs to be mentioned this month regarding the commodity issue is OPEC’s decision to raise its quota. OPEC (Organization of Petroleum Exporting Countries) is the biggest cartel for oil producing nations and has recently decided to increase its production ceiling to 30 million barrels a day, which is the new quota for all of its members, including Libya. The new quota will replace the previous target for 11 OPEC economies, excluding Iraq, of 24.845 million barrels a day. However, because the new quota is similar to the actual November production of 30.37 million barrels, there will not be any significant increases in the production. Nevertheless, the OPEC’s quota increase will help stabilize the crude oil demand-supply situation.

The top two commodity indices, the Commodity Research Bureau (CRB) spot index and London Metal Exchange (LME) non-ferrous index, have shown slight decreasing movements from mid-November to mid-December. The CRB spot index (year 1967=100) moved up from 475 to 496 and the LME index (April 1999=1,000) from 3,165 to 3,465. The averages for the CRB index and the LME index decreased 3.7% and 2.1%, respectively.

As for energy prices, the WTI near month futures price moved within the range of USD 93.87 and 102.59 /barrel and Dubai crude prices between USD 102.99 and 110.59 /barrel during the same period. The WTI oil price average from mid-November to mid-December was bigger than that for the previous month, with the average price of WTI decreasing 6.3%, while the average price of Dubai crude oil decreased 0.04%.

Among non-ferrous metals, or more commonly known as base metals, there were two metals of which prices increased in the last one month period. Lead and zinc prices rose following the previous period, with the average price of both metals going up 3.9% and 3.5%, respectively. On the other hand, prices for the remaining metals such as copper, nickel, tin and aluminum showed decreasing price patterns.

This month the US sanction against Iran
should receive continued attention as mentioned in last month’s report. The US Congress passed the legislation which will penalize any financial institution found to be conducting business with Iran. The EU has also blacklisted 180 Iranian officials and companies to put more pressure on Iran over its nuclear program. The problem is that Iran is one of the world’s largest oil producing economies. Iran is the third-largest crude exporter in the world and produces about four million barrels a day. Consequently, concerns regarding the impact the sanctions will have on the global economy and oil prices have been expressed. The Bank of America Corp. estimated that crude oil prices may surge by USD 40 a barrel if the Iranian output completely shut down and the closure of the Strait of Hormuz is imposed. Therefore, although demand growth is limited due to Europe’s fiscal crisis, SMEs, in especially the petro-chemical industry, will again see a further increase in crude oil prices and relevant petroleum prices. (The author is Research Fellow at Samsung Economic Research Institute.)

<Table> Changes in Raw Material Prices - 16th November to 15th December, 2011

<table>
<thead>
<tr>
<th></th>
<th>Index</th>
<th>Crude Oil (USD/barrel)</th>
<th>Non-ferrous Metals (USD/ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CRB</td>
<td>LME</td>
<td>WTI</td>
</tr>
<tr>
<td>Min</td>
<td>475</td>
<td>3,165</td>
<td>93.87</td>
</tr>
<tr>
<td>Max</td>
<td>496</td>
<td>3,465</td>
<td>102.59</td>
</tr>
<tr>
<td>Average</td>
<td>486</td>
<td>3,324</td>
<td>98.74</td>
</tr>
<tr>
<td>Last Month Average</td>
<td>505</td>
<td>3,397</td>
<td>92.91</td>
</tr>
</tbody>
</table>

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.
Moving into the Next Big Market: Africa

Hwa-Nyeon KIM

Spotlight on Africa

As sovereign debt problems in advanced economies including Europe, United States, and Japan are threatening their economic growth, emerging economies have recovered quickly from the economic crisis and continue to grow strongly. Therefore, SMEs need to focus more on emerging markets, especially on Africa which is rising as one of the most promising markets.

Due to the rapid growth in the 2000s, African economies have become the latest emerging markets in the world. Propelled by rising natural resource exports and ballooning investments, the economies enjoyed 5% annual growth for the period from 2001 to 2010, exceeding expansion in Central and Latin America and Central Asia. African economies are now receiving attention as potential consumption markets and production bases, as well as sources of natural resources.

Both advanced and emerging economies are striving to establish a foothold in the African economies, where foreign direct investment jumped from USD 11 billion in 2000 to USD 55 billion in 2010. The push is multi-layered with leading global companies such as Mercedes-Benz and Coca-Cola trying to gain an early edge and Chinese and Indian global corporations investing in energy and mineral resource development to secure a steady supply.

Against this backdrop, SMEs are at a disadvantaged position compared to their peers in multinational corporations, who have substantial business experience in Africa. SMEs will need to make thorough preparations and devise meticulous strategies, lest they lose more valuable time in gaining a foothold in Africa. A deep understanding of African markets is imperative for SMEs, and SMEs will also need to be aware of the involved uncertainties and get prepared.

Assessment of Africa’s Market Potential

After a long period of relatively isolated from the global economy, African continent turned into a continent of opportunity in the last decade due to its “DYNAMIC” appeal: (1) Developing and Young; (2) Natural and Agricultural Resources; (3) a huge consumption Market; (4) Infrastructure market; and (5) Changing Business Climate.

(1) Developing and Young

With advanced economies on the precipice of prolonged sluggish growth, African continent is now one of promising regions. For the next ten years until 2020, Africa’s annual economic growth will likely average 5%, surpassing an average of 4.5% of Central and Latin America and 4.1% in Central Asia. The African continent’s outsized proportion of young people is one factor for its larger growth potential. 60% of the continent’s population was less than 24 years old in 2010, compared to India’s 49.4% and China’s 35.8%. Africa’s labor population, 550 million as of 2010, is projected to surpass that of China in 2029 and that of India in 2036.
(2) Natural and Agricultural Resources

Africa has vast reserves of confirmed and potential mineral and energy resources. As of 2010, Africa accounted for 12.3% of global oil production and 9.5% of global oil reserves. It also took up 6.5% of global gas production and 7.9% of global gas reserves.

Africa’s oil reserves increased at a much faster speed than other regions. In 2001-2010, Africa’s oil reserves increased by 1.4 times, much faster than Middle East (1.1 times) and Central Asia (1.0 times). In addition, Africa has various mineral resources such as platinum, diamond, cobalt and chrome, and since Africa has 60% of the world’s unfarmed arable land (ca. 590 million hectares), its agricultural output is expected to increase, too.

<table>
<thead>
<tr>
<th>Mineral Resources</th>
<th>Proportion of Africa</th>
<th>Economies with Major Mineral Resources Reserves (share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Platinum</td>
<td>95.5%</td>
<td>South Africa (95.5%)</td>
</tr>
<tr>
<td>Diamond</td>
<td>60.3%</td>
<td>Democratic Republic of Congo (25.9%), Botswana (22.4%), South Africa (12.1%)</td>
</tr>
<tr>
<td>Cobalt</td>
<td>50.3%</td>
<td>Democratic Republic of Congo (46.6%), Morocco (3.7%)</td>
</tr>
<tr>
<td>Chrome</td>
<td>37.1%</td>
<td>South Africa (37.1%)</td>
</tr>
<tr>
<td>Manganese</td>
<td>27.3%</td>
<td>South Africa (19.0%), Gabon (8.3%)</td>
</tr>
<tr>
<td>Gold</td>
<td>14.5%</td>
<td>South Africa (11.8%), Ghana (2.7%)</td>
</tr>
<tr>
<td>Nickel</td>
<td>7.2%</td>
<td>South Africa (4.9%), Madagascar (1.7%), Botswana (0.6%)</td>
</tr>
</tbody>
</table>


(3) Vast Consumption Market

The importance of Africa as a consumption market has grown significantly due to its rapid economic growth and increased purchasing power. With its population expected to increase to 2.2 billion in 2050, Africa will likely grow into a consumption market three times larger than Central and Latin America combined.

The percentage of the poor declined from 69% in 1990 to 61% in 2010, which resulted in a bigger consumer class, which has real purchasing capability. Increased purchasing capability will likely boost the demand for durable goods. Africa’s registered cell phone users are expected to rise to 970 million in 2020 from 500 million in 2010.

(4) Infrastructure Market

Robust commodity exports, foreign aid and investment will enable African economies to undertake continuous infrastructure improvement needed to meet the demands of their rapidly growing populations and urbanization. Their urbanization rate is projected to increase to 47.2% in 2025 from 37.9% in 2005.

(5) Changing Business Climate

The business environment in most African economies is still weak, but there are bright spots and significant strides thanks to international organizations’ support and aggressive reform measures by each African government. In fact, Mauritius, South Africa and Botswana have a better business climate than the BRIC nations (Brazil, Russia, India and China). And Rwanda, Burkina Faso, Mali, and Ghana were among...
the top ten economies in the world that had the most significant improvement in their business environment from 2006 to 2011. As populist movements in North Africa and Sub-Saharan Africa stabilize, possible improvement in governance may facilitate a better business and investment climate there, too.

This report has devised economic, social and political indices, and it also assessed the growth potential of each African economy as a supply source of natural resources, a consumption market and a production base. Four North African economies (Egypt, Libya, Algeria, and Morocco), Nigeria, South Africa, Angola, and Kenya were selected as the most promising African markets in terms of three axes.

**Implications for SMEs**

SMEs have relatively limited resources compared to multinational corporations in terms of capital, human resources and experiences. Consequently, SME’s should narrow down and concentrate on their target markets. From this point of view, SMEs in APEC region need to focus on Africa’s “Dynamic Diamond,” a group of promising African economies in terms of supplying natural resources and being a consumption market or a production base. Egypt in the North, Nigeria in the West, Kenya in the East and South Africa in the South form the diamond.

Since Africa has huge growth potential but with fierce competition, SMEs must first gain an understanding of the African region. To understand Africa’s cultural diversity and uniqueness, experts should be fostered. Showing respects for the local culture and making contribution to regional economic development will help achieve win-win relationships with close cooperation between government-private sectors, which are needed to be successful in Africa. In short, SMEs need to market themselves as “solution providers”, who can help African economies’ long-term economic growth, and they need to view Africa’s poor industrial system as a long-term business opportunity. To reduce risk, SMEs should also strengthen cooperation with multinational corporations in emerging economies, who advanced into the African market relatively early. (The author is Research Fellow at Samsung Economic Research Institute.)

![Figure 3] Africa’s Dynamic Diamond (Four Major Economies)
Risk of Eurozone Banking Crisis Threatens East Europe

Kuo-Yuan Liang

Over the past half year, many achievements were seen in the Euro Area, amid the ongoing development of the European debt crisis. However, financial markets continued to react rather negatively. Among the measures adopted by the Euro Area economies, there were several that had the most notable spillover effect on the East Europe region. The most noteworthy was requiring European banks to increase their core tier one capital (common shares) ratio to 9% of risked weighted assets by the end of June 2012, and demanding private holders of Greek debt to take a 50% loss in terms of face value. Thus, European banks now only have limited means to meet regulatory demands. They have to sell new shares, shrink lending, or liquefy assets in an environment where the market is bleak and every other bank is also being forced to do the same.

Banks are facing pressure not only from the regulators but also from the markets as well. As I have noted in previous monthly columns, since August, money market funds have been unwilling to fund European banks. As the liquidity tightness continued to develop, major central banks around the globe eventually had to step in twice, on 15th September and 1st December respectively, to provide US dollar liquidity support programs to European banks. And those programs were in addition to the unlimited euros the European Central Bank (ECB) was already providing to European banks through its lending facility.

Moreover, on 8th December, the ECB announced it would offer unprecedented three year term loans to banks, compared to the previous one year limit, while also expanding the list of assets (such as mortgage backed securities) it would accept as collateral for loans. If not for these extraordinary support measures, where most of them are considered unprecedented, a bank failure could have already happened.

The progress by European leaders in the two recent European Councils is tackling the debt crisis and enhance fiscal discipline has been remarkable. However, from several liquidity and credit market indicators, the improvement is insignificant. Given the dim economic outlook and the prospect of low or no growth across the Euro Area for years to come, even if a fiscal union can be gradually established, there will still be a lot of hardships to overcome.

Regrettably, the market might not give Europe the time it needs. Though I full-heartedly believe Europe is determined to do what it takes to weather the crisis, there is a realistic need to plan for the worst and hope for the best. As overall financial conditions worsen, and in a time when a bank failure could be moments away from reality, we all have to ask ourselves, are we fully prepared?

Turning the spotlight on the East Europe region, the situation is nowhere better even though most economies do not use the euro. As it is commonly known, past economic development in East Europe was largely driven by foreign direct investment and funding from Western Europe. As banks in the west are now adjusting their capital structure and balance sheets to meet regulatory demands, it has greatly affected their investment and lending activities in the East Europe region.

Moreover, given the tight liquidity and credit conditions in the Euro Area, European banks hope to move their newly liquefied cash in East Europe back to their home market. A serious threat is thus emerging: can the regional economy withstand such a drain of capital?

Chart 1 summarizes information from several sources describing foreign involvement in funding East Europe’s economic activities. From the Gross External Debt Exposure data, which compiles
foreign debt exposures of both public and private sectors, we can see that some economies in the region have very high levels of debt owed to foreigners, exceeding 100% of GDP, including Hungary, Latvia and Bulgaria. If we subsequently compare the external debt exposure data with each economy’s foreign reserves, we can identify Poland, Hungary, Lithuania and Latvia to be generally more vulnerable to capital outflow.

Some of the roots of these vulnerabilities can be traced back to the years prior to the financial crisis, when East Europe was highly coveted as an investment destination and regional currencies were appreciating, prompting many firms and households to borrow or mortgage in foreign currency, mostly Swiss Francs for the case of Hungary. That obviously didn’t work well in hindsight – several East Europe economies received the IMF’s balance of payment assistance during the financial crisis of 2008. As funds now start to flow out again, and the East Europe currencies depreciating against Swiss Francs and the Euro, economies that have borrowed in foreign denomination are bearing even more pressure.

Regarding the foreign bank claims to these economies and comparing them with both the GDP and foreign reserves, we have Czech and Latvia high on the vulnerability list, with Poland and Hungary somewhat even more vulnerable. If we only single out the claims from European Banks, the results do not change. The figures also show that, among all foreign bank claims to the region, more than 90% are European banks, an evident indication as to just how much the East Europe region relies on West Europe funding. In the case of a bank failure, particularly in the Euro Area, we can expect to see these four economies suffering the most stress.

In conclusion, Poland, Czech, Hungary and Latvia would be hit the hardest in the case of a bank failure, or simply from a strain on the bank capital, which would have banks move out of the region. These economies are more vulnerable either due to relatively low foreign reserves to meet the balance of payment needs, or a larger bank claim compared to the economy that can cause larger disruption once foreign banks withdraw. Even if a bank failure doesn’t actually happen, the high external debt-exposed economies of Hungary and Latvia, and to lesser extent Poland and Lithuania, cannot escape dealing with the stress caused by weak capital inflow and depreciating national currencies. It is quite clear that currently Hungary and Latvia are economies with relatively highest risk, followed by Poland. (The author is President, Polaris Research Institute & Honorary Professor, College of Technology Management, National Tsing Hua University.)

### Chart 1: External Exposures, Claims and Reserves of Selected Economies

<table>
<thead>
<tr>
<th>Gross External Debt Exposure (USD billion)</th>
<th>Poland</th>
<th>Czech</th>
<th>Hungary</th>
<th>Lithuania</th>
<th>Latvia</th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of 2010 GDP</td>
<td>365.376</td>
<td>105.763</td>
<td>232.498</td>
<td>35.843</td>
<td>42.067</td>
<td>143.535</td>
<td>53.477</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consolidated foreign claims, Total BIS reporting banks (USD billion)</th>
<th>Poland</th>
<th>Czech</th>
<th>Hungary</th>
<th>Lithuania</th>
<th>Latvia</th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of 2010 GDP</td>
<td>77.84%</td>
<td>55.08%</td>
<td>178.27%</td>
<td>98.55%</td>
<td>175.18%</td>
<td>88.81%</td>
<td>112.11%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consolidated foreign claims, Total European Banks (USD billion)</th>
<th>Poland</th>
<th>Czech</th>
<th>Hungary</th>
<th>Lithuania</th>
<th>Latvia</th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of 2010 GDP</td>
<td>63.67%</td>
<td>111.38%</td>
<td>98.10%</td>
<td>71.34%</td>
<td>98.99%</td>
<td>72.02%</td>
<td>75.47%</td>
</tr>
</tbody>
</table>

| 2010 GDP (USD billion)                                           | 279.309| 208.028| 120.852 | 25.150    | 23.702 | 114.222 | 35.540   |

| Foreign Reserves (Euro billion)                                 | 469.401| 192.030| 130.421 | 36.370    | 24.013 | 161.629 | 47.702   |

Note: Foreign reserves as of 31st October, 2011, claims and exposures as of 30th June, 2011

Source: IMF, World Bank, Bank of International Settlements (BIS), Bloomberg
Towards Sustainable Growth: Transforming through Time with Global Trends

Wei-Chung Huang

Lucoral & Lupearl, an accessory manufacturer founded on the principles of “Person, Capital, Ability” and “Being Pragmatic”, is filled with ambitious goals in creating a world with the concept of “Charity Everyone, Everywhere… Forever”. Established in 1963 with over 40 years of history, Lucoral & Lupearl is now a multinational firm exporting to China, South-East Asia, Europe and United States. In the form of vertical integration, the firm united its supply chain process and maintained a high standard of quality on its products. The company has established a global marketing network, and is currently appointed by the Ministry of Foreign Affairs, Chinese Taipei, to be the designated coral accessories shop for welcoming foreign dignitaries. Throughout the growth of the company, Lucoral & Lupearl is consistently committed to its brand positioning strategy, which has brought not only fame, but also priceless brand value. We have had the privilege to arrange an interview with Lucoral & Lupearl’s Managing Director, Victoria Lu, who gave us a new perspective in viewing crisis management.

Turning Limited Resources to the Opportunities of a New Market

There are two kinds of corals; one is usually spotted on reefs of a coast, while another lives in deep-water area, which is usually made into jewelry, often called as “precious corals”. Because this kind of deep-sea corals cannot be nurtured artificially, Lucoral & Lupearl has always known that its very resource, the corals, will be depleted one day, which therefore, puts the business in jeopardy. Foreseeing possible supply chain disruption due to limited resources, Lucoral & Lupearl recognized that, as an accessory retailer, it does not need to limit itself to adopt only one type of resources, where a substitute, such as pearl, can also be an excellent alternative.

Pearl, in relation to coral, is also a common accessory resource used into producing accessories. More importantly, pearl can be nurtured artificially, which decreases the likelihood of supply-chain disruption, and may even facilitate new market opportunities. To avoid putting all eggs in one basket, it is suggested that firms, especially SMEs, should not limit themselves to only one solution because of risks involved and fears of the unknown. The success of Lucoral & Lupearl demonstrated the possibilities and opportunities firms may achieve through expansion with diversification, and SMEs should confront the fears and take reasonable risks to create more opportunities.

Key Marketing Strategy – Brand Communication and Value-Adding Strategies
Value-adding has been one of the core concepts in successful marketing strategy. In maintaining the growth of a firm, striving to obtain a list of buyers may not be the best option to maintain a firm’s profitability in future, but value creation could be. In the case of Lucoral & Lupearl, as mention previously, the management has decided to seek alternative by entering the pearl market; however, pearls are common accessories to be seen almost everywhere.

If Lucoral & Lupearl thought that obtaining a buyer list is capable of creating positive outcomes, it is likely that you will not see the first lady of United States, Michelle Obama, wearing the necklace of Lucoral & Lupearl in open public. To deliver its brand value successfully, Lucoral & Lupearl adopted celebrity marketing strategy to promote its pearl products. One of the best advertising and value adding strategies that Lucoral & Lupearl take is to let customers see the first lady of United States wearing Lucoral & Lupearl’s pearl necklace. With celebrities wearing Lucoral & Lupearl related products, the value of the brand can be enhanced and delivered to customers.

As Managing Director Lu indicated, many businesses, though had good start, spent heavily on the advertisement of brands in competing for a higher market share but with limited efforts to add value on its brands. Heavy advertising may seem reasonable for many SMEs if they seek for higher product exposure. However, this could be risky and costly, causing financial difficulties and even value decreases if in an inappropriate way. For SMEs, one of the best propaganda way could be the communication with customers in delivering the value of a firm or brand.

**Internationalization and Management Localization**

There may come a time that a firm considers to merge, consolidate, take over, or to start a local/oversea branch. Under such circumstances, SMEs are easily troubled by when and how they should manage this matter. In the interview with Lucoral & Lupearl’s Managing Director, Victoria Lu, she believed that the key for SME to success is early internationalization, which however does not need a firm to actually establish a branch or consolidate with another firm in the early stage.

As Managing Director Lu stated, what SMEs could do to realize the concept of internationalization is to develop marketing networks by attending sales related activities in the foreign regions that could possibly be the ideal branch location. Through exchanging and trading in these regions, a firm then can truly understand their needs for internationalization, and how it can be achieved.

**Establishing a Branch by Extending Its Reach with Diversification and Localization**

In order to diversify and extend its reach to different industries, Lucoral & Lupearl is currently cooperating with the government by holding an Operation-Transfer (OT) plan\(^1\) at hand of an aquarium in Penghu, a small island located at the south of Chinese Taipei. Managing Director Lu shared her experiences on managing a plant located in such area with a different culture. She identified that Lucoral & Lupearl has to localize its management style to follow the peak-season and off-season within the area.

Since Penghu is more of a tourist attraction than a residential island, people usually visit the island during the holiday season or summer. As a result, Lu has negotiated with her employees to take less day off during summer (peak season), but more during winter (off-season). On the other hand, as Lu indicated, localization efforts are not only made on the internal management but also on the external links with local community as well as some external factors that could affect the operation of the aquarium, such as logistics. For instance, Lucoral & Lupearl adjusted to the local culture by improving local logistic infrastructure to facilitate growth, and therefore, benefited the local community indirectly. Localization and cultural adjustments are beneficial for those SMEs with branches. By successfully coping with the cultural differences in the area, SMEs can manage their business more effectively.

**Strategic Thinking to Grasp New Opportunities**

From the interview with Lucoral & Lupearl Managing Director, Victoria Lu, several strategic concepts were introduced in this article with the

\(^1\) An OT plan is one that government transfers its operational ownership to a local business.
attempt to benefit APEC SMEs. To start from scratch to success, SMEs will have to think strategically and internationally. Management should be built on the base of innovation, where crisis management can transform potential risks into opportunities. As the experience shared by Lucoral & Lupearl, SMEs can apply similar strategies and concepts to seek their way out of potential crises, and even to transform crises into business opportunities.

CALL FOR PAPERS

“APEC SME Economic Crisis Monitor” is calling for papers for this Column—CM Best Practice. We welcome SMEs and related associations to submit their successful experience in overcoming economic crises. All submitted papers must be at least 1,000 words, but no more than 1,200 words and should be mailed to apecscmc@tier.org.tw. All papers should be in English, and be sure to include author’s name and contact information. Remuneration will be provided once your paper is accepted for publication.
I. Introduction

The 33rd APEC Small and Medium Enterprises Working Group Meeting was held from 15th to 16th 2011 in Bangkok, Thailand. Before this semi-annual meeting, APEC SME Workshop on Innovation, Entrepreneurship and Cloud Computing was held on 13th December in Bangkok, Thailand, co-organized by Chinese Taipei and USA, which has made a great success and attracted many SME stakeholders to attend. In the 33rd APEC SME Working Group (SMEWG) Meeting, attention has been drawn to the fruitful achievements on addressing SME trade barriers, the crisis management issues on both economic and natural disasters, and the future direction of SMEWG. In responding this, SCMC reported to the SMEWG meeting about its measures of responding to recent potential risks and crises as well as its latest project proposal to improve APEC SME disaster resilience in facilitating trade and investment.

II. APEC SME Workshop on Innovation, Entrepreneurship and Cloud Computing

APEC SME Workshop on Innovation, Entrepreneurship and Cloud Computing has invited honorable speakers and guests including Mr. Craig Allen, Deputy Assistant Secretary for Asia of the International Trade Administration from the US Department of Commerce, Mr. Alison Dack, Vice President of Information Technology and Chief Information Officer for the Asia Pacific region from Federal Express Corporation, Mr. Johan Segergren, Country Manager for Google Enterprise in Thailand, Vietnam, Philippines, and Sweden, representatives from Thailand-Chinese Taipei Business Association, US-Thailand Council, APEC member economies and Thai SMEs.

This workshop is to benefit APEC SMEs by helping them to learn and apply cloud computing technology to business operation and management. As combining virtual cloud computing technology and physical logistic flows, cloud computing is one of the most cost-efficient tools that could effectively improve the logistics structure, transportation quality and security. It is believed that enterprises, by adopting new technology and managerial techniques, can take great advantage on enhancing the flows of information between departments, suppliers and customers.

In this workshop, global experts have not only shared experience about the development of cloud computing applications, which facilitate business growth and value-adding activities, but they also shared best practice cases of increasing efficiencies on managing inventories and distribution system through applying cloud computing technologies. In fact, this workshop also has drawn a special section with panel discussions with speakers and four experts from Thailand, Malaysia, USA and Chinese Taipei, discussing about the use of cloud computing and business opportunities.
III. The 33rd APEC SMEWG Meeting

With the aim to seek ways to build up a seamless regional economy by strengthening regional economic integration, expanding trade, promoting green growth and to encourage cooperation regulatory in the APEC region, the 33rd SMEWG meeting took place on 15th~16th December 2011, chaired by Dr. Robert Lai, Director General, Small and Medium Enterprise Administration, Ministry of Economic Affairs, Chinese Taipei. (For further information and related documents of 33rd SMEWG Meeting, you are also free to visit: http://www.apecscmc.org/, which has the latest updates.)

In the meeting agenda, an item “SME Crisis Management including Economic and Natural Disasters” was taken root. In this section, both Thailand and Chinese Taipei registered to present special issues of crisis management, emphasizing on the measures in assisting SMEs to overcome the impact of natural catastrophes and economic crises. Undoubtedly, most major natural disasters have severe economic impacts that can lead to negative consequences on economic growth and development.

Thai SMEs Sailing Through 2011 Great Flood Crisis: Helping Hands and Obstacles

During this section, Thailand has reported the impacts of the flooding this year on the economy and the follow-up strategies they adopt. It is noted that the growth rate projection of Thailand was cut from 4.1% to 1.5~2%. In Thailand, there were over 576,000 SMEs affected and two million jobs lost. In response, Thailand developed a package of measures in assisting SMEs, including financial measures, revitalizing measures, and new entrepreneur creation, which are established to assist SMEs to recover in a short period of time.

The Alarm Bell of SMEs-APEC SCMC

The monthly released crisis monitor, updated by SCMC based in Chinese Taipei, provides warnings and response measures of a wide range of issues including European debt crisis, inflation, currency risks, weak recovery, natural disaster, and political risks with the aim to assist APEC SMEs. Additionally, in 2011, SCMC also sponsored Indonesia and Mexico to hold crisis workshops.

In this session, not only the US made some suggestions on disaster crisis management on a review of the process by which relief packages are delivered to the affected individuals, Thailand also echoed the need to form Business Continuity Plans. They have shown their supports on Chinese Taipei’s multi-year project about disaster resiliency, and encouraged member economies to work with Chinese Taipei to help APEC SMEs to form a Business Continuity Plan and Policy Framework Model.

Doubtlessly, all representatives among APEC economies agreed that economic crises and natural disasters will continue to affect economic conditions in many ways. They also hope that each economy must enhance early-warning systems and formulate policies that are effective and integrated policies for SMEs to be well-prepared.
Global Equity Market’s Rally on G6 and China’s Coordinated Moves to Stem European Debt Crisis

The US Federal Reserves, the European Central Bank, and the Bank of Canada, UK, Japan and Switzerland agreed to cut the existing temporary dollar swap lines by 50 basis points (henceforth, bps) to 0.5%, effective on 5th December. Meanwhile, the six central banks pledged to set up temporary bilateral swap lines to beef up the liquidity in the market.

The pricing mechanism, extended until 1st February, 2013, is poised to prevent lack of liquidity, to mitigate the effect on the household and business, and thus to stimulate growth. However, the six central banks rebuffed the idea to set up non-US dollar credit lines, as setting up a new credit swap arrangement needs thorough deliberation and should be regarded as the last resort. Although the unprecedented moves from the central banks lifted the global equity markets, many analysts hold a conservative view on this development, since the move to lower the borrowing cost for European banks can only buy more time for Europe instead of providing an ultimate solution to the deepening regional debt crisis.

Nevertheless, some economists believe that the central banks’ cooperation is probably the only way left to prevent the debt crisis from engulfing the entire Europe and also expect that the development will push forward greater fiscal unity in the euro zone and prompt ECB to buy more bonds. At present, the market spotlight turns to whether EU leaders can reach a concrete agreement at the upcoming EU summit on 9th December.

On 30th November, the People’s Bank of China (PBoC) announced a 50 bps reduction in its RRRs for deposit-taking financial institutions, signaling that China’s government has started to loosen its monetary policies. Also, the PBoC’s rate-cut move marked the first rate reduction in three years. The new RRRs will average 21% for large banks and 17.5% for small bank. Based on China’s deposit of RMB 79.21tn as of October, the rate adjustment will pump RMB 396 million into the market.

Economists hold mixed views on whether PBoC’s rate-cut action means that the Chinese government has turned to ease monetary policies in a bid to shore up the economy against the wobbling global growth. Tao Dong, one well-known Chinese economist, believe that the PBoC’s rate-cut move can only be considered as part of a micro-adjustment pattern to the government’s monetary policy, since China’s broad M2 money supply and interest rate stand at the same level seen in 2008 Financial Crisis, while the bank’s reserve ratio is relatively high. Tao Dong predicted further reduction of 100-150 bps in China’s RRRs and minor changes to Chinese government’s economic policy. However, it is considered that China’s rate-cut decision added to the pessimism of the economic outlook, which prompts Asian emerging economies may slip into prolonged economic stagnation.

China Housing Prices Fall for Third Consecutive Months, PBoC Lowers Reserve Ratio Rates (RRR) in early December

Figures from the China Index Academy showed that November housing prices in 100 cities declined for the third consecutive months. Housing prices in ten major cities also showed signs of retreat. The survey indicated that the Chinese government’s property cooling measures had greater impact on the housing markets in the first-
and second-tier cities. On a regional basis, housing prices in suburbs saw further declines. At the same time, the People’s Bank of China lowered RRRs for agricultural banks by 50 bps to 16%, a sign of further loosening monetary policies.

On 30th November, People’s Bank of China (PBoC) announced 50 bps reduction in RRRs, marking an end to the Chinese government’s rate-hike moves for these two years. The new RRRs will average 21% for large banks from 21.5% and 17.5% for small and medium-sized banks. The market speculated that PBoC’s rate-cut move may point to different economic policies going forward and the possibility of further reductions by the end of this year still stands.

China’s recent forex trends and skyrocketing asset prices showed a slowdown in the hot money inflows to China, prompting policy makers to take on loosening monetary policies. In the past, the market believed that the Chinese government would institute corresponding measures to tackle massive capital injection to the Chinese market amid stronger RMB, rising housing prices and high interest rates.

After the rate cut, commercial banks can benefit from lower deposit positions. Moreover, easy monetary policies reduced the risk to the stability of the sovereign debt market for surplus economies like China. In other words, easy monetary policies will give policy makers more room to stimulate the economic growth.

Nevertheless, long-expected easy monetary policies unfortunately will post some threats to China’s economy and its equity market. China’s financial system has several imminent problems, such as increasing exposures to non-performing loans (NPLs). In addition, Chinese policy makers have not set up clear inflation targets. Although China’s CPI growth has shown signs of relief in recent months, the inflation still stands at a high level of 5.5% with food prices posting the biggest jump of over 12%.

However, Chinese government’s easy money policy will stimulate China’s equity market performance in the short term, but analysts also indicated that it is necessary to seek for more evidence to identify the directions in which Chinese economic policies go instead of focusing on the government’s temporary measures to lift the market.

US Thanksgiving Sales Surges to a Record; Black Friday Sales Post Upbeat Results

US’ retail sales over Thanksgiving weekend reached an all-time high amid wobbling global economic growth and high employment rates. Figures from US National Retail Federation (NRF) suggested that US retailers saw their sales surged 16% YoY (year over year) to USD 52.4 billion over Thanksgiving weekend, while the so-called Black Friday sales following Thanksgiving climbed 6.6% YoY. Specifically, the online retail sales, the biggest winner, spiked 24.3%. Those upbeat Thanksgiving sales definitely raised some hopes amid US’ slumping consumer sentiment.

According to NRF, some retailers, such as Wal-Mart Stores Inc. (NYSE: WMT), Toys R Us and Target Corp. (NYSE: TGT), not only extended their business hours but also offered products at incredibly low prices. The store traffic during non-peak times reached 226 million people. The average spending per customer during the holiday season arrived at around USD 398.62, higher than last year’s USD 365.34. In terms of consumer clusters, men and young population took up the bulk of total store traffic. Nearly 25% people went for shipping after the mid-night, higher than last year’s 9.5%. Analyst Marchal Cohen said that the trend of mid-night shopping is getting ahead and he expected more retailers to follow suit next year.

Reports from ShopperTrak, a leading consumer marketing research institution, also showed similar facts that the so-called Cyber Monday Sales this year surged 39.3%, boosted by retailers’ aggressive promotions. Ellen Davis, a spokesman for National Retail Federation, indicated that whether the winning streaks during Thanksgiving holiday can extend to the upcoming Christmas is still a wild card.

Founder of ShopperTrak indicated that the actual retail sales topped the agency’s forecast amid weakening economic growth, adding to the evidence that people started to show signs of relief toward the unstable job market. He also said that the agency hasn’t figured out the statistics of how many non-discounted goods have been sold since some retailers adopted more aggressive low-
pricing strategies and promotions. He suggested that investors not be too optimistic about the Thanksgiving sales performance this year as a total of four high seasons out of five have yet come.

In sum, US National Retail Federation project a moderate 2.8% rise in the year-end sales this year, sending the total sales for November-December to reach USD 465.6 billion.
In the Industrial Age, corporates generally took the view that “Human beings are superior to the Earth’s” and held the philosophy that “Making profit is the major purpose for a corporation’s existence”. This, however, has gradually led human beings to step into termination. With the climate change, over-consumption of natural resource, and uneven distribution of wealth, business models adopted in the Industrial Age no longer create high growth for enterprises but further leads to irreversible consequence.

Peter Senge, known as an important figure in organizational development and the author of “The Fifth Discipline”, has written “The Necessary Revolution: How Individuals and Organizations Are Working Together to Create a Sustainable World” with his co-authors and attempted to help enterprises to face imminent environmental crises and social issues.

This book aims to help enterprises not only consider short-term performance but also ensure corporate sustainable development in the meanwhile, assisting them to establish a sustainable growth pattern through some key strategies and management tools. By changing the organizational thinking and strategic directions, this book has also listed numerous famous enterprises, such as Costco, Nike, BP, and countless others, which all successfully keep balance between environmental protection and profit making. It leads readers to reconsider the current operation model of enterprises, the role that human beings should play in the world, and the real value of the existence of enterprises and human beings.

Enterprises can gain benefits by rethinking their guiding principles and adjusting the strategic plans. Imagine that with enterprises’ efforts the world can be built as a place where the excess energy from one business would be used by others and where buildings create more energy than they use. In such world, environmentally sound products and processes would be more cost-effective than wasteful ones; Enterprises, as forming partnerships with environmental and social organizations, can successfully ensure its sustainable development and growth.

Basic guideline for sustainable future

In general, this book has first reviewed the overall process about how business thinking transforms from the past to the present, then it brought the readers to construct a business with a new strategic direction to sustainable growth. With a series of environmental and social crises, some enterprises begin to bring on innovative revolutions to deal with the changes and limitations of the
global market and to live in the environment with sustainable production and operation models. In fact, the authors also specify three guiding ideas for enterprises to create sustainable future:

1. No viable path neglects future generations;
2. Institutions matter;
3. Real change must be grounded in new ways of thinking.

Creating Sustainable Value

With story-telling efforts, this book has given many examples of pioneering enterprises that follow global trends and formulate sustainable operation models. It helps readers to know how these enterprises make great efforts and how actual strategy planning tools can be utilized when they foresee potential crises in the future. In addition, this book also offers critical concepts necessary for a corporation’s sustainable development. It has suggested various strategy planning from the systemic point of view, which will be helpful for small and medium enterprises (SMEs) in realizing sustainable growth.

As exploring various aspects of sustainable development through the model built up by Hart and Milstein (2003), Senge and his co-authors also discuss strategies and drivers of different quadrants to help enterprises both respond to self and environmental needs and pursue sustainable value (model as shown in Chart 1).

Necessity and importance of cross-boundary cooperation

The authors also specify the necessity and importance of cross-boundary collaboration in the book, and they indicate that cooperative network among various organizations has gradually drive profound changes over years of efforts. For example, the World Business Council for Sustainable Development (WBCSD) represents a third of the global GDP. To create the sustainable future, it is important to convene diversity of viewpoints, listen to all, avoid advocacy, and to nurture relationships over time and above money. As this book indicated, different organizations must be connected with each other so that the revolution in a large system can be pushed forward to establish open and constructive partnership, making all willing to make commitments and strive for sustainable future.

<Chart 1> Framework of sustainable value

Sourced from “The Necessary Revolution: How Individuals and Organizations Are Working Together to Create a Sustainable World”
Important Notice:  
Temporary Suspension of SCMC Monitor

Greetings from the APEC SME Crisis Management Center (SCMC)

Thank you very much for your continuous support for the APEC SME Economic Crisis Monitor. For adjusting the project and the expert team, the monitor will temporarily suspend releasing until April 2012.

Recently, the global economy is experiencing downturn, and natural disasters have increased rapidly as a new type of threat to business. Given the fact that not only economic crisis but also natural disasters could have great impact on business activities, SCMC will undertake a reviewing process on the monitor to better addressing global issues for the SMEs in APEC region. In effect, the monitor will temporarily suspend releasing for 3 months until the center completes the reconstruction of the monitor and launches the new monitor in April 2012.

We apologize for any inconvenience this may cause, and we look forward to providing our readers a more helpful monitor in the near future.