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**APEC SME
Crisis Management Center**



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Introduction

Recently, the global economy is experiencing signs of slowing down, and natural disasters have increased sharply in nearly every decade. Small and medium enterprises (SMEs) are facing continuous natural disasters and potential impacts, such as disruptions to the global supply chains, difficulties of access to financing and rising material and transportation costs. In order to improve the resilience to natural disasters and management capabilities of SMEs, Chinese Taipei has proposed a multi-year project in assisting APEC SMEs for facilitating trade and investment in the region. Thanks to all APEC member economies' supports, this project is approved by APEC SMEWG (Small and Medium Enterprises Working Group) and aims to:

1. Enhance the awareness of SMEs and governments on natural disaster risks;
2. Share best practices and assist SMEs to implement disaster preemptive mechanisms; and
3. Identify threats and possible solutions for SMEs.

Starting from this year, APEC SME Crisis Management Center will provide its great support to this project and disseminate important information for APEC SMEs. In connection with this project, the Center has undergone some structural changes on the APEC SME Monitor (previously named as APEC SME Economic Crisis Monitor) with a new group of experts from Australia, Japan, New Zealand, Philippines, Chinese Taipei and Thailand.

Sincere Invitation from the Editorial Committee

“APEC SME Monitor” is seeking for your insightful articles for all columns. We welcome SMEs and related associations to submit your views and successful experience in encountering and overcoming challenges facing SMEs. All submitted articles are limited to 800~1,200 words and to be mailed to apecscmc@tier.org.tw. Please note that all articles should be written in English, together with the author's name, title and contact information. Remuneration will be provided once the article is accepted for publication.

For more information about the APEC SMEWG Multi-Year Project on Improving Natural Disaster Resilience of APEC SMEs to Facilitate Trade and Investment, please see the next page.

Background

SMEs are the lifeblood in APEC. SMEs account for 90% of the businesses and employ well over half of the workforce for the majority of economies in the region. SMEs are also uniquely positioned to bring communities back from devastation, where they have an existing relationship with the affected population and a vested interest in promoting a speedy and lasting recovery.

APEC region is prone to natural disasters. As shown in Australia, Japan, New Zealand, Philippines, Thailand, and the United States, natural disasters have become emerging threat undermining trade and investment of APEC region, particularly upon regional supply chains.

SMEs lack of disasters preemptive knowledge and mechanisms. As shown in report conducted by Asian Disaster Reduction Center on the 311 Earthquake in Japan, 337 companies went down in six months, and 90% out of the 337 companies went bankrupt by “Indirect loss or damage” caused by natural disasters. Improving knowledge and awareness on disasters preemptive mechanisms is therefore essential to enhance SMEs' resiliency and to strengthen reliability of supply chains in APEC region.

SME Ministers instruct member economies to enhance SMEs' resiliency to natural disasters. The 2011 SME Ministerial Statement affirmed the need to establish disaster preemptive mechanisms to ensure the continuity of business operations for SMEs in APEC region. In response to the instruction, Chinese Taipei will implement the project aiming at improving disaster resilience of SMEs by promoting disaster preemptive mechanisms.

Timeline

2012 (Phase 1): To conduct a joint study investigating the needs of SMEs in responding to natural disasters, to review current policy frameworks and to collect best practices of business continuity plans for further knowledge dissemination among APEC economies.

Activities:

- 11 July 2012: Focal Point Network Meeting and Expert Meeting
- 12 July 2012: APEC Symposium on Promoting Business Continuity Plans to Enhance SMEs' Participation in Global Production Chains

2013 (Phase II): To finalize guidelines and checklists so as to compile them into an educational guidebook, and to establish a training workshop to train the trainers specializing in facilitating SMEs to develop own disaster preemptive mechanisms.

Activities:

- August 2013: 2nd Expert Meeting
- October 2013: 1st Training Workshop

2014 (Phase III): To disseminate the outcome through: Training Workshops, project website, local community network, and collaboration with the EPWG. The project will enhance its effectiveness to increase the awareness of disaster preemptive mechanisms among member economies through establishing a high level dialogue.

Activities:

- Jun. ~ Aug. 2014: Training Workshops in 3 volunteering APEC economies
- August 2014: High Level Dialogue

I am pleased to announce that the first issue of the “APEC SME Monitor” is published. In conjunction with the APEC project on improving natural disaster resilience of APEC SMEs, our editorial committee has reformed the design and structure of the monitor with a new group of experts. I believe SMEs could benefit from these experts' insightful views and be able to deal with encountered challenges and grasp new opportunities.

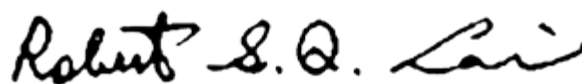
In the first section, “SME Development”, our experts point out the importance of business continuity plans (BCPs) and introduce the concept of continuity at government, business and community levels. In the “SME Challenges” section, our experts report on the impacts and challenges of Canterbury earthquake in New Zealand and Thailand flood in 2011.

In the “SME Policy” section, our expert further draws our readers' attention to the flood insurance for businesses in facing climate changes. Another issue to be noted is the changes of global production networks the changes of global production networks and global value chains in East Asia. In the “Expert Perspectives” section, the concept of “Black Swan” effects, recent disaster impacts on US supply chains and the vulnerability of Philippine enterprises to natural calamities are discussed.

As the chair of SMEWG, I would like to bring you some information about the 34th APEC SMEWG Meeting held in Brunei in the “SME News” section. Then in the “SME Events” section, the upcoming SME-related activities to be held by various APEC economies are listed for your information, including Korea, the USA, Russia, Chinese Taipei, Indonesia, and China. The center would also like to extend the most sincere invitation to all SMEs, government officials and SME-related organizations around the world to join these events.

In the “Global Trend” section, our expert analyzes the major economic trends around the world, especially on major economies' GDP performance in 2011, the future development of the global market.

As there are different major events that have great impacts on the global market, APEC SMEs should be prepared and keep paying attention to the global trends. Through the APEC SME Monitor, I hope the center could assist APEC SMEs to be aware of the recent development of disaster preemptive mechanisms and up-to-date information.



Robert Sun-Quae Lai, Ph.D.
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▶▶ Top Priorities for Emergency Preparedness, Continuity Plans for Government, Business and Community

In recent few decades, large-scale natural disasters such as floods, earthquakes, cyclones and draughts claimed not only heavy casualties and significant property losses but also interruptions of economic and business activities, government operations, logistics, communications, education system, etc., resulted in global societies and livelihoods disruption. The process and efforts of functional resumption requires both capital investment and well-defined plans to better tackle the social functional suspension. To deal with those “Interruptions”, continuity plans at government, business and community levels are the three main pillars supporting social-economic stability to boost the economic from social and livelihood recovery. If major disasters happen, the continuity plans can provide guidance to governmental officials, business entrepreneurs and community residents in terms of procedures and priorities in keeping basic functional operations. In modern and civil society, livelihood disruptions induce cascading failures can result in confidence collapse of government operations. Last March, 2011 Great East Japan Earthquakes reiterated the necessity and importance of the pre-disaster continuity plans for quick-solved the interruptions and enhance disaster resilience at all levels.

Operation Continuity Plan (OCP) at government administration level at least needs two scenarios, including low-frequency-but-high-impact disaster and defense-level disaster, to define the worst case and the defensible case. The worst one will give a gross picture of ultimate demands in desperate situations which will remind the administrators of where and how to identify the seriously affected areas and find the outside help. The defensible case is an indicator of capacity and capability as all possible situations will be brought under control of the effective, transparent and efficient administration. In OCP, through scenario-based screening of weakness points, the risk exposure and vulnerability among inter-and-intra connectivity could be reviewed by the routine procedures. In order to develop OCP, tools for risk identification and loss estimation are necessary to build up nation-level plan. The hazard maps of major natural disaster with consideration of social-economic impacts are able to provide comprehensive situations which clearly illustrate national profiles of disaster risk exposure. Both qualitative evaluations and



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Research Focus

- Disaster management
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- Disaster management
- System management
- Policy for disaster reduction and emergency response

quantitative outcomes will help to produce measures in meeting urgent demands and offer the best reference to carry out drills in response to post-disaster emergency. For keeping the OCP updated with rapid development, the mechanism of routine review is required to guarantee the transparency of disaster risk at national level.

To ensure business operation suffering the least interruptions brought natural, beside traditional countermeasures like backup system of information and data, it definitely requires business owners to think the external threats originated from natural disasters. Though globalization of business operation models bring the quality and low-price products to consumers through finding cheaper production costs, the process increases the risk and impact whenever disasters such as earthquake, cyclones or floods interrupt supply chains. In view of the whole economic activities from gathering raw materials to selling products to customers, there must be some weaker or the weakest links connecting individual business operations. Nevertheless, because of not knowing or not having the Business Continuity Plan (BCP) for disasters, the business owners sometimes decide to close the business as they have no ideas to cope with hardships after major disasters. It is especially obvious for the small and medium enterprises which are more vulnerable. As for the big or international enterprises, unless destructive damages, alternative options such as finding new suppliers, switching to another production base or choosing unaffected logistics are considered. These options are formulating barriers for SMEs to effectively resume business operation. Furthermore, the business closure at SME level casts the direct impacts on economic activities in communities that will face job loss and decrease household incomes. In order to broadly facilitate the BCP development at SMEs, the incentives, tax deduction or subsidy, offered by government will increase the willingness to start setting BCPs. At the same time, the training courses plus teaching materials will lower the entry level and give the real examples of how BCP benefits business operation.

At community level, the continuity after disaster means “maintaining living standard” , “keeping social network” , “operating shelters” or “speeding up recovery” . Each definition of continuity truly reflects the fundamental functions of community. Different from OCP and BCP, the Community Continuity Plan (CCP) has to clinch to people' s lives and require “local knowledge” to resolve the local demands. It is a kind of bottom-up policy formulation which accommodates the common interests and synergy of local residents. CCP principally is composed of action for emergency preparedness, routes for evacuation, management of shelter, storage of emergency relief materials and organization to execute plan. In regard of connecting to OCP and BCP, CCP could be laid as the bottom basis of national continuity, which assists community to live through the initial phase after major disaster hits and acquires supports to residents from government and business sectors.

OCP, BCP and CCP actually formulate the best linkage to explain why Public-Private Partnership (PPP) is essential to fulfill disaster risk reduction and upgrade emergency preparedness through the whole-society participation. Based on the concept of continuity, these three plans will mitigate the adverse impacts brought by natural disasters and pull the social and economic activities back to normal track according to the pre-disaster planning. When examining the disaster resilience at each level, the continuity plans will provide the indicators telling the current status of capacity and capability. By developing and implementing OCP, BCP and CCP, the whole society will receive benefits of better and comprehensive protection. [SCMC](#)

The Canterbury Earthquake Series: Business Impacts Overview

Between September 2010 and February 2012 (a period of 18 months) the Canterbury region of New Zealand has experienced over 10,000 earthquakes. This report is the first in a series that will describe the impact of the Canterbury earthquake on businesses. The initial report gives a high level overview of the impacts on the Canterbury economy and businesses. It is intended to provide background and context for more in-depth analyses to come in future reports.

Economic Impacts Summary

Estimates based on property damage place the combined cost of the Canterbury earthquakes at around NZD 20 billion. This amount is the equivalent to approximately 10% of New Zealand's annual Gross Domestic Product (GDP). As a comparison, the estimated cost of the 2011 Great East Japan earthquake and tsunami is around 3% to 4% of Japan's annual GDP.

While private insurers will bear a significant portion of the costs, the earthquakes have caused a notable deterioration of the Government's operating deficit over the 2010/2011 year. This effect on the national debt position is partially responsible for the downgrade of New Zealand's long-term Standard and Poor sovereign rating to "AA". However, the rebuild is expected to get firmly underway in 2012 and will drive national investment and growth in the New Zealand economy through 2015.



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Research Focus

- Ways to evaluating an organisation's resilience
- Recovery of organisations following disaster
- Post-disaster reconstruction



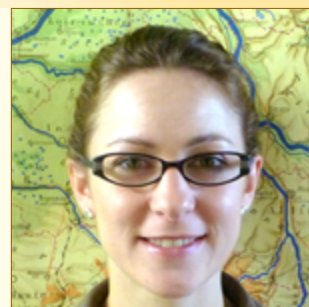
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- spatial patterns of organisational recovery
- organisational networks in recovery

Earthquake Sequence in the Canterbury Region

Date	Description
4 September 2010	The September (Darfield) earthquake struck at 4:35am on 4 September 2010. It was an Mw 7.1 earthquake, and its epicentre was located approximately 40km west of the Christchurch central business district (CBD).
26 December 2010	The seismic activity continued in the months following the September earthquake, with shocks migrating east of the city. Several areas within Christchurch were evacuated causing major disruptions for retailers on one of the busiest shopping days of the year
22 February 2011	The Christchurch CBD experienced a Mw 6.3 earthquake with ground accelerations that were among the highest ever recorded in an urban environment, more than twice the acceleration due to gravity. The February earthquake killed 185 people.
13 June 2011	Though seismic activity continued following the 22nd February earthquake, there were very few aftershocks over Mw 5.0 until June 2011. Just as progress toward recovery had commenced two moderately large earthquakes (Mw 5.6 and 6.0) on 13 June 2011, caused widespread business closure throughout the Christchurch area.
23 December 2011	In the afternoon of 23 December 2011, a Mw 5.8 earthquake struck approximately 20km east of the Christchurch CBD, followed by a cluster of aftershocks, the strongest of which was Mw 6.0.

The Christchurch Central Business District (CBD)

Prior to the September earthquake, the Christchurch CBD was the business and entertainment hub of the South Island. The area within the “four avenues” (which effectively border the central city) contained 6000 businesses and over 51,000 workers. The Christchurch CBD was cordoned off from the public for approximately one week while structural assessments were completed, effectively ceasing all economic activity in the CBD of New Zealand's second largest city.

As a combined result of the earthquakes, approximately 1300 buildings (over 60% of the commercial buildings in the Christchurch CBD) have been marked for demolition. A large number of these demolitions are occurring not because the buildings pose a significant danger, but because the buildings have been deemed uneconomic to repair.

Efforts have been made to continue to attract people to the Christchurch CBD and maintain social investment in the city centre. One such initiative is the Christchurch Re:Start, a hub of 20 retail stores housed in repurposed shipping containers. While Re:Start has been strongly supported by Canterbury residents, there is an ongoing risk of capital flight from the CBD as uncertainties persist about the timing and cost of the rebuild, insurance, and emerging issues of regulatory and demographic changes following the earthquakes.



Figures 1 & 2: Bus crushed by masonry facade & part of the Christchurch central business district cordoned as of August 2011.

Business Impacts in the CBD and Beyond

Relocation

Due to the extensive damage and demolition in Christchurch, businesses have relocated throughout the Canterbury region and New Zealand. With heightened demand on available buildings, the cost of leases and rentals for commercial accommodation greatly increased. Many organisations found they needed to sign long-term leases (terms of six or more years) in order to secure any temporary accommodation.

The Canterbury Employer's Chamber of Commerce (CECC) appointed a coordinator to identify spare commercial accommodation, and help place organisations attempting to relocate. In September 2011, the Westpac Business Hub opened and served as a temporary meeting office space for displaced businesses. The hub includes free office space (which can be reserved by the hour and up to one week) and a range of services.



Figure 3: Offices in the temporary Westpac business hub & stores in refurbished shipping containers in the Christchurch CBD, Re:Start Mall.

Staffing levels and staff wellbeing

While the majority of operational businesses in Canterbury did not experience changes in staff numbers, staff decreases were more likely than staff increases. The exception was in the Construction industry and Primary, Transport and Utilities sectors, where staff increases were much more likely. Though the rebuild has been slower to emerge than originally projected, companies in the Construction industry have made efforts to maintain or increase staff levels for the eventual reconstruction demand.

Due to the ongoing aftershocks and long-term environmental uncertainty, the Canterbury earthquake series is an exceptional example of prolonged workplace stress. Organisations in several industry sectors across Canterbury identified staff welfare as the biggest challenge facing their organisation following the disaster. After the February earthquake a large number of organisations noted they had lost staff due to voluntary relocations out of the disaster affected area.

Emergent challenges

In the second half of 2011 through 2012, the Canterbury Earthquake Recovery Authority (CERA) has asked commercial building owners to engage engineers to complete detailed engineering evaluations of their buildings so that the authority can assess which buildings in the city are earthquake prone. This has led to a new wave of sudden business closures in early 2012. Some suspect that engineers are proceeding especially conservatively after members of their profession came under scrutiny by a Royal Commission of Inquiry looking into cases by the commission for liability in the cases of major building failure in the Christchurch CBD.

The insurance landscape has been altered by the recent earthquakes in Canterbury. Several issues were identified regarding commercial insurance in Christchurch, and can be summarised as

follows: (1) sums insured were inadequate; (2) the cost of demolitions and debris removal were not factored into costs; (3) professional fees for engineers were escalated following the disaster and not adequately covered; and (4) there is ongoing uncertainty about how retrofitting and new building code costs will be applied and what the implications will be for future insurability.

Currently, almost 14 months after the February earthquake, businesses are beginning to run out of business interruption insurance coverage. Delays, caused by insurance issues, planning and seismic uncertainties, are likely to exacerbate inflationary pressures on prices for construction materials and labour once the rebuild begins in earnest.

Support available

The demand for business and employee support has been larger than anything New Zealand has dealt with in the past; approximately 40,000 employees and 9,000 sole traders have sought assistance. Following the 2011 February earthquake Recover Canterbury was formed to manage money donated to a trust fund to support businesses and to channel information and resources to distressed companies. As of June 2011 Recovery Canterbury had provided assistance to over 3,000 Canterbury businesses.

The national government implemented a financial support package for businesses following the February earthquake. This support included an Earthquake Wage Subsidy to help employers continue payment of wages while the future of the business is considered, and Earthquake Job Loss Cover to support employees whose employer believed their business was no longer viable. Additionally, the Inland Revenue Department waived fees for late filing of taxes.

Summary

The Christchurch and Canterbury economies are currently experiencing two recoveries: from the economic recession and from the earthquake events. Financial projections show that the rebuild of Canterbury following the earthquakes will drive New Zealand's economic growth for the next several years. Businesses however continue to contend with uncertainty regarding insurance, future seismicity, demographics changes, and when and where they will rebuild.

This overview of the Canterbury earthquakes and their economic and business outcomes represents the first part of a series of reports on the earthquakes and their impacts. The reports to follow will offer more detailed analyses of the impacts and outcomes of the Canterbury earthquake sequence for businesses in the region. [SCMC](#)

Thailand Floods 2011 and Future Role of SMEs in Disaster Preparedness

The recent 2011 floods in Thailand were the worst floods in five decades killing nearly 657 people affecting at least 13 million people in 65 provinces. Although the economy has been hit by floods in the past, the damages this time was much more severe causing direct damage to the industrial sector than before, as many of the industrial estates in the central region have been hit hard, with factories reportedly having to halt operation for one month in a row. The disaster with a total estimated damage and loss of USD 46.5 billion is the world's 4th costliest disaster as of 2011 surpassed only by the 2011 earthquake and tsunami in Japan, 1995 Kobe earthquake and Hurricane Katrina in 2005.

A large part of the damage during this flood stems from the effect on the manufacturing industry, with 930 factories in 32 provinces affected, including multiple industrial estates in Ayutthaya and Pathum Thani provinces. The Office of Small and Medium Enterprises Promotion (OSMEP) reported that a total of 240,000 small businesses in 32 provinces were affected of which more than 58,000 are in the manufacturing sector such as food, beverage and textile sectors. Employment had been hurt when factories flooded and workers were laid off or fired. This flood has impacted on the annual Gross Domestic Product (GDP) growth of Thailand with numerous small and medium enterprises (SMEs) influenced.

Although, the Royal Thai Government has committed to setting up a THB 25 billion fund to rehabilitate flood-affected industrial estates – plus a long-term flood prevention plan – in an effort to reassure local and foreign investors for the long term, one lesson for SMEs in Thailand is the importance of not just having a business continuity plan but also conducting regular risk assessments that cover all possible scenarios; from market risk to operational risk to economic risk. Additionally, the ongoing rebuilding effort presents an opportunity to review manufacturing processes, so as to maximize flexibility, speed of adaptation and resilience in the future.

Nobody wishes any further natural disaster affect Thailand as it did last year. However, there is a likelihood of increased risks due to changing climate-affecting Thailand. To reduce the negative impacts from future disasters to SMEs, fostering relationships between governments and companies to strengthen cooperation, funding, compliance with regulatory and safety standards are the key factors to prepare for future disasters. The next steps would be:



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Research Focus

- Water resource management
- Environment management
- Climate change adaptation issue and its linkages with disaster risk reduction

1. To raise awareness and advocacy:

Most SMEs think of disaster risk reduction (DRR) and climate change adaptation (CCA) as a moral. It is crucial to further build understanding of the impending risks and ways of engaging SMEs in the overall disaster risk reduction activities. This would also help organizations and institutions already working with the SMEs on community investment or disaster relief to expand their partnership. It is also required to increase the understanding of decision makers and the general public regarding the importance of corporate sector and SMEs involvement in DRR and CCA.

2. To set up efficient institutions for mobilizing collaborative private sector engagement:

The benefits and opportunities provided by collective or collaborative private sector initiatives need to be recognized and a dedicated institutional setup within OSMEP is crucial in this regard as it provides leaderships, focus and continuity to collaborative efforts between the public and private sector.

3. To include private sector views and expertise into DRR processes at all levels:

Business expertise and views need to be channeled into national and local disaster risk reduction frameworks and strategies as well as into regional DRR interventions such as Association of Southeast Asian Nations (ASEAN) Agreement on Disaster Management and Emergency Response (ADMER). On side of the SMEs it is needed to set up an institution to gather and distribute DRR input, e.g. in form of a SMEs advisory group. On side of the government it is required to assist the OSMEP to liaise with companies on disaster risks reduction issues.

4. To integrate business continuity plan:

The national and local DRR and CCA action plan must include the SMEs as partner than local donor. The action plans must include business continuity plans for SMES in event of disasters. On site and off site plans of SMEs need to be prepared in view of business disruption.

5. To link to the climate change adaptation agenda:

With the ongoing global debate on climate change adaptation, businesses are putting more attention on climate change adaptation and thus on climate change risks and vulnerabilities. This provides a unique opportunity to involve businesses including SMEs in DRR if a way is found to align corporate climate change adaptation efforts with broader DRR programs.

6. To leverage ongoing processes for setting up a multi-stakeholder framework:

A number of processes have started in Thailand in order to set up a legislative and institutional framework for disaster risk management based on a multi stakeholder approach. Such processes should promote public private partnerships for DRR and CCA with greater involvement of small and medium enterprises in Thailand. [SCM](#)

►► Release of the State of the Climate 2012 and Reforming Flood Insurance

There are two recent developments in Australia that are of interest in the context of coping with natural disasters and climate variability.

First, on 14 March 2012 the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and the Australian Bureau of Meteorology (BoM) jointly released an updated summary of Australia's long term climate trends, State of the Climate 2012.

State of the Climate 2012 notes the continuation of a long-term warming trend, with each decade having been warmer than the previous decade since the 1950s. This trend is consistent with global-scale warming that has been measured during recent decades. This is despite 2010 and 2011 being the coolest years recorded in Australia since 2001.

Australia also experienced increased spring and summer monsoonal rainfall across the northern part of the economy during recent decades, and decreased late autumn and winter rainfall across southern parts. The very strong La Niña event in 2010 followed by another in 2011 brought the highest two-year Australian-average rainfall total on record, according to the State of the Climate 2012.

State of the Climate 2012 also notes that the sea-level rise around Australia since 1993 is greater than, or equal to, the global average. Furthermore, sea-surface temperatures around Australia have increased faster than the global average. In 2011 the concentrations of long-lived greenhouse gases in the atmosphere reached a new high. Between 2009 and 2010 annual growth in global fossil-fuel CO₂ emissions was 5.9%, reversing a small decline of 1.2% recorded between 2008 and 2009 during the global financial crisis, according to the State of the Climate 2012.

In relation to future changes, the State of the Climate 2012 highlights several points. First, for Australia as a whole, an increase in the number of dry days is expected. However, it is also likely that rainfall will be heavier during wet periods. Second, it is also likely that on average there will be fewer tropical cyclones in the Australian region. But the proportion of intense cyclones is expected to increase.

The second recent development relevant to coping with natural disasters and climate variability



Don Gunasekera

Economist

World Meteorological Organization (WMO) Expert Advisory Group on Climate Services for Disaster Risk Financing

Research Focus

- Food security and distribution gaps
- Economic impacts of pandemics and spread of infectious diseases
- Socio-economic and health impacts of air pollution, prospects for renewable energy use, climate change mitigation adaptation analysis
- Economic value of climate and weather information

is the release of the final report of the Natural Disaster Insurance Review (NDIR) commissioned by the Australian Government in November 2011.

The Natural Disaster Insurance Review was announced in March 2011 by the Assistant Treasurer of the Australian Federal Government following the floods and other extreme weather events during the summers of 2010 and 2011. The NDIR made a range of recommendations relating to issues such as flood risk management, insurers' claims handling and dispute resolution processes and the provision of flood insurance.

In relation to small businesses, the NDIR report pointed out that absence of flood cover for many insured businesses has similar consequences to the absence of flood cover for home and contents. The NDIR also noted that the recovery of small businesses after a natural disaster, whether flood or otherwise, is critical to the recovery of the local economy and therefore the local community.

According to the NDIR report, the Review Panel would have preferred to see flood cover offered as standard to small business with no opt-out as with homes. The Review Panel however accepts that at present such a position could not reasonably be imposed, especially as it is not proposing to see discounts introduced for affordability purposes for small business or access by insurers to the reinsurance facility for small business flood insurance.

Yet, the NDIR report pointed out that there is still an important need for flood insurance to be made more widely available to small business and for some steps to be taken to encourage and promote a greater take-up of flood cover. In this regard, the NDIR report recommended that “all insurers offering small business insurance be obliged to include flood cover on an opt-out basis, instead of opt in/opt-out as at present, in all of their small business package policies” .

According to the NDIR report, the Review Panel believes that the questions of flood cover as standard in small business policies and access to discounted premiums for small business policyholders should be revisited once the recommended arrangements for homes, home units and contents are in place. [SCMC](#)

※To find out more information about State of the Climate 2012 and the final report of the Natural Disaster Insurance Review (NDIR), please visit:

<http://www.csiro.au/Outcomes/Climate/Understanding/State-of-the-Climite-2012.aspx>

<http://www.ndir.gov.au/content/Content.aspx?doc=report.htm>

A Shift in Global Production Networks and the Development of SMEs in East Asia

The economic development during recent decades in East Asia is closely related to manufacturing globalization, which is fueled especially by overseas production of multinational corporations and outsourcing. The globalization helps manufacturing industry to form global production networks and global value chains, enabling division of labor and integration between manufacturing details led by Europe and the US, such as value chain, production, Research & Development (R&D), and software design, to be in consistent with circumstances in different economies and regions. It is crucially fundamental to past development of SMEs in East Asia and gives East Asian economies access to truly be part of world economy.

Nevertheless, global production networks and global value chains are under changes. Besides, two major trends, shift in development model in China and reindustrialization in Europe and in the US, will make far-reaching changes to current manufacturing industry, therefore bringing challenges to development of SMEs in East Asia.

On the one hand, progressing privately held enterprises in China are trying positively to enter global production networks. In addition, as domestic demand gains its momentum in China, localization of some industrial value chains is leveling up. In the meantime, because China expands emerging industries according to global tunes and allows high vertical integration of state-owned enterprises to lead the industry, it is very likely that China is going to play an important role in changing forms and opportunities of SMEs' participation in global production networks.

On the other hand, Europe and the US launched “reindustrialization” policies one after another and set their main targets in reversing overseas production and outsourcing. For example, in March 2010, the US announced several policies for reindustrialization, such as National Export Initiative, American Recovery and Reinvestment Act (ARRA), United States Manufacturing Enhancement Act of 2010, and Strategic Manufacturing & Job Repatriation Act. As for the European Union (EU), France actively helped companies to reindustrialize and funded SMEs; UK promoted policies such as The Plan for Growth and Growth Review Framework for Advanced Manufacturing; Spain passed Reindustrialization Program. Furthermore, Advanced Manufacturing Partnership (AMP) announced by the US pointed out that production skills are closely tied to innovation. Therefore, after companies outsourced their production, their R&D can hardly stay alone in domestic market so that these companies will eventually outsource R&D as well, thus reducing innovation in domestic industry.

Therefore, after the latest global financial crisis, SMEs in East Asia need to face up to and react effectively to structure changes of global production networks in the future. [SCM](#)



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Research Focus

- Industrial economics
- High-tech Industry
- Information technology economics

▶▶ The Vulnerability of Philippine MSMEs to Natural Calamities

The importance of micro, small and medium enterprises (MSMEs) in the Philippines cannot be overemphasized. Similar to many Asian economies, these establishments serve as the backbone and engine of economic growth in the Philippines. Aside from employing 65% to 70% of the labor force, 32% of the economy's economic growth comes from them. Also, it has been estimated that 60% of all exporters in the economy belong to the MSME category and they account for 25% of the economy's total exports revenue.

Owing to their increasing role in the economy, the advancement of MSMEs remains a primary concern of the Philippines government. The existing policies support the pursuit of a liberalized and market-oriented economy where the private sector can play a major role as the government provides the enabling environment for an efficient functioning of the market. While marketing development programs had been designed to increase the exposure of SME products in domestic and foreign markets, formal lending institutions are required to set aside a certain portion of their loan portfolio for small enterprise credit. Also, direct programs and assistance to qualified enterprises are available that include, among others, trade fairs, mini SME trade houses, buyer-supplier matching, trade-line, and buying and selling missions. Moreover, the product development program provides the existing and potential entrepreneurs the services necessary to build a competitive edge in both domestic and export markets. It broadens awareness and understanding of product development and its process, and how MSMEs can use it to their advantage.

However, experience has shown that natural disasters more often than not, derail the expansionary momentum of MSMEs and other players in the supply chain. These disasters had occasionally mired the government's efforts to promote entrepreneurship and reduce poverty incidence in the economy. For instance, the estimated damage and losses in 2009 from Ondoy (International name: Ketsana), the most devastating typhoon to hit Manila since 1970, and Pepeng (International name: Parma), the longest staying tropical storm to hit the Philippines, amounted to a total of PHP 207.9 billion (USD 4.423 billion). The Post-Disaster Needs Assessment (PDNA) disclosed that the damage to physical assets in the affected areas amounted to PHP 68.2 billion (USD 1.452 billion) while all associated losses in production and other commodity flows in the economy



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were estimated at nearly PHP 137.8 billion (USD 2.931 billion). The enterprise sector which is composed of industry, commerce, and tourism sustained the high value of disaster effects, with PHP 22.4 billion (USD 447.6 million) in impairments and PHP 88.9 billion (USD 1.89 billion) in losses of sales. The impacts were felt most by micro to medium size enterprises. The stocking up of goods by traders to meet the anticipated high demand during the end-of-year sales did not turn out to be beneficial for them. These as-yet-unsold inventories were either damaged or totally destroyed by floods. After typhoons Ondoy and Pepeng, the government of Japan has given the Philippines a PHP 1.7-billion grant to improve the economy's weather monitoring and information dissemination system.

According to the World Bank (2005), the natural disasters cost the Philippines government an average of PHP 15 billion per year in direct damages, or more than 0.5% of the national GDP. This is on top of the unvalued indirect and secondary impacts to the economy. It should be reiterated that the Philippines, by virtue of its geographic location, is highly prone to natural disasters. In the 2009 Mortality Risk Index of the United Nations International Strategy for Disaster Reduction, the economy ranks 12th among the 200 economies that is most at-risk for tropical cyclones, floods, earthquakes, and landslides.

In particular, the natural disasters directly and indirectly affect the business performance in different ways. The interruption of access to raw materials from the agricultural sector, destruction of assets necessary for production and trading, loss of income from sales and consequent decline in working capital for the succeeding business cycles slow down economic activities. Making the situation worse is the inability of the affected sector, particularly the micro and small entrepreneurs, to absorb and rebound from such impact.

Ostensibly, any major disruption brought by natural calamities halts the impetus to expand business and deprives the economy of potential multiplier effects. Without the appropriate national framework for a comprehensive disaster risk management that could provide unambiguous steps of integrated risk management, specific institutional arrangements to contain natural disaster risks and damages, and active engagement and synergy among concerned entities from the national level down to the local and household levels, the contributions of MSMEs will remain below potential.

• Philippines laws for SMEs

The Republic Act No. 6977, commonly known as the Magna Carta for MSMEs, defines SME as any business activity or enterprise with total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, amounting under the following categories: micro – not more than PHP 3,000,000, small – PHP 3,000,001 to PHP 15,000,000, and medium – PHP 15,000,001 to PHP 100,000,000. As of 2009, there were 780,437 business enterprises operating in the Philippines. Of these, 99.6% (777,357) were MSMEs and the remaining 0.4% (3,080) were large enterprises. Of the total number of MSMEs, 91.4% (710,822) were micro enterprises, 8.2% (63,529) were small enterprises, and 0.4% (3,006) were considered medium enterprises. [SCMC](#)

Asian Black Swans and the United States Supply Chain Disruptions

The globalization of production, optimization of supply chains and increasing reliance on lower tier suppliers have increased systemic efficiencies in the global economy but have also increased the rapidity, scope and vulnerability of industries in the event of shocks. This is particularly true in the case of “Black Swan” disasters. Black swans, as defined by Nassim Taleb (2010) are “events that are high impact, hard to predict (HIHP) and beyond the realm of normal expectations”. The most recent examples of Black Swans were the 11 March 2011 Great East Japan Earthquake, Tsunami and Nuclear disaster (Tohoku disaster) and the large-scale flooding in Thailand, during the 2011 monsoon season (July 2011 to January 2012). Other Black Swan events in the last decade include the Indian Ocean Tsunami, Hurricane Katrina, Typhoon Nagra and the Haiti earthquake. Collectively, these events may signal the emergence of a “new normal” for disasters. This new normal will be characterized by unprecedented political, social and economic impacts occurring directly within and adjacent to the main disaster area, and subsequent “knock on” business disruption effects rippling throughout the global economy.

The direct and “knock on” business disruption effects are primary the result of supply chain interruptions and general deficiencies, in some cases a complete absence (particularly by SME' s), of adequate business continuity planning (BCP) for disasters. These “knock on” disruption effects pose particular threats to high-value manufacturing industries and to those key industries with a just-in-time business model. In the case of the United States the “knock on” effect of the Black Swans impacted a virtual “who' s Who” or top tier US corporations including Apple, Ford, Hewlett-Packard, Intel, Texas Instruments, Western Digital and Japanese owned – US based manufacturers including Canon Inc., Sony Corp. and Toyota Motor Corp.

An overarching issue in both supply chain and BCP failures was an incomplete understanding and assessment of the structure and vulnerabilities inherent in the dependency on thousands of SMEs' , in particular second and third tier suppliers, in the United States, Japan and Thailand that make up the core of corporate supply chains. Although it can be argued that Black Swans represent a special case and therefore existing supply chain evaluations and BCPs are adequate for events that are by their nature of low probability available information indicates that this is not the case overall and specifically in terms of corporation in Asia.

Three Lessons to be Learned for the US and Asian Companies

According to Masaru Watanabe, a senior official of Japan' s Ministry of Foreign Affairs (MOFA), a 2010 survey of more than 200 businesses in the APEC region, showed that (a) only 28% had established business continuity plans, (b) approximately 26% of the respondents said they had not



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drawn up such a plan, and (c) 37% said they weren't even aware of what a business continuity plan was. Although not conclusive, this survey and the known impacts of the Japanese and Thailand Black Swans strongly indicate that there remain several key “Lessons to be Learned” , for both the US and Asian companies, from the Asian Black Swans of 2011.

Plan for the Unexpected:

A Black Swan disaster is by definition a HIHP event and therefore both difficult to conceive of, plan for and often considered too costly to guard against. Nevertheless, the fact remains that such events do take place and are very often in areas of known high risk e.g. a seismic, tsunami prone, coastal zone (Fukushima Daiichi nuclear facility) or within or near a major urban area, at sea level and known for large scale flooding (Thailand Industrial Parks).

Equally important to ensuring business continuity is an understanding of the implications of the new normal for natural disasters which includes planning for “cascading” risks, such as the direct and immediate wide spread downstream impacts resulting from the loss of energy from the Fukushima Daiichi Nuclear facility or the longer term “Synergistic” risks where traditional disasters and their impacts lead to longer term impacts such as changes in policy or shifts in production operations.

- Lesson 1- Expenditure for risk assessments, preparedness and mitigation of potential impacts, couple with strong business continuity planning are a critical “first line of defense” against natural and technological disasters.

Understand the Supply Chain:

The supply chain for any major company normally consists of a number of Tier 1 (large and well known), Tier 2 (smaller and less-well known) and Tier 3 (normally very small and often highly specialized) companies. Although the Tier 1 providers are critical, and often can be held accountable in the case of supply problems, it is often the Tier 2 or Tier 3 companies that represent critical “pinch points” in the overall supply chain. In the case of the Tohoku disaster Honda's CFO Funihiko Ike noted that “when we heard the names of some small suppliers that were in trouble, we didn' t even know what kind of parts they produced “and when we tried to paint a car with a certain color, we didn' t realize it was produced only at one company in the Fukushima area” . Similarly, the maker of the Camry sedan took four months to restore production to pre-quake levels, partly because it couldn' t track down which of the estimated 1,500 factories that make up its entire supply chain needed to be replaced or helped. Toyota estimates the delay cost the Toyota City-based company about JPY 160 billion.

- Lesson 2- Major corporations need put in place a proactive “Supply Chain Manager” charged with understanding and coordinating supply chain issues and operations through “Continuity Partnerships” – based on a prioritizing the “criticality” of suppliers in terms of the organizations primary products.

Look to the future:

The recent financial impact of the Black Swans of Asia, coupled with major disasters in Australia (flooding), New Zealand (earthquake) and the US (storms) have had resulted in unprecedented losses for national economies, corporations and individuals. Particularly impacted, largely because of the major disasters in developed countries during 2011, has been major global insurers and re-insurers. As a result of high claims the disaster insurance/re-insurance community is (a) reducing its overall exposure in many high-risk areas and (b) dramatically raising premium rates; normally from 10% to as high as 35% and in high exposure areas and from 40% to 100% in particularly high-risk areas. Overall, this change in insurance/re-insurance costs may well prove to be a significant driver for companies to (a) focus on new developments in lower risk areas to ensure business continuity and (b) refocus on near-to-long term supply chain sourcing strategies that emphasize location in areas of lower risk to natural hazards.

- Lesson 3- In areas of high risk to natural disasters insurance costs for present and future operations, may be as important or more important, than costs of labor or transportation and therefore a critical decision element of supply chain and business continuity decision-making. [SCM](#)

The 34th APEC SME Working Group Meeting and Related Activities

The 34th APEC Small and Medium Enterprise Working Group (SMEWG) Meeting, chaired by Dr. Robert Sun-Quae Lai from Chinese Taipei, was held in Brunei Darussalam from the 25 to 26 April, 2012. Attending to the opening ceremony of the meeting was Puan Hajah Normah Suria Hayati binti PJDSMDU (Dr.) Haji Awang Mohd Jamil Al-Sufri, Permanent Secretary, Ministry of Industry and Primary Resources, Brunei Darussalam.

APEC recognizes SMEs are an emerging engine as well as an innovator for economic growth of the APEC region, given the fact that SMEs account for more than 90% of total business establishment in APEC economies. In this view, APEC SMEWG is committed to “Promoting SME Cooperation for the Innovative Growth in the APEC Region” which was also identified as the theme for the 19th APEC SME Ministerial Meeting that is to be held in Saint-Petersburg, Russia on 3 August 2012.



Member economies also shared 11 best practices in accordance with APEC 2012 priorities. In particular, member economies recognized that developing business continuity plan is essential to ensuring SMEs' business opportunities and promoting participation in global production chains.

The formulation of SMEWG Strategic Plan was another significant achievement of the meeting, said Dr. Robert Lai. Strategic Plan reflects evolving policy directions for SMEs and coordinates joint efforts in line with APEC priorities across member economies. SMEWG developed its first Strategic Plan for 2009~2012, and is the very first APEC fora to have Strategic Plan.

The SMEWG Strategic Plan for 2013~2016 was drafted at the meeting, where APEC economies agreed to take concrete actions individually and collectively to assist SMEs in 1) building management capability, entrepreneurship, and innovation; 2) easing the access to financing, and; 3) improving business environment, market access and internationalization.

Prior to the 34th APEC SMEWG Meeting, two related APEC events were held, namely: 1) “Workshop to Draft Voluntary Codes of Business Ethics in The Medical Device Sector” on the 23 & 24 April, and; 2) “Green APEC Initiative Workshop” on 24 April.

The 35th APEC SMEWG Meeting will be held in Saint-Petersburg from the 1 to 2 August, 2012, at the margin of the 19th APEC SME Ministerial Meeting. [SCMC](#)

SME Events

Date	Event	Proposing APEC Economies	Venue
2012			
<i>11 - 12 June</i>	APEC Start-up Conference: Start-up APEC, booting-up Economy	Korea	Seoul
<i>22 - 25 June</i>	The 7 th APEC Small and Medium Enterprises Technology Conference and Fair	China	Chengdu
<i>11 July</i>	APEC SME Workshop on Transporting Goods and Services Reliably and Cost-Efficiently	Chinese Taipei	Taipei
<i>11 - 12 July</i>	APEC Symposium on Promoting Business Continuity Plans to Enhance SMEs' Participation in Global Production Chains	Chinese Taipei	Taipei
<i>3 August</i>	The 19 th APEC Small and Medium Enterprises Ministerial Meeting	Russia	St. Petersburg
<i>30 September - 2 October</i>	Development of APEC Green Technology Network	Indonesia	
<i>August -September</i>	International Innovative Forum of Young Entrepreneurs in APEC Region	Russia	Vladivostok
<i>November</i>	Seminar on "Technology Hubs, Technology Parks and Private Public Partnership as an Instrument of Regional Economic Integration in APEC"	Russia	Vladivostok
2013			
<i>February</i>	Seminar on the Dynamics of SME: Informality and Women Entrepreneurship	Indonesia	
<i>11-13 March</i>	APEC International Conference on Green Technology SMEs Development	Indonesia	
<i>Spring</i>	APEC SME Trade Finance Conference	USA	
<i>September</i>	SME Seminar on Cross Border Trade (CBT) in APEC Region	Indonesia	Denpasar, Bali
<i>November</i>	APEC International Symposium and Workshop on Enhancing the Competitiveness of SMEs Through the Innovative Cooperative Business Model	Peru	Lima

※Do let us know if you are in charge of regional/international events for SMEs, please email us at: apecscmc@tier.org.tw

Sudden Changes in Situations of Regional Economies Around the World, 2012

Bo-Chin Chang

As the economies published their Gross Domestic Product (GDP) performance one after another in early 2012 (Figure 1), it is reflected from the figures that there are profound impacts of major events in 2011 such as the higher US debt ceiling issue, the European debt crisis, and Japan's earthquake. In this article I will scrutinize the performances of the major economies for SMEs to understand more about possible economic changes and important trends in the future.

Figure 1. Total GDP Performance of the Top 20 Largest Economies in 2011

Economy	Total GDP (USD 100 Billion)	GDP Increase (USD 100 Billion)	Nominal Growth Rate (%) (Compared to 2010)	Change in Foreign Exchange Rate against the US Dollar in 2011	Real Growth Rate (%) (Compared to 2010)	Change in Growth Rate (%) (Compared to 2010)	Estimated Target of Real Growth Rate in 2012 (%)
United States	150,944	5,689	3.90%	-	1.70%	-1.30%	1.80%
China	73,011	13,699	23.10%	4.80%	9.20%	-1.10%	8.20%
Japan	58,685	3,782	6.90%	10.00%	-0.90%	-4.80%	1.30%
Germany	35,786	2,951	9.00%	5.00%	3.00%	-0.70%	0.70%
France	27,781	2,176	8.50%	5.00%	1.70%	0.30%	-0.10%
Brazil	24,746	3,312	15.50%	5.10%	2.70%	-4.80%	3.30%
United Kingdom	24,212	1,589	7.00%	3.80%	0.80%	-0.50%	-1.3%
Italy	21,996	1,405	6.80%	5.00%	0.40%	-1.40%	-2.10%
Russia	18,496	3,627	24.40%	3.30%	4.30%	0.00%	3.20%
India	18,393	2,267	14.10%	-2.00%	7.30%	-3.80%	6.30%
Canada	17,378	1,609	10.20%	4.20%	2.50%	-0.70%	1.80%
Spain	14,941	1,003	7.20%	5.00%	0.70%	0.80%	-1.70%
Australia	14,889	2,442	19.60%	12.40%	2.20%	-0.50%	2.90%
Korea	11,638	-	-	4.40%	3.60%	-2.60%	3.20%
Mexico	11,535	1,174	11.30%	1.50%	3.90%	-1.60%	2.90%
Indonesia	8,462	1,395	19.70%	3.50%	6.50%	0.30%	5.90%
Netherland	8,401	600	7.70%	5.00%	1.20%	-0.50%	0.70%
Turkey	7,631	-	-	-10.20%	-	-	2.20%
Switzerland	6,363	1,087	20.60%	17.60%	1.90%	-0.80%	0.80%
Sweden	5,380	759	16.40%	11.00%	3.90%	-2.20%	1.70%
Taiwan	4,668	367	8.50%	7.40%	4.04%	-6.68%	3.85%

(Sourced from statistical institutions of each economy, integrated by the author.)

Note:

1. Turkey has not yet officially released its annual data.
2. The Central Bank of Korea has only released the economies GDP real growth rate, and the numbers of Korea' s and Turkey' s total GDP are estimated by the International Monetary Fund (IMF).
3. The estimated target of each economy' s real growth rate in 2012 comes from Economist Intelligence Unit (EIU) and the official forecast of each economy.

In the following part of the paper, I will divide the above 20 major economies into three economic regions: the US, Europe, and the emerging market, led by China. With this division, I will further predict the trend of vicissitudes under the fluctuating global economy.

USA

As revealed by the data recently released in March 2012, the February non-farm payrolls increased by 227,000 persons in the US, better what economists had expected. The economy's unemployment rate remained 8.3% in February, while its manufacturing Institute of Supply Management (ISM) index were higher than 50 for the consecutive month, signaling economic expansion. Overall, the US has had a relatively positive economic performance. Moreover, US Department of Commerce announced on 9 March that the economy' s trade deficit in January reached the highest point for 40 months, a fact showing that the economy' s domestic market has begun to strengthen. If the labor market can continue its good performance in the future and thus boosts customer spending, and if the corporations rebuild their inventories and replace their old equipments, the value of the economy' s imports will keep rising.

Europe

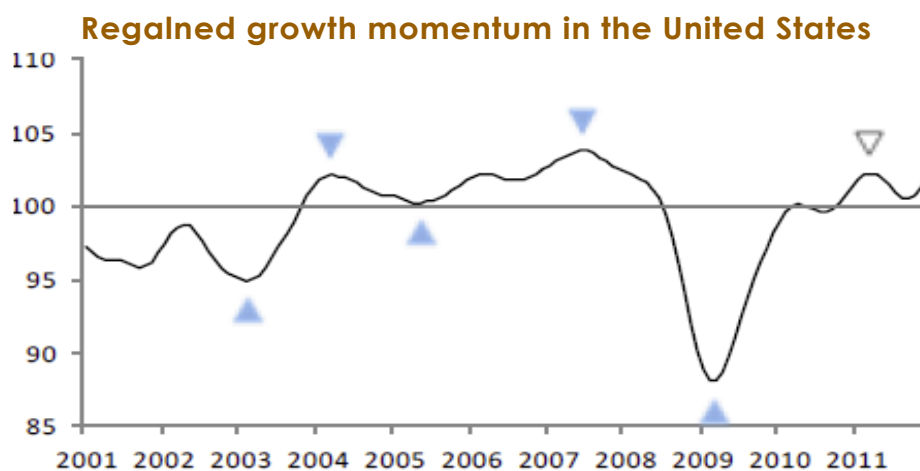
Under the impacts of European debt crisis, the economic recession of the Euro zone has become inevitable, with only Germany and France narrowly supporting overall condition. Although Germany keeps its 2011 real growth rate at 3.0%, this figure decreased by 0.7% compared to that in 2010; the economy' s expected annual economic growth rate has been revised down from 1% to 0.7%. Besides, Italy, the third largest economy in the Euro zone, had its 2011 real growth rate only at 0.4%, lower than 2010 by 1.4%; the economy' s central bank also predicts its economy to shrink 1.5% in 2012, a percentage by far higher than the 0.4% forecast by the government earlier. In other words, the recent easing of the debt crisis will not bring the European economy to an immediate resolution. Rather, it can even be asserted that, with the burden of the debt crisis, the real economic growth of Europe may very probably remain around 1% in the following years; without counting Germany, this figure may even be zero or minus. Also, the nominal GDP will probably be around the levels of 3% to 3.5%. With this kind of growth rate, most economies cannot even cover the debt interests. Consequently, there is no other way to decrease the proportion of government debt in the GDP except for constantly reducing government spending; this way, the recovery of European economy will be seriously affected; their economy will be fully behind the US since 2012, and Germany will be no exception.

Emerging Market Led by China

According to the real growth rate in 2011, in addition to the few economies that remain low or unchanged growth (such as Indonesia and Russia, which respectively grew by 0.3% or remained the same as compared with the growth rate in 2010), most economies had lower growth rate than 2010, and it is particularly obvious that the emerging economies became weak in growth. Even though China had a growth rate as high as 9.2% in 2011, it was lower than that in 2010 by 1.1%. Moreover, in February 2012, the Consumer Price Index (CPI) increase fell back to 3.2% from the 4.5% in January, and is expected to fall further to lower than 3% in the third season, reflecting the beginning of downward contraction. As to other economies, such as Brazil, India, and Mexico, their growth in 2011 also decreased respectively by 4.8%, 3.8%, and 1.6%, as compared with that in 2010.

Additionally, we can also get a glimpse of the future regional economic trends through the Composite Leading Indicator (CLI), released by OECD on 13th February as a measure of its thirty-four members' economic activities. Below are three main phenomena revealed by the CLI:

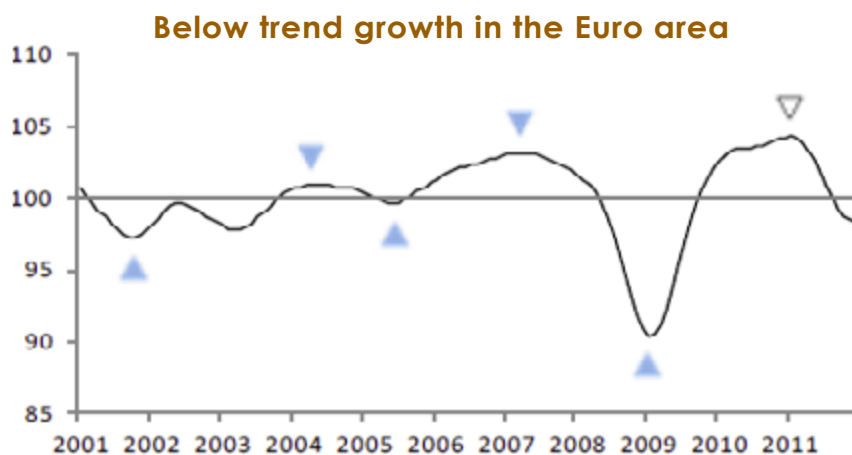
1. After the economic weakness in 2011, short-term growth momentum occurred to the developed economies around the world, mainly driven by the US and Japan. The CLI of the US rose from 101.3 to 102, an increase for successive two months. Likewise, the CLI of Japan also rose from 101.7 to 101.9, the first growth of ever since February 2011.



Source : OECD Composite leading indicators, 13 February 2012

Note: In the figure, dark triangles are the turning points that are confirmed, while white triangles refer to tentative turning points.

2. The CLI continued to point out the fact that growth has slowed down in the Euro zone, with Germany, France, Italy, UK, and the entire Euro zone all seeing their CLI fully decline. This means that economic growth in these areas will be lower than the long-term trend.

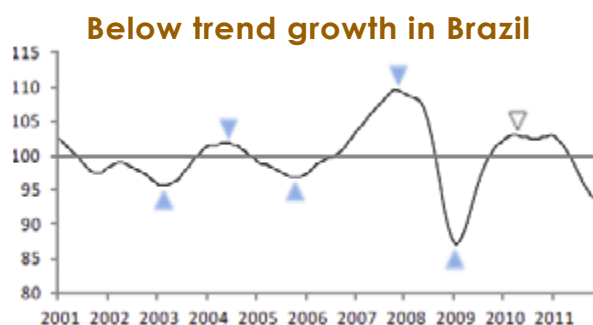
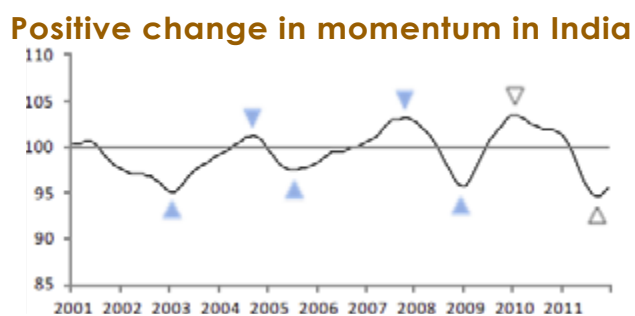
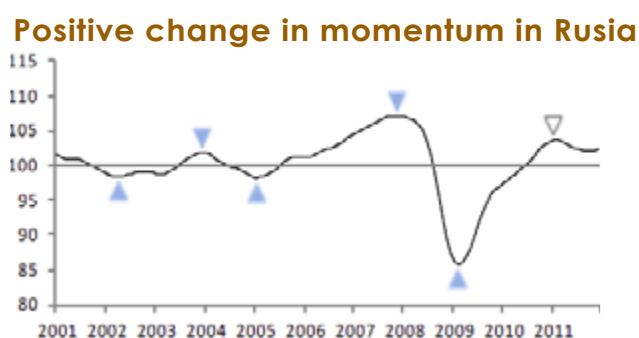


Source: : OECD Composite leading indicators, 13 February 2012

Note: In the figure, dark triangles are the turning points that are confirmed, while white triangles refer to tentative turning points.


3. As to the emerging market, in addition to Russia and India, where we see signs of possible recovery, OECD also considered that the growth in China may probably slow down, and that Brazil's growth will continue to be lower than the long-term trend.

Source: OECD Composite leading indicators, 13 February 2012



Note: In the figure, dark triangles are the turning points that are confirmed, while white triangles refer to tentative turning points.

In summary, the developed economies such as the US, Europe, and Japan showed insufficient strength for growth in 2011, whereas the emerging economies had better performances in their real growth rates. When it comes to the outlook for 2010, however, most emerging economies show a downward inclination in their growth compared to 2010, with only few of them being able to remain their growing strength or at least to keep at the same level. Moreover, the emerging economies' bright performances in their nominal GDP were also caused by the fact that the US Dollar was weak in 2011. Consequently, once the US Dollar becomes strong and funds flow back to it, the economic growth of the emerging economies will probably face a crisis again.

An economic downturn usually triggers impairment of financial institutions' asset value, thus leading to a lack of fluidity in banking system and a shortage of capital adequacy ratio. This forces the financial institutions not only to collect their loans to and investments in corporations, but also to reduce such activities. Under the squeeze of credit limits, the SMEs may probably face a breakout of financial crisis, and may even be forced to go through restructuring and liquidation. As a result, the economic decline will accelerate, leading to a vicious cycle. With the severe situation facing global economy, the issue of financing may become a major challenge for the SMEs. 

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