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The light shines on trade finance, John Danilovich finds

Matthew Ekberg on the challenges in financing global trade

Christian Kaeser writes on getting the balance right in international tax regulation

THE GLOBAL TRADE PLATFORM

SWISS WATCHES

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A new start

The new European Commission has got a hard job ahead. The financial and economic crisis has taken its toll. More than 6 million people lost their job during the crisis. Youth unemployment has reached record highs. Several of member states are still far away from sustainable growth and adequate levels of investment. In many countries, trust in the European project is at a historic low.

The eurozone as a whole has stalled to zero growth. It has no safety margin as the effect of Russian sanctions start to bite. It has no margin against a potential credit shock from China, nor against knock-on effects from Fed tightening in the US.

What makes this dire situation all the more remarkable is that the eurozone is in this mess at a time when the external economic environment is not too bad. The United States has continued to recover. The eurozone's single biggest export market, the United Kingdom, has been recovering strongly. Moreover, oil and commodity prices have been weakening, thereby putting purchasing power back into people's pockets.

But, EMU output is still 2.5% below its 2008 peak. This six-year slump is worse than Europe's performance the early 1930s by a wide margin. It is the most serious European depression seen in peacetime for 170 years.

Depressingly, many of the challenges of the past few years still remain. The breakdown in trust caused by the eurozone crisis means that banks are not lending to businesses, or to each other. This creates exactly the type of ineffective, fragmented banking market the euro was meant to fix – and, more importantly, torpedoes both jobs and growth in many places.

There are many challenges ahead – globalisation is slowing (a major factor in the growth in the eurozone), the Ukraine crisis is ongoing, there is the issue of unemployment, lack of political accountability, immigration, rapid technological advances, the growth of Asian economies, and the growth of the US economy. US output is nearly 8% above its old peak. It is growing at a sustained rate that is 2-3% faster than in the eurozone. The compound effects of this are devastating. Europe is falling off the economic map.

Europe seems to be doing it's utmost to lose its competitive edge: there is a balanced-budget fundamentalism, and we know from the 1930s that if everybody is trying to pay off debt and the government then deleverages at the same time, the result is a downward spiral, leading to generalised deflation. The OECD says that the recovery in the euro area has 'remained disappointing, notably in the largest countries: Germany, France and Italy. Confidence is again weakening, and the anaemic state of demand is reflected in the decline in inflation, which is near zero in the zone as a whole and negative in several countries.'

So again we're stuck with the same old European muddle. As the European Commission's incoming president, Jean-Claude Juncker, once said: *"We politicians know what to do, we just don't know how to get re-elected once we've done it."*

The answers are still the same: far more flexible labour markets, less state intervention, a better business environment and sustainable social security systems. The challenge will be for politicians and the European Commission to convince an increasingly sceptical public of the need for structural reform – or to find some way to press ahead without sacrificing Europe's economy. ■

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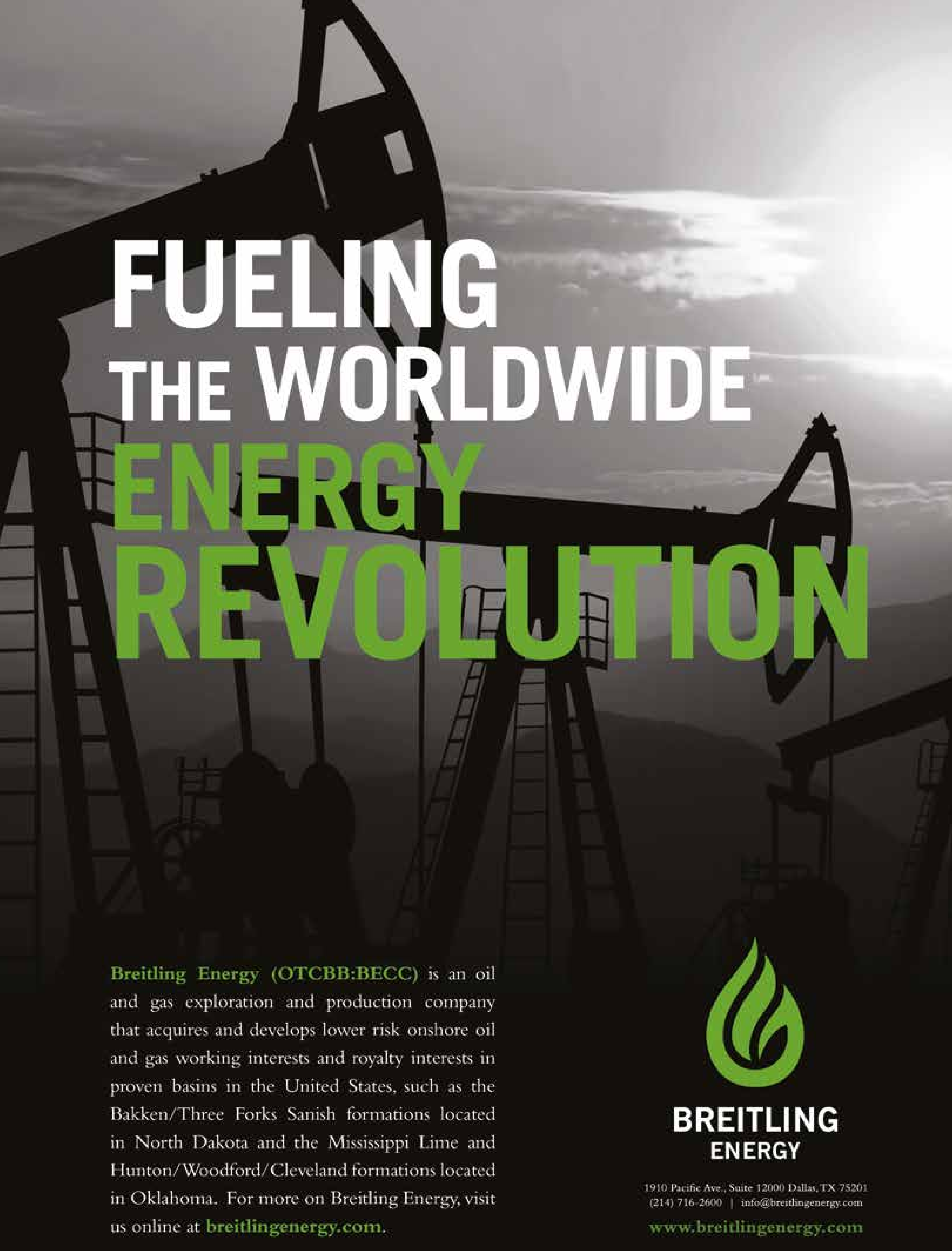
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The light shines on trade finance

John Danilovich is Secretary General of the International Chamber of Commerce

Trade finance is widely recognised as a vital instrument in the workings of a healthy global economy. Yet, as a technique, it has been under enormous pressure in recent years as banks have fought with risk-oriented constraints and been potentially fenced in by regulatory tightening.

Given this, over the past six years, the International Chamber of Commerce (ICC) Banking Commission has worked to inform the debate surrounding trade finance by offering hard data and survey-based evidence. The findings of our two most recent reports – the ICC *Global Survey 2014: Rethinking Trade and Finance*[1] (the 'Survey') and the *Trade Register Report 2014*[2] (the 'Register') – have produced some of the best evidence yet that trade finance is a technique worth supporting.

The Register – an empirical study of more than 4.5 million transactions totalling an exposure in excess of US$2.4 trillion – reveals that trade finance is a very low-risk banking discipline. Meanwhile, the Survey – involving responses from 298 participants in 127 countries – represents the widest survey ever of market practitioners, and brings attention to a shortfall in the availability of trade finance. Together, they shed light on the impact of both regulations and the continued perceived market risk on trade finance, and therefore on the potential for global economic growth.

Certainly, of the Survey's findings, the most significant was the global shortfall of availability of trade finance. Some 41% of respondents believe that additional liquidity is required to support current trade flows. To be competitive in trade, firms must have access to financial support that offers a choice of appropriate instruments to support trade and growth. And it is this access to finance that has become increasingly strained.

This is especially the case for small- and medium-sized enterprises (SMEs) and those in emerging markets. Indeed, in the developing world, access to affordable hard-currency finance is still one of the most problematic factors for companies trying to grow internationally. Certainly, such access can help boost productivity and generate sustainable jobs.

Despite the continued squeeze, growth in trade is forecast to pick up to an annualised 4.7% in 2014, against 2.1% in 2013. However, this performance is still weak compared to the pre-crisis years when trade tended to grow at close to double the pace of GDP growth – compared to around the same rate of GDP growth since the crisis, despite the more recent pick-up.

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"To be competitive in trade, firms must have access to financial support that offers a choice of appropriate instruments to support trade and growth. And it is this access to finance that has become increasingly strained"

The Survey's findings also reveal that Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations globally are having an impact – causing 68% of respondents to decline transactions, and more than a third to close down correspondent account relationships due to regulatory concerns.

Additionally, the Survey also brought to attention other potential constraints – notably the claim by 68% of respondents stating that Basel III regulations are affecting their cost of funds, as well as the overall liquidity of trade finance. Also, 87.5% of respondents stated that Basel III had impacted their operations, with nearly three quarters reporting that Basel III regulations had generated a rise in the cost of export-credit agency backed financing.

Signs of prosperity

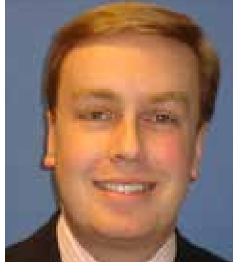
What is encouraging, however, is the emergence of new trade corridors. Although emerging market growth may be decelerating, the importance of south-south trade (ie. trade between emerging markets) has grown more significant since the crisis. Since 2010, south-south trade has accounted for over half of developing country exports, and has grown by 17% since 2001. South-south exports now represent 46% of global exports, up from 35% in 2001 with the trend expected to continue, though perhaps at a slower pace.

What's more – with the WTO agreement reached at the Ninth Ministerial Conference in Bali in December 2013 – a long-awaited breakthrough in trade facilitation appears to have been achieved, which should give a significant boost to demand for trade finance, even if supply remains problematic.

Supply, however, should be encouraged by the Register. Brought out just prior to the Survey, the Register provides robust evidence that banks and regulators have little to fear. Default rates across trade finance instruments range from 0.0332% to 0.241% – a fraction of the default rates reported by Moody's for all corporate products (which average at 1.38%), and even better than AAA corporate credit default rates.

While the Survey provides a consensus that there is a significant shortfall in trade finance supply, the Register should help convince financiers to join fray. Certainly, through data-driven analytics and powerful surveys, we hope that trade finance will enter a new age of prosperity that will consist of appropriate regulation and continued growth. ■

1. *http://www.iccwbo.org/Data/Documents/Banking/General-PDFs/ICC-Global-Trade-and-Finance-Survey-2014/*
2. *http://www.iccwbo.org/Data/Documents/Banking/General-PDFs/ICC-Trade-Register-Report-2014-SUMMARY/*



Financing global trade

Opportunities and challenges on the horizon

Matthew L Ekberg is Vice President of International Policy at BAFT

The global economy and financial system have gone through a period of upheaval, correction and reform in the last six years, creating significant issues for the provision of international trade and the financing of global commerce. The financial crisis of 2008-2009 saw the greatest decline in the trade of goods and services since the Second World War, with an estimated contraction in cross-border commerce of over 12 percent. Markets froze, transnational shipment of goods fell, and a fear of increased protectionist measures cast a pall over hopes for a swift recovery.

Trade finance, the engine of global business, also suffered markedly in this period and contributed to the decline, with banks reporting a significant drop in their ability to provide trade credit overall. In addition, significant concerns arose on the potential for unintended consequences emanating from the regulatory response to the crisis and, specifically, how that could further impact trade finance availability and affordability for importers and exporters.

The implementation by the Basel Committee on Banking Supervision (BCBS) of the Basel II bank rules, along with the expectation of enhanced Basel III prudential capital and liquidity standards, concomitant with the global recession, put additional pressure on financial institutions as global risk realignment had a dynamic effect on bank capital allocation. The Basel framework, as originally designed, disproportionately and negatively impacted trade instruments and did not take

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"Though we have travelled far from the experience of the financial crisis, more needs to be done collaboratively between the public and private sector to remove any barriers to this important real economy driver of growth"

into account the inherently safe nature of trade finance.

However, even considering all these issues for trade, a positive picture is emerging as the economic recovery continues. Though not fully back to pre-crisis levels, trade has recovered substantially and along with it, trade finance availability by commercial lenders has increased. Global trade is expected to gradually strengthen through 2015, with a projected average increase of 5.3 percent according to the World Trade Organization (WTO).

Similarly, trade finance practitioners have seen trends pointing toward increased credit availability, with the International Chamber of Commerce (ICC) reporting that the majority of respondents to their most recent trade finance survey had seen an increase in overall trade finance activity in 2013.

From a regulatory perspective, there are reasons to be optimistic as well. In key standards around capital, leverage and liquidity for internationally active banks, the BCBS has responded to the concerns of commercial lenders and their exporting clients by adjusting the rules to ensure trade finance is not adversely impacted. With regard to requirements for the implementation of a global leverage ratio alone, discrete changes in the calculation of off-balance sheet trade finance products are estimated to stave off as much as a 60 basis point pricing increase on a traditional trade finance transaction in an emerging market jurisdiction.

Nevertheless, the full picture of recovery and reform is not yet complete. Though the market outlook shows improvement, problems still exist that could inhibit a return to full trade growth across all regions. A few examples show the need for improvement in this space:

Compliance standards

Financial crime issues, including 'know your customer' and anti-money laundering due diligence requirements and combating the financing of terrorism standards, alongside economic and political sanctions, are increasingly becoming a major concern for banks who do business in international trade financing. Although the scale of the problem is un-quantified, the misuse of trade finance is indeed one of the ways money can be moved to disguise its origins and integrate it into the legitimate economy. As such, action to prevent and combat such activity responds to imperative economic and security needs and banks are doing all they can to assist regulators and law enforcement in eliminating rogue activity from the financial system.

At the same time, the heightened compliance and risk assurance requirements on banks' trade finance clients and correspondent banking relationships is contributing to pressure on trade that can particularly impact smaller banks and banks that are based in emerging economies. This has led to a rise in what is known as 'de-risking' in the global financial marketplace, whereby large international correspondent banks are exiting significant segments of business with downstream implications for the financing of cross-border deals.

The International Chamber of Commerce found that in their 2013 trade finance study, AML/KYC requirements stood out as the major inhibitor to the provision of trade finance, leading to declined transactions in 68 percent of surveyed banks. While the safety and security of the financial system, and the protection of the system from misuse and corruption, is of paramount importance, a balance between financial crime enforcement and financial inclusion should be carefully considered to avoid unintended consequences that could harm trade credit availability, particularly in emerging markets.

Net stable funding ratio

Though the majority of the Basel III banking rules have been completed by the BCBS as part of their post-crisis regulatory review, one major piece of the new liquidity framework remains outstanding. The net stable funding ratio measures the amount of longer-term, stable sources of funding employed by a financial institution relative to the liquidity profile of its assets and off-balance sheet exposures. For trade finance, this means that on-balance sheet trade loans would require a 50 percent long-term stable funding profile, as they are not differentiated from other types of commercial loans. Applying such long-term stable funding to short-term trade products would have direct consequences on the cost and availability of trade finance to the consumer.

For example, BAFT analysis has found that in a typical funded trade finance transaction (such as an export loan providing financing for the shipment of goods) the cost of the transaction could increase as much as 15 to 17 basis points and, depending on the institution, this could reflect up to a 50 percent increase on current pricing. On such a low margin business, a bank would need to make the rational decision to discontinue conducting such trade deals or continue with an increase in the cost of providing those trade financing products to customers. Such an impact would undermine the ability of companies to grow through trade and, consequently, would hamper economic growth. The net stable funding ratio is due to be finalized by the BCBS later this year and industry engagement with the regulatory community is continuing to ensure that an appropriate calibration for trade finance is considered.

Trade finance gaps and multilateral/ECA financing

Even though trade finance availability by commercial lenders has improved dramatically since the financial crisis, gaps still exist in availability that, as noted, can be caused by both balance sheet and compliance constraints at financial institutions. The ICC pointed out that 45 percent of respondents to their recent survey had perceived a shortfall in trade finance globally, with a 20.9 percent rejection rate on $1.6 billion worth of proposed trade finance transactions in 2013. A study conducted by the Asian Development Bank concluded that a 5 percent increase in access to trade finance leads to a 2 percent increase in production and 2 percent increase in jobs, so there is clearly a rational argument for improvement in areas that might inhibit trade credit.

At the same time, gaps in trade finance point to the criticality of export credit agency and multilateral development bank assistance in this space. All over the world, export credit agencies

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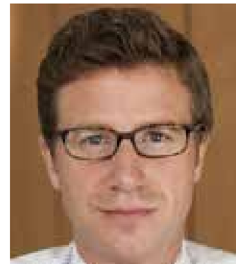
and multilateral development banks have increased both the effectiveness and efficiency of their financing programs and they remain a major driver of support to businesses and consumers wishing to sell goods abroad.

However, a peculiarity is occurring in the United States, where some members of the US Congress and their supporters are working to close down the US export credit agency known as the Export-Import Bank (Ex-Im). In an ideologically focused debate, opponents of Ex-Im are painting export credit agency financing as 'corporate welfare'. This inherently incorrect perception ignores the reality that commercial lenders work in partnership with export credit agencies and share risks on the supported transactions. As part of the drive to increase trade finance lending, export credit agency and multilateral development bank programs should be supported, not impaired or derided.

Global trade relies upon accessible financing for trade transactions. Trade finance supports $18-19 trillion in global commerce annually, leading to the creation of sustainable, high quality jobs. Though we have travelled far from the experience of the financial crisis, more needs to be done collaboratively between the public and private sector to remove any barriers to this important real economy driver of growth. Such a worthy endeavour will lead to significant benefits for society overall and will help ensure there is no return to a decline in cross-border commerce. ■



International tax regulation - getting the balance right

Christian Kaeser is Chair of the International Chamber of Commerce Commission on Taxation and Global Head of Tax at Siemens AG

No single enterprise would doubt the necessity to comply with tax regulations and pay the taxes due under applicable tax law. At the same time, no politician would question that the tax expense is – as any other expense – one factor in the equation on which investment decisions are based. It is not surprising that both sides seek to influence that equation to their benefit.

Countries wanting to attract investments will lower corporate income tax rates, implement certain beneficial regimes like patent boxes or grant other tax benefits. Other countries will seek to maximize their fiscal income by designing new taxes, limiting certain deductions and by otherwise trying to squeeze what is already in their realm.

Enterprises however will consider the tax environment in their investment decisions and try to lower the tax expense by setting up their business structures in a tax-efficient way using the various tax benefits that are offered to them by many countries. This observation is as true as it is obvious and unsurprising. So why is there a discussion about base erosion and profit shifting (BEPS) and multinational enterprises (MNEs) allegedly not paying their fair share of tax by engaging in aggressive tax planning schemes?

There is a simple answer. Most notably, it is important to realize that none of the MNEs blamed for their low effective tax rates did something illegal. They all structured their transactions according to the letter of the (tax) law. And in many cases, part of their tax planning is simply to embrace tax benefits that are willingly and openly granted by some countries. So one could argue that putting the blame on them would be lopsided. Especially when it is at best challenging to really define what the fair share of tax is or what practices constitute aggressive tax planning.

Should the taxpayer come up with this definition himself? No - tax law is public law. Public law regulates the relationship between citizens and the state. It does not matter whether you qualify that relationship as one of subordination or not; in any case public law and tax law intrude into the personal freedom of citizens obligating them to fulfil a certain public duty – paying tax. It is therefore the legislator which has to ensure that this public duty is clearly defined. Or in modern words of tax talk: to determine what the 'fair share' of tax shall be. And it is the citizen who can rely on his personal freedom rights in arranging his affairs in the most tax-efficient way under current law.

The simple answer reads well. The complicated part starts when you combine all the single local pieces to come to the global puzzle in which MNEs operate. Those pieces will simply not fit. Entities which are treated by one country as transparent will be considered non-transparent by the next, leaving ample room for efficient tax structures - transfer prices based on the 'arm's length principle' as defined by the OECD's Transfer Pricing Manual might be considered incorrect by some non-OECD countries exposing MNEs to the risk of double taxation, and so on.

It is a brave attempt of OECD's project on BEPS to try to round the edges of the puzzle pieces so that they fit better. But it is a Sisyphus-like task given the fact that tax law is and always will be in the hands of sovereign countries. And it still does not change the fact that any homo economicus would always seek to maximize his profit by using all available legal strategies and that it is the task of the legislator to define its claim on this

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"So can there be a balance? Can countries really form a fitting puzzle out of the various local legislations and avoid double-taxing business at the same time?"

profit – and not to take the simple detour of targeting MNEs as scapegoats for public failure to design an effective tax system.

When talking about the fair share of tax, there is one phenomenon that should not be forgotten: what one country might see as its fair share of tax would leave another country with a lesser piece of the cake than the latter country would consider fair. If both sides would enforce their ideas of 'fairness', the taxpayer would end up paying his taxes twice. Such a result would contradict many decades of concerted efforts to overcome double taxation fostering global growth and international trade and business – which so far has been the mandate of OECD. Unfortunately, this is a likely outcome of the current discussions around BEPS. It is this negative potential which should worry everybody; especially given the fragile state of the world economy after the financial and economic crises of the past years.

So can there be a balance? Can countries really form a fitting puzzle out of the various local legislations and avoid double-taxing business at the same time? The key for this balance would be a dispute resolution mechanism which ensures that it is neither the taxpayer who defines the 'fair share' of tax nor two or more countries all with deviating results.

A 'fair treatment' would be to have the countries to agree between themselves on their respective share of tax of an MNE and not leave the taxpayer being taxed twice. Obviously this would take the stress out of all disputes related to transfer pricing. If an uncomplicated solution is required: almost a hundred years ago when the League of Nations developed its first Model Convention to avoid Double Taxation, the International Chamber of Commerce already proposed to simply split the taxable income, leaving both disputing countries with half of it to tax, if no other settlement could be achieved. Some would call this Solomonian. Others simply pragmatic. I would say: balanced! ■

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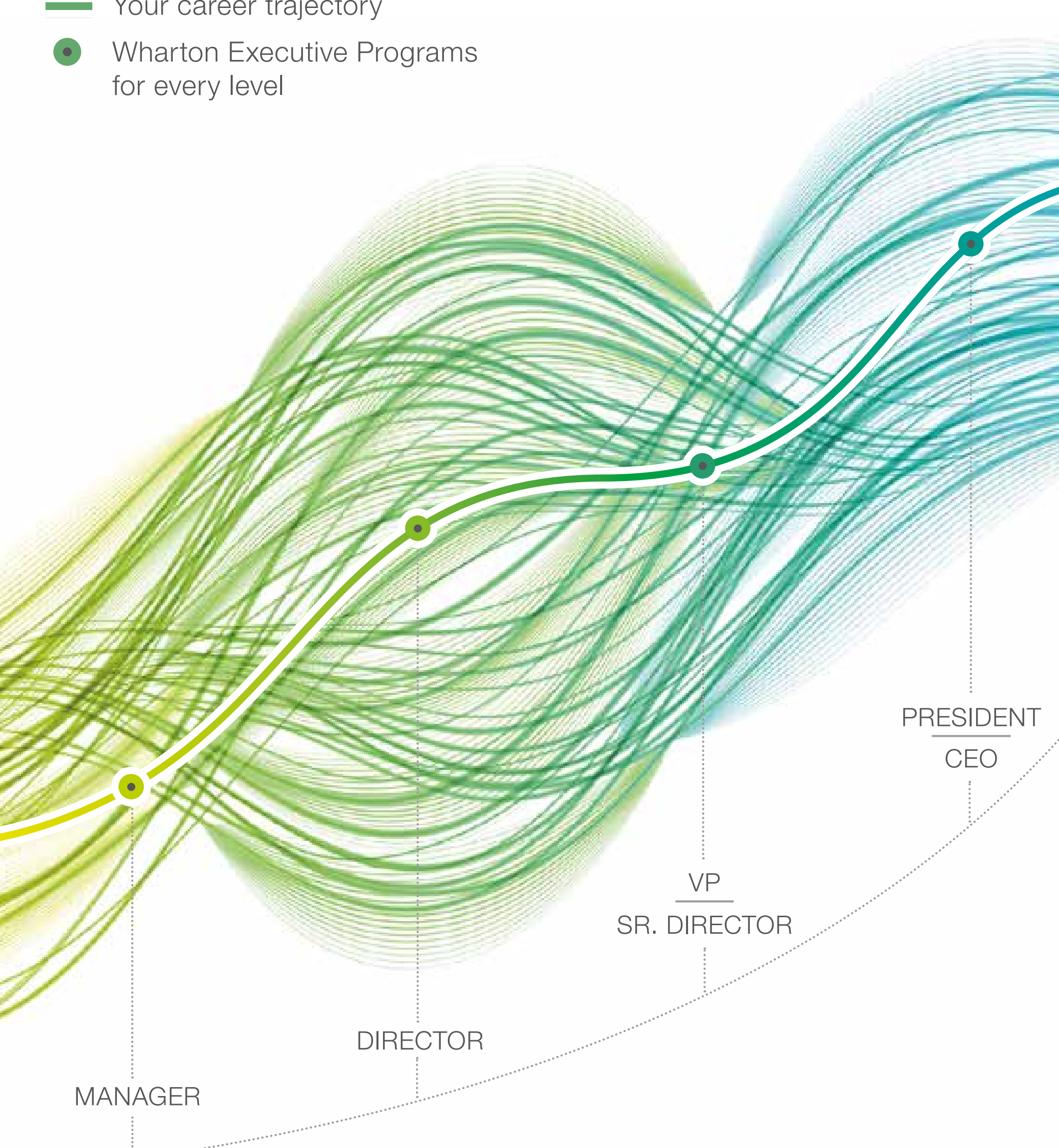

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The world is ready for a global economic governance reform. Are world leaders?

A G20 Sherpa survey by Jim O'Neill and Alessio Terzi

Bottom line: A survey of G20 practitioners reveals how, notwithstanding the post-crisis loss of momentum, the G20 is still considered a useful forum of discussions. While changes to its composition and workings would be accepted (to varying degree), major revisions in global economic governance are ruled out, bar in case of another major crisis. Our claim is that, at a time of major rebalancing in world economic weight, intransigence by the detainers of power in (what now looks like) an old global governance framework will imply a fade in relevance of the Bretton Woods institutions and G-fora, and their replacement by new avenues of coordination and discussion.

The 2008 financial crisis has markedly changed the landscape of global economic governance. Fora like the G20, which had existed since the Asian financial crisis with a limited discussion role, suddenly were elevated to 'global economic steering committee'. Since then, however, it seems as though the G20 has somewhat lost direction and momentum. As the most acute phase of the global economic crisis has passed, heads of state and government have had less need to act in unison and rather returned to focus on their national agendas. To some extent, it naturally follows that the focus both on and of the G20 has become less. However, we need effective global governance permanently, not just in crisis. And this is true for the G20, as it is for the G7/8[1] and the IMF.

In a recent paper[2], we argued that, given the fast-paced changes in global wealth creation and trade patterns, global governance will have to adapt much more significantly and quickly or else risk becoming insignificant. On top of calling for a far-reaching IMF quota reform (going beyond the pending 2010 revision), we argued that it would make sense for euro area countries to have a united global representation. This could happen in a 'revised' G7/8, hence opening up space for China and other emerging economies. If there were a more representative G7/8, it would immediately follow that the G20, close to its current membership group, could survive, although it would not be required to have such a demanding role that it is does currently. As such, a smaller, equally representative G7/8 could be more effective than the representative but cumbersome G20.

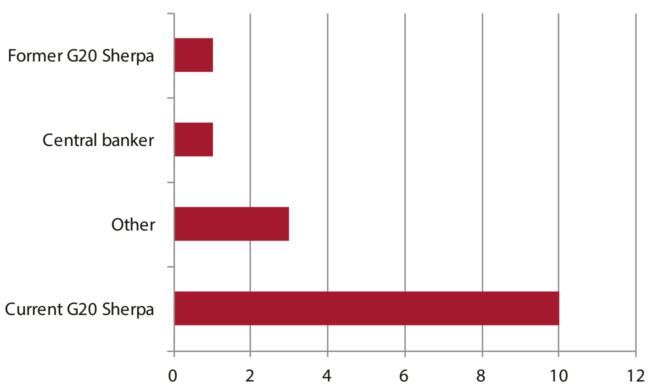
Against this background, we decided to test many of these claims with G20 practitioners, former Sherpas, and senior government officials involved with the preparation of the G20. To this purpose, we constructed and administered a survey, with the aim of sensing the degree of acceptance of the need

Table 1. List of G20 participants

Permanent members		Invited members[3]
Argentina	Italy	UN
Australia	Japan	OECD
Brazil	Mexico	World Bank
Canada	Russia	Spain[4]
China	Saudi Arabia	ILO
EU	South Africa	FSB
France	South Korea	Singapore
Germany	Turkey	Brunei
India	United Kingdom	Ethiopia
Indonesia	USA	Senegal
		Kazakhstan
		IMF
		WTO

Source: en.g20russia.ru

Figure 1 and 2. Respondents' current post (lhs) and geographical origin of employing institution (rhs)



Note: Geographical origin allowed for multiple answer.
Source: Bruegel

and feasibility of a reform of global economic governance.

The survey was administered via email or phone between the 7 May 2014 and 20 June 2014 to the Sherpas of the countries that belong to the G20 Permanent Members grouping, and to the Invited Members, for which contact details were found (see Table 1). This was complemented by a group of 9 high-level global governance experts and former G20 practitioners. Of the 34 people contacted, 23 agreed to participate in the survey. In the end, 15 questionnaires were returned completed.

The survey was conducted under full anonymity, as its purpose was not to detail specific governments' positions, but rather to build on the expertise of insiders and former practitioners in analysing the problems the current global economic governance framework faces, and verify the conditions for and likelihood of reform.

All in all, while participation was not complete, the response rate was acceptable, bearing in mind that most Sherpas are deputy foreign/finance ministers, top-ranking government officials, ambassadors, heads of cabinet, individuals that tend to be rather short of time. As detailed by Figures 1 and 2 (below), a diverse range of participants replied, both based on post-holdings and geographical origin. As such, we believe our survey to be broadly balanced in composition and to give a fair analysis of the different streams of thought within the G20.

Survey results

The first question we posed in our global governance survey was whether with 19 countries, a two-headed EU, permanent guests, countries invited on behalf of regional groupings, and international organisations, the G20 is too large a group to decide on macroeconomic and monetary issues, for which only few countries are relevant. A large majority of G20 practitioners proved to disagree with this statement. Some of the survey participants who disagreed backed their take by stating:

> *"I see no evidence the size has made discussions too unwieldy. However, I think it could be better to limit the membership to G20 members instead of also having the IOs and invited countries present."*

Others agreed completely:

> *"The group is too large and not truly reflective of what would be needed from a representation point of view to 1/ debate and find consensus around set of actions and/or 2/ decide on a set of actions. There are several difficulties with membership: too many Europeans, Argentina not relevant, Saudi Arabia a one-issue member; Africa under-represented."*

Finally, a central banker noted that:

> *"[the G20 is indeed too large a group] especially for monetary issues. It is possibly the right grouping for regulatory issues. Only group beyond G7 that is good (for monetary matters) is that of the G10 central bankers[4], which meets (informally) in Basel, and this is good, and very open. For example, in such setting the Fed communicated to everyone (including the Indians…) in advance its intention to start tapering QE."*

We then asked survey participants whether they thought the G20 to be an effective forum of deliberation on global economic issues in non-crisis times. Here the picture was a bit more mixed but still with two thirds of participants positioning themselves in the 'Yes' camp.

Notably, a survey participant stated:

> *"The definition of effectiveness should be adapted to the current global economic context. It is usually during a crisis period that countries are more incentivised to act in the interest of the 'common good' and move faster towards policy coordination. Therefore, the impact and magnitude of the measures taken by G20 are unlikely to be the same in a crisis and non-crisis period.*
>
> *Similarly, the issues that the G20 is best positioned to take on will also depend on the global economic context. In a non-crisis period, focus should be placed on medium-term agenda that can increase the trajectory of global growth on a sustainable basis, such as enhancing trade, investment and infrastructure financing. The effectiveness of a forum is not necessarily determined by the number of participants alone, but also contingent on other factors, such as how well each participant can contribute to the conversation and the ability of the Chair to steer discussions. An effective G20 in a non-crisis period would be able to coordinate meaningful solutions to*

"The world is fast changing and ready for more representative, more effective global economic governance. G7/8 leaders can drive this change, or merely face its consequences"

medium-term issues through robust debates and exploration of constructive ideas."

On top of this, it was also noted that:

"The time of diplomacy is different from that of financial markets. There is less urgency now. Macroeconomic coordination is complex and unchartered water, but things are moving."

However, a former G20 Sherpa noted how:

"[the G20] is the best forum for deliberating on global economic issues, provided the membership is adjusted; but it lacks effectiveness: it should have a greater focus on intimate discussions among leaders with less officials around. In many delegations there is a dis-function between Sherpas and finance Sherpas. Also, the agenda has grown too wide."

This statement connects us nicely to the next question posed, namely regarding the main element potentially hampering the effectiveness of the G20. Results are displayed in Figure 3, below. Respondents seemed to widely agree on the fact that the G20's agenda is currently too wide. Furthermore, the heterogeneity of interests and preferences of countries involved seemed also to contribute significantly in hampering the G20's effectiveness. Interestingly, among the 'other' reasons, the fact that Sherpas are not sufficiently empowered to act was mentioned.

Following up on this, we asked survey participants directly whether the G20's agenda should be narrowed down and, if so, along what lines. Whereas there was almost unanimity (14/15) on the need to restrict the focus of the G20, survey participants had very different views regarding the topics on which the forum should concentrate.

Interesting thoughts were shared under the 'other' category (see Table 2). Some survey participants highlighted how a narrow agenda should be set every year, whereas others focused on the operations of the working groups.

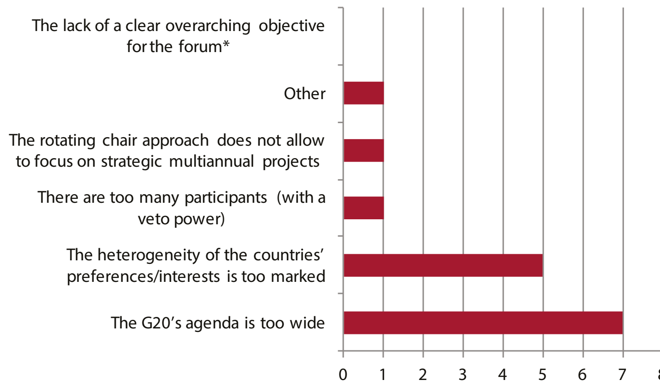
As various degrees of dysfunctionality were identified, we then turned to questions regarding ways of tackling it. Commentators in the past have claimed that tweaks in the governance of the G20 (including the establishment of a permanent secretariat, better streamlining of internal processes, etc.) could improve its effectiveness, as its weaknesses are not structural in nature. 60% of our survey respondents disagreed with this claim. One survey participant mentioned that a secretariat would just add to the bureaucracy of the forum, and there is no need for it. S/he then added that:

"[within the G20 setting] Nobody listens to the IMF itself, so it is not clear why they would listen to the secretariat."

The G20 being merely a forum of discussion with no coercive powers, we turned to test the idea that peer-pressure is significantly felt and is effective at nudging country leaders into policy action. Almost the totality (14/15) of survey participants agreed with the proposition that peer-pressure within the G20 can push a sovereign government to take actions based on previously agreed commitments. In the discussion that ensued, survey participants expressed a somewhat milder (positive) judgement:

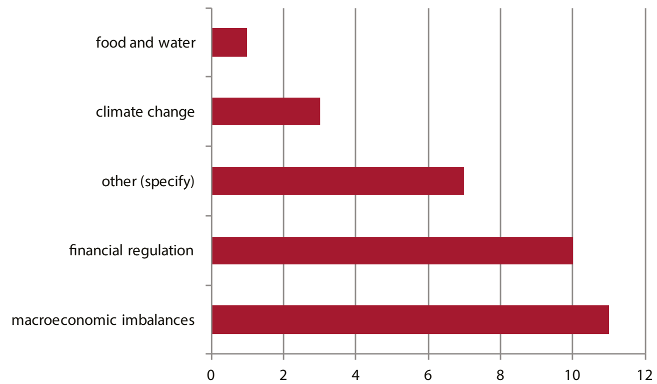
"Taking policy actions based on previously agreed commitments will be essential to the credibility of the G20, and G20 members need to recognise this as a group. The Accountability Assessment exercise and the peer review process in the Framework Working Group are good steps, but as sovereign states, countries retain the right to take actions aligned with their national interests. It remains uncertain whether peer pressure amongst G20 members would be sufficient to affect agreed policy changes across the board, such as the standstill on protectionist measures. Having said that, the G20 has achieved success in certain areas, such as financial regulation."

Figure 3. Which of the following is the main element hampering the effectiveness of the G20?



*Note: * In theory, "achieving strong, sustainable and balanced growth for the global economy" – which is admittedly very broad.*
Source: Bruegel

Figure 4. On which topics should the G20 focus?



Note: Multiple answers allowed.
Source: Bruegel

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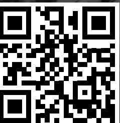


Table 2. Other elements on which the G20 should focus

	Specifications of 'other'
1	The issue is not to limit the agenda permanently, but focus on a few issues at a time and discontinue working groups when they have finished a specific task instead if giving them new mandates, which may be less relevant.
2	Essentially it should be about economic governance, climate being an integral part of it.
3	Supporting global growth.
4	Development.
5	Trade, investment, infrastructure.
6	Select a very small number of specific subjects on a yearly basis.
7	Trade.

Source: Bruegel

In this respect, we note that several respondents highlighted financial regulation as a field in which peer pressure has had a significant impact within a G20 context.

Finally, two survey participants detailed the requirements for peer-pressure to succeed:

> *"yes, if done intelligently and in a focused manner, ie. around a limited set of issues; collective behaviour in resisting temptation to go protectionist was a clear example of this; many countries sued the G20 commitment to resists political pressures at home."*

> *"This is how the OECD is functioning (peer review/peer pressure in the context of its Committees) and this is working pretty well with concrete outcomes, eg. the convergence of policies towards the best practices. But peer-pressure, to be effective and yield concrete results, requires initial and specific commitments by members of the Group – that are specific and assessable, that can be monitored and to which countries can be held accountable. To make such commitments, countries need to make compromise and look beyond their immediate short term interest. This requires trust among members, a zone of comfort and a degree of like-mindedness, which G20 members may not have reached as yet."*

Along the same lines, we then asked survey participants whether, more in general, some national-level policies in the past had been taken as a consequence of agreements within the G20, and would not have taken place without this forum. Again, the quasi-totality of survey participants (14/15) was positive in its assessment of the G20's capacity to nudge countries into action. G20 practitioners clarified how:

> *"G20 commitments have a real domestic impact in member countries. […] it is worth noting that countries have decided to join international instruments as a result of their G20 membership. For instance, Saudi Arabia decided to ratify the United Nations Convention against Corruption (UNCAC) largely as a result of its engagement with the G20 Anti-corruption Working Group."*

Some enthusiastic detailed the dossiers on which G20 peer-pressure had been successful:

> *"Yes, definitely, the international tax transparency agenda (fight against tax heavens and bank secrecy) and the fantastic results achieved in this domain by the G20 are the best illustration of this. The AMIS – to reduce food price volatility and improve food security - is also a good example."*

Even the sceptical voices, accepted a role to be played by G20 peer-pressure and commitments:

> *"It seems more plausible that domestic interests remain the key reasons for the adoption of national-level policies. Such interests might include relations with key international counterparts, therefore concluding that these policies were a consequence of agreements within the G20 might not be entirely accurate.*
>
> *Having said that, it is indeed to the G20's credit that certain issues are placed in the limelight, so that countries would accelerate the progress or implementation of such policies. In the case of financial regulation, the G20 empowered an international body – the Financial Stability Board – to coordinate international policy development, and monitor implementation of G20 commitments."*

Finally, a central banker noted that peer pressure is much more effective when pursuing stimulus packages than for policies of economic restraint.

At this point, we turned to test the palatability and feasibility of the idea presented in O'Neill and Terzi (2014) of having a 'revised' G7/8 (where euro area countries would have a unique representation, opening up space for China and another emerging economy) as an alternative prime forum on global economic issues. In fact, a large majority (73%) of G20 Sherpas and (former) practitioners expressed their scepticism towards this solution. In the discussion that ensued, however, many respondents moderated their dissent:

> *"There is a need to have a more rational representation of the EU in the G20 and there is a need to have a smaller number of members but it will have to be bigger than the G8 and smaller than the G20."*

Another (dissenting) respondent proved to be in favour of an even smaller prime forum:

> *"Would use space to reduce the number of seats, not to add new members. Could also use international and regional bodies more effectively to represent those not at the table."*

Others made a more wholehearted plead in favour of the G20 in its current setting:

> *"The 'steering committee' of the world economy needs the perspective of countries that are not necessarily systemic (such as South Africa that somehow gives an African perspective on world economic affairs). A forum of global economic governance needs to balance between: legitimacy – ensuring that all major economies work together on an equal footing in international organisations and effectiveness – the ability to cover the right issues, forge a strong common consensus and effectively co-ordinate across different fora.*
>
> *This is important for its credibility and influence at the global level. Also, the present G20 format provides an opportunity for a genuine joint learning process between advanced and emerging economies and a full-fledged two-way exchange of experiences among them."*

Finally, some of the dissenting voices based their position more on the feasibility of the option, rather than on the palatability:

> *"We should take note that euro area countries do not necessarily have united position on all the issues being discussed in the G20. However, at the same time, it might be worthwhile to consider reducing the number of euro area countries and freeing up space for non-euro area countries in Asia and Africa."*

When asked specifically about the feasibility of creating such a 'revised G7/8', 100% of the respondents were negative. In the discussion, some explained that further euro area integration is needed before such a step can be taken.

We then asked (only) non-euro area country representatives whether they would prefer to liaise with a united euro area in global fora. Interestingly, some survey respondents chose not to answer this question. Of those who did, 63% (7/11) expressed a positive answer. Interesting comments ensued:

> *"When EU members agree, having a large representation around the table plus President of the Commission and Council just means repeating the same arguments over and over again, to the frustration of non-EU players; coherence among EU is to be shaped in Brussels and not at the G8 or G20; when it has not been shaped in Brussels, then the multiple EU representation at the G20 simply show the degree of the disagreement."*

Along the same lines, a BRIC representative explained that:

> *"Yes [it would be better to liaise with a unique euro area representative], also in the G20. Too many Europeans saying the same thing creates the idea of a false majority in the room."*

However, a G20 Sherpa representing an international organisation highlighted that:

> *"That would make sense indeed but provided it reflects a genuine unity of view. Otherwise the common representation will lack credibility in the G20 – which would be counterproductive for euro area countries and the G20 itself."*

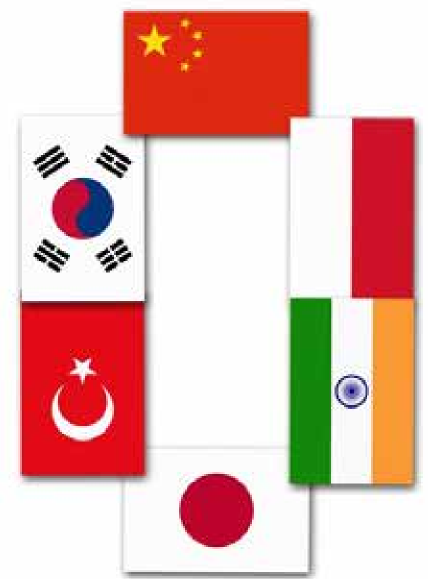
Finally, a G20 Sherpa clarified that, although the composition of the G20 is dubious (only one African country, only three Latin American, and too many Europeans), the forum has decided to focus on policy coordination, and leave aside discussions regarding membership and/or enlargement.

When asking (only) G7/8 members whether our 'revised G7/8' seems sensible as an alternative scenario to the current Group of Seven, which increasingly represents a small club of advanced democracies, three out of five respondents disagreed. Defenders of the current G7/8 highlighted the importance of having a small club of like-minded countries:

> *"A 'small club of advanced democracies' can effectively project authority, unity and vision: very valuable goods. This, without pretence of global governance, which needs close-to-universal representation, and is already the goal of other fora."*

This chimes well with another respondent, who made the point that:

> *"The current G7/8 framework has its own significance and effectiveness as a small club of advanced economies, where*



the G7/8 Leaders can have frank discussions on important issues that the international community is facing. It should not be replaced by any alternative framework."

Moving beyond the G7/8 and the G20, we asked global governance practitioners and experts whether in their opinion the pending 2010 IMF quota reform had gone far enough in rebalancing power between declining and emerging economies. A wide majority of respondents (13/15) agreed that the 2010 IMF reform was now already somewhat outdated. We hence posed the question of whether the implementation of our proposed 'revised G7/8' would pave the way for a speedier reform of the IMF. A wide majority of respondents (73%) disagreed, mostly citing the fact that the current reform is being held back by the US Congress and its internal political quarrels, rather than by the G20. However, it was also highlighted how:

"You need the G20, and especially the BRICS, to make the reform advance. G7 would not be really interested in moving it."

After having underlined the role of the US Congress, one survey participant explained how:

"[...] The IMF has a regular schedule for reviews of quotas and the composition of the Executive Board. The schedule was even accelerated by the G20 in 2010, with a view to bring about a shift in voting share towards emerging markets sooner. It is useful to note that there is a practical limitation to how quickly quota shares of Emerging and Developing countries can be increased. A country can increase its quota share only via its own contributions to the IMF. Countries whose quota shares need to decline cannot be forced to withdraw their contributions. This imposes a mathematical constraint on how much a country's quota share can rise, particularly when the quota shares of several countries increase at the same time. However, G20 provides additional impetus for reform. 2010 reforms were 'historic' in no small part due to the ambition and political commitment from G20."

To conclude our survey, we asked G20 practitioners and experts under what conditions a far-reaching reform of global economic governance is to be expected, given the current framework (which has at its centre the IMF, WTO, and World Bank) effectively rose from the ashes of World War II and has remained broadly unaltered ever since. Somewhat unsurprisingly, and in many ways, worryingly, the most common response was 'another crisis'. Strong political will (especially among developed country leaders) was also a recurrent theme. However, other respondents made other valuable points. A current Sherpa offers a dual framework to think about changes in the current global governance framework:

"The current structure of economic governance has never been truly global. It reflects the balance of economic strength that prevailed after the war and in the decades that followed. This balance has shifted more quickly in the last two decades, and the old structure has become increasingly irrelevant. Naturally, those who stand to lose out have resisted allowing the structure to evolve with economic realities. There are two ways a new structure can emerge: by a gradual adjustment from the current state to the one envisioned; or a sudden adjustment in which the old structure is dismantled and a new one constructed in its place. A gradual adjustment is less disruptive. But the longer imbalances persist, the more likely it is that the system becomes unstable and economic multilateralism ultimately disintegrates. In addition, it is important to have an inclusive, open, transparent and merit-based process in selecting the senior leadership of international organisations such as the IMF and World Bank."

And indeed, some of the survey participants believe that a step-by-step approach will lead to a substantial change in the current framework.

"Time [is needed]. Emerging countries continue to grow at faster rate than advanced one. At some point thing will be reflected in a deeper reform of the current architecture or the creation of a new one, perhaps with new financial institutions outside the control of currently advanced economies."

Conclusions

All in all, our survey did not really support our policy recommendation for immediate pro-active reform of global governance. Perhaps this is not surprising in view of the fact that most of the participants are actively involved in some aspect of the current governance framework, and institutions tend to self-perpetrate. Nonetheless it was interesting for us to see the general response to far-reaching reform proposals, which go beyond a fine-tuning or streamlining of the internal workings of the current global governance framework.

As it relates to the G20, virtually all respondents answered that the G20 is a useful forum, with many indicating that it plays a positive role. In this sense, the G20 is clearly seen as legitimate by those who participate. A number of participants made it clear however that the G20 agenda is often too diverse and it would benefit from having a more defined focus. Just as interesting, there was not much support for the idea of a devoted secretariat in helping create a regular focus. As could be garnered from the last answer about what would be necessary for further accelerated reform of global governance (answer was overwhelmingly, another crisis), it seems as though G20 participants believe that a crisis forces policymakers to focus on the immediate solutions, and outside of crisis, they will not have the same need or incentives.

When it comes to faster reform of the IMF, as we prescribed in O'Neill and Terzi (2014), very few survey participants believed that the structure of the G20 or G7 was a hindrance, and in fact, it was primarily the inability or lack of desire by the US Congress to ratify already agreed G20 proposals that were holding back any initiatives at faster reform. In this respect, a certain degree of vexation could be sensed among G20 Sherpas and practitioners.

Finally, one of our previous key recommendations that we explored was, that inside the G20, a reshaped G7 should be found in which all euro area members were represented by just one, allowing space for China and other key emerging economies. We did find some sympathy for this idea from non-G7 countries and non-euro area members, perhaps not surprisingly.

However, we did not get any voluntary support for such a shift from either euro member countries or other G7 countries, with those that responded actually suggesting that it was impractical to expect such a shift, not least because the euro area member countries still often have different views, and according to some, it is very beneficial still to have an effective group of like-minded advanced country democracies. One respondent pointed out that when it came to monetary policy, as opposed to fiscal and

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other policy matters, the central bankers gatherings in Basle are quite effective for discussion and, when necessary, advance warning and co-ordination. The fact that this took place with less fanfare was also advantageous.

It seems as though any revamp of the G7/8 is not set to voluntarily happen from within for the foreseeable future. We believe that, at a time of major rebalancing in world economic weight, intransigence by the detainers of power in (what now looks like) an old global governance framework will imply a fade in relevance of the Bretton Woods institutions and G-fora, and their replacement by new avenues of coordination and discussion. In this respect, the recent agreement to establish a BRICS Development Bank is highly symbolic. The world is fast changing and ready for more representative, more effective global economic governance. G7/8 leaders can drive this change, or merely face its consequences. ■

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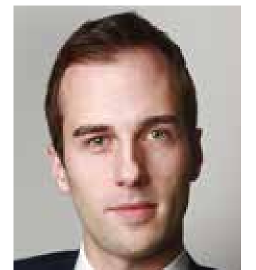
1. Throughout the post, we will refer to the G7 or G8 interchangeably, as in this instance we do not wish to enter the discussions surrounding Russia's role in the Group of Eight following the Ukrainian crisis.
2. http://www.bruegel.org/publications/publication-detail/publication/817-changing-trade-patterns-unchanging-european-and-global-governance/
3. Invited members vary from summit to summit. These correspond to the invitees of the last Summit (Saint Petersburg – September 2013).
4. Spain is a permanent guest.
5. The composition of this informal group was not formalised but seemed to include G7 members, China, India, and Mexico.

Did the crisis cause a change in globalization?



Implications for international business

Prof. Dr Henning Vöpel is Director of the Hamburg Institute of International Economics (HWWI), and Hendrik Hüning is a Junior Researcher

Globalization and the crisis

The financial and economic crisis of 08/09, beside its damaging impact on economic activity, also interrupted a long period of prolonged globalization.[1] After the end of World War II, the political effort of the industrialized countries to encourage economic integration and political cooperation restored economic prosperity and maintained peace.

Subsequently, the end of the Cold War supported an increasing dynamic in international trade, and a reduction of trade tariffs and capital controls. Regional integration as a first step to international free trade, such as the single European market, NAFTA, AFTA and the Mercosur, was intensified and enhanced every party's economic prospects and promoted economic growth. This led to the conviction that mutual gains can be accomplished with further attempts of economic integration.

A drawback of this globalization process is that it makes economies and markets more interdependent than they have ever been before. This is as good in flourishing times as it is bad in times of crisis. Globally highly interdependent markets, such as financial markets, lead to strong spillover effects and contagion in times of financial crises in one country, as seen in 08/09. Globalization and the interconnectedness of economies have made an international dimension of economic crises more likely.

Mutual gains from economic integration and intensified economic and political cooperation, where every party profits, are now perceived to be replaced by gains which are just made on the expenses of other parties (ie. situations which are zero-sum in game theoretical terms). This amplifies distributional conflicts and make isolating tendencies of countries, for instance through trade protectionism, more likely.

The magnitude of the crisis also demonstrated how little we know about the links through which economies are interconnected. Additionally, the path out of the crisis is unknown yet. Theoretical causalities and empirical correlations seem to give nearly no orientation. The resulting uncertainty is almost paradigmatic. The measures taken to overcome and prevent future crisis, such as the enormous liquidity provision by major central banks, the implementation of macro-

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"... industrialized countries have to face the fact that in the medium and long term the international distributional power will shift to the advantage of former emerging economies"

prudential policies as well as the political efforts to reform the institutional deficits of regional and international integration, are themselves sources of today's' economic and policy uncertainty. This uncertainty, beside its effect on international business and investment decisions, also partly led policy makers to focus more strongly on domestic needs than on what is best from an international perspective.

Thus, what we have recently observed is slight de-globalization tendencies, or at least a stop in globalization. For instance, according to a report of the European Commission from September 2013, 154 new measures of trade protectionism were adopted worldwide and only 18 measures were abolished between May 2012 and May 2013.[2] Especially, emerging economies such as Argentina, Brazil, India, Indonesia, Russia and China among others keep applying a high number of trade-restrictive measures. Since trade is an important contributor to economic growth and emerging economies are highly dependent on pre-products imported from other countries, they should have a real interest to keep their economies open to international trade. The reality, however, is different.

Similar measures are applied on the financial side. Since interest rates in industrialized economies hit the zero lower bound to stimulate domestic demand, search for yield of international investors led to enormous capital flows into emerging markets, where interest rates are relatively high. As soon as interest rates are raised in industrial economies, these flows will revert and are likely to hurt emerging economies which are less stable to sudden outflows. For this reason many of these countries implement capital restrictions to at least partly control these massive capital flows. This kind of 'isolating behaviour' is not solely limited to emerging economies. US campaigns like 'Buy-American' or the EU's trade reforms of the recent years show similar tendencies.

Since the World Trade Organization (WTO) has a watchful eye on trade-restrictive measures, many new forms of protectionism are not even directly related to trade tariffs or quotas, and the degree of protectionism is therefore usually underestimated. For instance, many firms are government-owned, subsidized or somehow government-protected and can therefore more easily compete for business with other international companies. These hidden protectionism and industrial policy in order to boost the domestic economy on the costs of other countries (beggar-thy-neighbour) are a recent trend among protective countries in order to avoid WTO rules and intervention on trade tariffs.

Even more subtle are countries' strategic efforts in getting independent of external supply of scarce resources, especially energy resources. One example here is the US interest in new extraction methods like fracking, which has led to a shale-oil boom in the USA. Another example is the ongoing conflict between Russia and Ukraine about Crimea. In contrast to the officially declared interest by Putin's government to protect ethic Russians on Crimea from the Ukraine government, there might be a simpler motive. It is believed that the Black Sea around Crimea contains substantial sources of oil and gas. Thus, with a declaration of Crimea to Russian territory, all founds of oil and gas in the region would benefit Russia.

All these examples demonstrate countries' recent tendencies to apply protective measures or potential distributional conflicts about scarce resources. How strongly these tendencies are connected to the damaging effect of the crisis is open for debate.

The missing institutional framework

To summarize here, globalization and the interconnectedness of economies made global economic crises more likely due to stronger spillover and contagion effects while the recent crisis itself might have led to at least a stop in globalization.

What lessons, if any, can we learn from this development? It has to be stressed that this article is far away from arguing against globalization. Rather it argues that the speed of globalization in economic terms, communication and transportation of the last decades was not strongly-enough accompanied by the same speed of a build-up of a regulating international institutional framework, especially for the case that something goes (terribly) wrong. The economic idea of free trade and free markets does not postulate that there should be no international standards and rules at all.

Two recent examples might demonstrate this lack of an international legal framework. During the European debt crisis, Greece was, without any help from European guarantees, virtually bankrupt. Currently, Argentina faces the same problem and is de facto insolvent since the end of July. Now it fights with two US hedge funds about a settlement. At the same time Argentina accuses the US Government of violating its sovereignty. One of the problems for these cases is that there is simply no binding international law which regulates sovereign default.

The Greek case reveals that even on the regional level of the European Union appropriate institutional measures are missing to regulate sovereign default. Beside an international legal framework, it also needs independent international institutions which are authorized to enforce these rules and to take care of a country's insolvency process.

Already at an earlier stage, to prevent a sovereign default to happen, strict deficit rules for the countries' public debt must be implemented. In the European Union, the convergence criteria (Maastricht criteria) were implemented in order to discipline countries' public debt. However, the incentive structure was misaligned. Since potential future deficit countries decided on present deficit countries, the criteria were not as binding as they supposed to be. An independent institution would be a more credible alternative to discipline every party to the agreed criteria. This is necessary to enhance European fiscal and financial stability.

An institutional framework is even more amiss on a global level. Obviously, rules and regulation which suit everyone is even more complex and difficult to achieve when so many different countries are involved. However, progressive globalization, especially in the economic dimension, calls for a legally binding framework which disciplines all parties to stick to it. Although

the crisis had to unravel deficits like the ones mentioned above, at least it initiated a vibrant discussion about possible solutions now. The crisis should be seen as a wake-up call in this sense. It should be clear that, instead of isolating policies and foreclosing markets and economies, the appropriate answer to these deficits are intensified international cooperation and the build-up of binding rules.

Implications for international business strategies

The dynamic of globalization has changed. This has important implications for companies with an international business strategy, at least in the short and medium term.

First, companies' international business strategy should take into account countries' strategic tendencies to protectionism policies and their increased focus on national interests. In comparison to earlier decades, where the USA and Europe dominated the international political agenda, the growing influence of China and other emerging markets makes free trade negotiations more heterogonous. Multilateral trade agreements between many countries, eg. reduction of trade tariffs, will be harder to achieve in the future. More likely are intensified bilateral or regional agreements among groups of countries which are more homogenous and share similar economic interests. One example for this trend from global multilateralism to regional multilateralism is the ongoing negotiations between the European Union and the USA concerning the Transatlantic Trade and Investment Partnership (TTIP).[3]

Second, geopolitical and distributional conflicts such as that between Russia and Ukraine affect foreign direct investment and affect companies with a strong regional linkage with these countries. Furthermore, the reorientation to capital controls and restrictions, especially from emerging economies, affects companies' investment strategies.

Additionally, due to the high (policy) uncertainty together with the enormous liquidity provision by central banks, volatility on international financial markets increases. Since orientation about a future path of the real economy is missing, financial market participants also react more strongly to new information, the expectation formation process is disturbed. This raises the risks for companies' portfolio investments as well.

At last, correcting the unravelled institutional deficits on a global level is not just important for its own sake and for a fruitful future cooperation of countries, but also to reduce uncertainty induced by policy. For the moment, it is mostly this uncertainty which makes companies to postpone investment decisions and is therefore partly responsible for the slow and inert recovery we face in many industrialized countries. As long as these uncertainties are not resolved, we can expect the slow dynamic of recovery to remain.

Finally, industrialized countries have to face the fact that in the medium and long term the international distributional power will shift to the advantage of former emerging economies. They have grown up and want to be part of the determination of the rules of an international economic order as well. They are willing and able to enforce their economic interests. The change of the dynamic in globalization with all its complex ingredients, intensified by the damaging effect of the crisis, may partly reflect this process and is important for considerations of international business strategies. ■

1. This is also confirmed by the changing trend of the KOF Index of globalization since 2007 (Compare KOF Press Release 16 (March 2012): KOF Index of Globalization 2012 - Economic Crisis Brings Economic Globalization to Fall).
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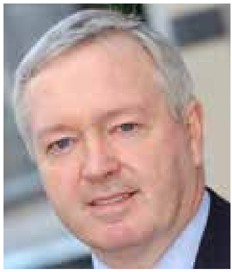

The EU's pivot to Asia

Fraser Cameron is Director of the EU-Asia Centre

Although it is the US pivot to Asia that has captured attention the EU has also steadily increased its engagement with the world's most dynamic region and home to 60% of the global population. In July, there was an EU-ASEAN ministerial meeting in Brussels where the two blocs agreed to deepen ties. In August, EU foreign policy chief, Catherine Ashton, represented the EU at the ASEAN Regional Forum in Myanmar, a security meeting where the South China Sea was high on the agenda. And in October the EU will host the bi-annual EU-Asia summit meeting (ASEM) in Milan. In addition member states have been flocking to Asia seeking trade and investment. Between them, Merkel, Cameron and Hollande have made eight trips to Asia so far in 2014. Four of the EU's strategic partners (China, Japan, India, South Korea) are in Asia, another measure of the EU's tilt towards the Far East.

Why the sudden interest? Catherine Ashton put the case succinctly earlier this year when she said that *"developing our relations with Asia across the board is a major strategic objective for the European Union. Put simply… Europe and Asia need each other."* In other words the EU has substantial political, security, economic and trade interests in Asia. The EU is one of the leading trade partners of every Asian country. Trade has grown at an annual average growth rate of over 6% in the past decade. In 2013 Asian partners accounted for 15.3% of EU imports (€678 billion) and 12.5% of exports (€573 billion). China, Japan and South Korea are among the top ten trading partners of the EU accounting for 18% of the EU's total trade. The ten nation ASEAN grouping accounts for a further 13% of total trade. The EU is also a major investor in Asia. Last year 22% of EU outward investment was destined to Asia (€57 billion), while 13% originated in the region (€38 billion). Asian investment in Europe is also growing apace – think of Nissan, Huawei, Tata and Hyundai.

Against the background of ongoing negotiations for a US-led Trans Pacific Partnership (TPP) and a Chinese-led Regional Comprehensive Economic Partnership (RCEP) securing market access for European companies is of particular importance. This is assured through a web of free trade agreements (FTAs) and Partnership Agreements. The EU-South Korea FTA is widely regarded as a model for other countries. A trade agreement with Singapore has been finalised while negotiations are taking place with Japan, India, Vietnam and Indonesia. Talks with Thailand are on ice since the military took over the government. A critically important investment agreement with China is also being negotiated which, if successful, could open the door for an FTA.

Soft v hard power

The EU is already the top donor as regards development assistance for Asia. EU assistance to the region during 2014-20 will reach €6.5 billion, a 20% increase on the last five year period, and will focus on poverty eradication. There will also be an increase in funds for humanitarian assistance and disaster prevention.

The poorer Asian countries will also receive EU funding to deal with challenges such as energy security and climate change. The EU will remain one of the top providers of assistance in Afghanistan after the withdrawal of NATO forces at the end of 2014.

Although the EU is not a hard power like the US it has nevertheless sought to increase its role in security matters. The EU's anti-piracy operation (ATALANTA) off the coast of Somalia has a strong 'Asian' element. Before the summer there were the first-ever EU-China naval exercises. Non-traditional security issues are receiving more and more attention, not least because the political and security situation in Asia remains volatile with tensions among regional and other powers. Disputes in the East and South China Seas are often in the headlines and of direct relevance for European security. The EU's experience in regional integration was recognised by South Korean President Park during her visit to Brussels last November. She proposed organising a conference in Northeast Asia before the end of 2014 to showcase the European experience. ASEAN officials are regular visitors to Brussels to see how the EU managed or mismanaged integration in different areas.

ASEAN and ASEM

Given that integration is part of the EU's DNA it is not surprising that it devotes considerable resources to supporting ASEAN. It is the largest financial contributor to the ASEAN secretariat and is helping the bloc on issues ranging from human rights and the rule of law to connectivity and border management.

At the ASEAN Regional Forum (ARF) the EU has much to offer as regards experience in conflict prevention, nuclear proliferation, cyber security, terrorism, radicalisation, transnational crime and trafficking in human beings.

Some criticise the Asia-Europe Meeting (ASEM) as a mere talking shop. But that is also a strength – bringing together over 50 world leaders for informal discussions on climate change, maritime security, trade and finance. Bilateral meetings and corridor talks are easy to arrange. Where else could the Chinese and Japanese premiers meet? This is not to say ASEM, approaching its twentieth birthday in 2016, could not be improved. Leaders in Milan are likely to establish a special working group on connectivity with a mandate to look at ideas for closer ties in the fields of transport, trade and telecommunications.

The EU pivot to Asia is thus very real. It is the leading economy in the world. It has the second reserve currency and it has

unrivalled experience and expertise in institution building and integration. These are valuable assets for Asian partners.

Asia and Europe have worked hard to maintain momentum in their relations despite pressing - and difficult - domestic and regional concerns. Such endeavours are to their credit. However, the challenge facing participants at the upcoming ASEM meeting is to build more trust and understanding - and take their relationship to a higher, more strategic level.

It would be a useful step forward if the EU was admitted to the East Asia Summit, a security forum involving ASEAN as well as the United States, Russia, India and others. But some Asian states have doubted the value of the EU's participation.

ASEAN, meanwhile, is looking for an EU upgrade to status of 'strategic partner', the appointment of a special EU envoy accredited to the Jakarta-based ASEAN Secretariat and the regular convening of EU-ASEAN summits. While not opposed to these points, the EU has put ASEAN demands on hold until it sees if ASEAN can meet its end-2015 deadline for establishing a border-free ASEAN Economic Community (AEC). If this deadline is met then it could reopen the prospect of an EU-ASEAN free trade agreement. EU Trade Commissioner Karel De Gucht has said such a pact could be negotiated once the AEC is in place.

Certainly an EU-ASEAN FTA could increase Europe's visibility in a landscape crowded by multiple Asian free trade initiatives, including the US-led Trans Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP), linking ASEAN to all leading economies in the region.

Domestic challenges

Keeping Asia-Europe engagement on track has not been easy for either region. The EU still faces the over-arching challenge of consolidating a still-slow economic recovery, creating jobs, especially for young people, and deciding on the distribution of key EU posts. Hammering out a coherent strategy vis-à-vis a more assertive and often-unpredictable Russia remains a challenge. The EU is also still struggling to understand and respond to the continuing chaos and conflict in its southern neighbourhood.

In Asia, meanwhile, conflicting territorial claims in the East China and South China Seas continue to strain relations between China and many of its neighbours. The situation on the Korean peninsula remains tense. The political situation in South East Asia is also unpredictable following the military coup in Thailand, ethnic violence in Myanmar amid preparations for next year's presidential elections and the year-long political crisis over disputed election results in Cambodia. Indonesia's inexperienced new president 'Jokowi' Widodo will also need time to establish himself as leader of the region's most populous nation and most robust democracy.

"... the EU has substantial political, security, economic and trade interests in Asia. The EU is one of the leading trade partners of every Asian country"

On the economic front, the Asian Development Bank has cut its initial growth outlook for the region from 5 percent to 4.7 percent even as the region struggles to tackle problems posed by urbanisation, climate change and unequal development.

With 50% of world trade in tonnage passing through the South China Sea, the EU has taken a lead in establishing an EU-ASEAN high-level dialogue on maritime security, with a focus on port security, maritime surveillance, and the joint management of resources including fisheries and oil and gas. EU leaders have also insisted to China and Japan that their disputes should be managed without the use of force and that their territorial and maritime claims should be pursued in accordance with international law.

Deeper trust

While much binds the two regions, upgrading EU-ASEAN ties requires deeper trust and understanding between the two sides. Encouragingly the earlier acrimony over participation and attendance at meetings is now buried. Yet like ASEM gatherings, ASEAN meetings must become more inter-active and less formal and ritualistic. The focus on agenda items, prepared statements and out-dated rhetoric needs to be replaced by more open, frank and critical albeit constructive exchanges. There was some evidence of this at the Brussels ministerial in August but more can and should be done.

ASEAN and the EU have been talking to and working with each other for several decades - but the last three years have been especially important in binding the two regions together. The Brunei Plan of Action adopted in 2012 laid the groundwork for a further intensification of EU-ASEAN ties. This month's meeting in Brussels has given added traction to EU-ASEAN engagement by preparing the ground for a qualitative upgrade of relations within two to three years. The ASEM summit in Milan in October will be a further demonstration of the EU's pivot to Asia. ■

The global financial cycle and macro-prudential policies

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Why macro-prudential policies?

The current financial crisis has highlighted financial stability as a paramount objective of economic policy. Macro-prudential measures (MPMs) as are contemplated and, in some instances, already implemented by European national authorities, aim at enhancing financial stability.

These measures range from loan to value caps for mortgage lending to banks' holding bigger capital buffers against various categories of loans. While there is a history of such measures practiced in emerging economies, they are, arguably, a novel (some would say a resuscitated) tool in many advanced economies, where a simplistic paradigm dominated macroeconomic and financial policies in recent decades. But the 'Great Recession' has changed the conceptual framework substantially.

The purpose of MPMs is, therefore, to diminish the dynamics that lead to boom and bust cycles while there is wide acknowledgment that price stability is not sufficient for achieving financial stability. This objective is all the more important at a time of still significant injections of liquidity in global financial markets which, against the backdrop of investors' intense search for yield, causes considerable over-valuation of financial assets.

In the US, Janet Yellen, the new chairman of the Fed has stressed that macro-prudential instruments, rather than monetary policy, are the means for dealing with macro-prudential, financial stability[1]. This view was also echoed by ECB officials; the ECB Vice President Vitor Constancio said that macro-prudential measures *"...are more compatible and effective to deal with imbalances in asset markets"*.[2]

Macro-prudential policies can have diverse effects in highly integrated financial markets and spillover effects, which do influence their effectiveness, need to be taken into account. In Europe, although there is market fragmentation under way under the impact of the deep financial crisis, the single market for financial services is not a chimera for it has a concrete meaning and content. Moreover, the need for MPMs in the euro area is to be seen against the backdrop of limited macroeconomic policy instruments in its member countries.

One could even argue that the need for MPMs in this area gives more salience to its incompleteness as a monetary union; that these measures are a substitute for capital controls, that they are a *sui generis* way of dealing with the 'trilemma' of open macroeconomics (how to reconcile a free flow of capital with exchange rate stability and independent monetary policy). In the European Union, spillover effects that derive from the implementation of macro-prudential measures (MPMs) can entail positive as well as negative effects.

Making judgments on MPMs is to be seen from the need in the EU to:

a. coordinate policies for the sake of achieving common goals;

b. have a collective policy stance wherever it is suitable, which is clearly the case in an economic area that aims at establishing a banking union which would go beyond the borders of the euro area;

c. consider the linkages between monetary policy and financial stability policy, however much one would entrust each of them with particular goals (fitting the Tinbergen assignment problem).

The nature and drivers of the financial cycle matter

Implementing MPMs has to be seen within a broad conceptual framework, which needs to pay attention to financial cycles. As Borio[3] observes, financial cycles cover much larger time frames than business cycles and are shaped by self-reinforcing interactions among perceptions of value and risk, which translate into booms followed by busts[4] can be seen as a precursor of this line of reasoning). This evolution is correlated with a big rise in debt (private) relative to income (GDP).

A key tenet of the Financial Cycle paradigm, as propounded by Borio and others is that financial liberalization enhances the amplitude of financial cycles. Another tenet is that a one-sided (focused exceedingly on inflation) monetary policy is inadequate since it does preclude the adoption of MPMs that could mitigate boom and bust dynamics, resource misallocation. Borio and Disyatat[5] talk about a 'policy drift' when there is maintenance of low interest rates for too long. Such a drift would accentuate over-borrowing and debt overhang.

Regarding the current circumstances in the world economy, one can detect a clash of views with regard to the policy effectiveness a central bank can obtain in combining its monetary stance with MPMs. While BIS experts seem to favour a monetary policy geared toward a sooner rather than later policy rate rise for the sake of weakening boom and bust dynamics in[6], the Fed and the ECB would rather maintain a relaxed MP stance.

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"What is the relationship between national macro-prudential policies and the financial cycle in the global economy, with the latter being so much under the impact of major central banks' policies?"

In Europe, the threat of debt deflation is judged by not a few central bankers as quite menacing and asking for a continued relaxed monetary policy. And numbers fuel this apprehension for a headline inflation rate of just 0.4% last July is much below the ECB target at a time when correction of public and private debts is still a very protracted process.

While the assessment of the various tools central banks have at their disposal in order to deal with macro-prudential concerns is of great importance, another key issue pops up: the shape and nature of financial cycles, and, especially, of the 'global financial cycle'.

It is useful here to distinguish between an 'ordinary' and what could be named a 'policy-drifted financial cycle'. The former would be an unavoidable (endogenous) financial cycle, which is not biased by suboptimal policies considerably. Whereas a derailed, drifted cycle would be heavily influenced by drifted policies. In this context, the role played by major economies, as 'market-makers', is to be highlighted. Helene Rey speaks, in this context, about a 'dilemma' instead of the 'trilemma', in the sense that a global financial cycle, which is driven by the monetary policies of 'centre countries', sets the tone for the rest of the world irrespective of operating exchange rate regimes[7].

Whether a 'dilemma', rather than a 'trilemma', operates for policy-makers is less relevant for both views acknowledge that well targeted capital controls can play a useful role in broadening national policy space[8]. As spillover effects of MPMs adopted by EU member states are so much more important for the ECB, for the Union as a whole, the same logic can be applied to the global economy with regard to the policies of the central banks that provide reserve currencies. This is why what the Fed does is of enormous significance to the shaping of macro-prudential policies in Europe and elsewhere in the world.

Can MPMs be coordinated internationally?

A fundamental question, consequently, arises: what is the relationship between national macro-prudential policies and the financial cycle in the global economy, with the latter being so much under the impact of major central banks' policies? QE (quantitative easing) comes to one's mind in this regard, but not only. Policy coordination between the Fed and the ECB (ESRB) would be welcome under such circumstances. But how much is it feasible in view of the policy mandates central banks have, and which focus, primarily, on domestic economic conditions? Several related policy inferences can be made following the observations made above:

MPMs need to consider drivers of financial cycles, whether there are policy drifts that derail these cycles;

What drives the global financial cycle is critically important and, in this context, the role played by market-makers' policies; for what could appear a justified macro-prudential measure to a major central bank, may cause tremors in other markets;

There is, arguably, an optimal degree of financial liberalization, for emerging economies in particular (one reason being that they cannot borrow in their local currencies);

Targeted capital controls can play a useful role in underpinning financial stability in economies that can be ravaged by massive flow reversals. This observation should be examined in conjunction with the risks posed by growing inter-connectedness in financial markets and, correspondingly, by an erosion of robustness and resilience of economic systems;

There is need to think about and try to shape inter-connectedness (a suggestion made by Andrew Haldane and others)[9];

The reform of regulation and supervision of financial markets and the change of business models in the financial industry could bring about more robust and resilient organizations and economic systems;

Rediscovering the logic of the Bretton Woods arrangements would bolster the resilience of the international financial policy regime[10];

Designing proper regulatory and supervision frameworks of finance in the 'market-maker' (big) economies is essential for dealing with negative spillover effects of their policies.

How can the ECB coordinate its policies better with the FED and other major central banks, for the sake of mitigating boom and bust dynamics in the global economy, has to be given more clear answers. Is the Financial Stability Board an effective instrument to this end? What about G-20 in this regard? Can the IMF play a significant role in this respect? There is so much still to be figured out in order to make macro-prudential policies effective instruments. ■

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No need to change the eurozone Stability and Growth Pact

Stefano Micossi is Director General of Assonime, visiting professor at the College of Europe in Bruges and a member of the CEPS Board of Directors. Fabrizia Peirce is Senior Economist at Assonime, the Association of Joint Stock Companies

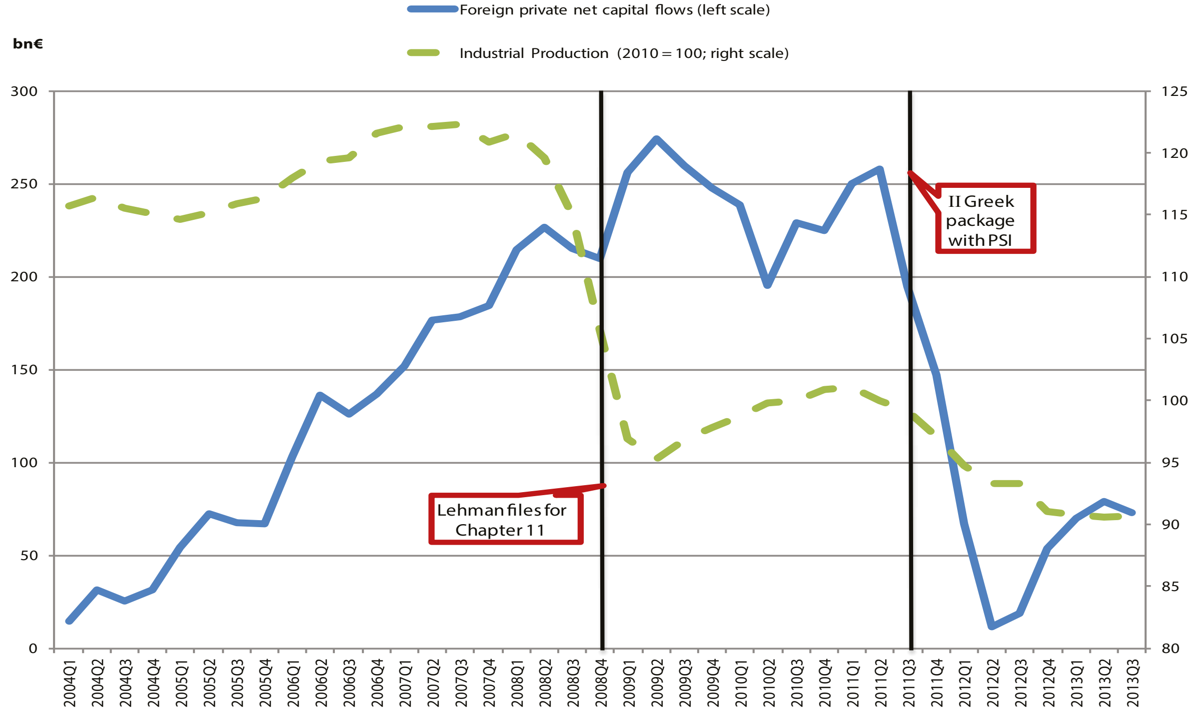
Flexibility in the EZ SGP: asking the right question

The policy debate about how best to restore growth in the flagging eurozone (EZ) economy has been plagued by demands from some highly indebted member countries that the Stability and Growth Pact (SGP) be loosened to leave greater room to support the economy with budgetary instruments. Invariably, these demands have been met with instant rebuff from the Commission and financially solid EZ members who argue that loosening the Pact would do little to restore sound growth. This question has also hindered the broader discussion on the need for and content of a renewed growth strategy for the EZ, no least by fuelling fresh mistrust among its members.

Lack of clarity about what precisely would be the scope of budgetary flexibility has not helped to resolve the issue. In one extreme interpretation, flexibility could mean removing altogether the budgetary constraint on highly indebted countries and letting them support the economy with deficit spending and tax cuts.

The argument is that budgetary austerity was the main culprit in pushing the EZ economy into its double-dip recession in 2010-12 and that therefore growth could be restored by relaxing the budgetary constraint. This view seems to overlook the major role played in the drop in economic activity in the EZ periphery by the sharp contraction of bank credit, owing in turn to the collapse of investors' confidence in the banking system of the EZ periphery and the drying up of net private foreign financing to countries under stress, as depicted in Figure 1.[1] While confidence has now been somewhat restored to EZ financial markets, thanks to a combination of budgetary retrenchment by indebted countries and liquidity support from the ECB, the situation remains fragile, as shown by the shock-waves generated by the difficulties of the Portuguese Banco Espírito

Figure 1. The collapse of net foreign financing in the 'PIGS' in 2011-2012



Source: Eurostat 2014. The 'PIGS' include: Portugal, Italy, Spain and Greece. Ireland is not included due to lack of comparable data in Eurostat.

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"... there is no need to revise the existing rules to introduce greater flexibility, since existing rules are fully capable of meeting cyclical oscillations of the economy"

Santo in mid-July. In all likelihood any large-scale relaxation of the budgetary constraint in highly indebted countries would soon encounter a flight of investors.[2]

It follows that the discussion about flexibility within the SGP must have a more limited scope, which is how much room is available within existing rules for two different goals: to cushion an unexpected fall in activity through the operation of budgetary stabilisers, and to accommodate structural reforms capable of strengthening the economy and the budget itself in the long run, but requiring some budgetary flexibility in the short run to meet their initial cost (eg. in the transition to fully funded pension systems or a flexi-security model of unemployment support).[3]

This issue is examined in our CEPS Policy Brief (2014)[4], which offers a detailed review of the SGP and discusses whether the existing margins of flexibility are adequate to meet those two separate goals.[5] We analyse the flexibility clauses of the SGP under three headings, ie. 'exceptional circumstances', 'structural reforms and other relevant factors', the 'investment clause'.

Exceptional circumstances

Under Article 126.2 of the Treaty on the Functioning of the EU (TFEU), the *"excessive deficit procedure"* (EDP) would not be triggered, even if the reference value of the deficit ratio (3%) had been breached, when the excess over the reference value *"is only exceptional and temporary and the ratio remains close to the reference value"*. The definition of "exceptional circumstances" is provided by the Council Regulation 1467/97,[6] which is 'the corrective arm' of the SGP (what must be done after the deficit and debt rules have been breached) as an unusual event outside the control of the member state which has a major impact on its financial position or a severe economic downturn[7] – a definition that is readily applicable to the prolonged depression in some EZ countries.

Exceptional economic circumstances can also justify the reduction or abrogation of sanctions imposed on member states in the event of particularly serious non-compliance with budgetary policy obligations in the EDP. In 2013 a number of countries, including France, had their EDP deadlines extended and the intensity of the effort required softened under these provisions.

The Six Pack of 2011 made allowance for consideration of exceptional circumstances, also in the 'preventive arm' of the SGP (Council Regulation 1466/97);[8] they can be taken into consideration by the Commission and the Council to allow a temporary deviation from the adjustment path towards the medium term objective (MTO) of a balanced or surplus budgetary position (without endangering debt sustainability in the medium term).

Structural reforms and the other relevant factors

The preventive arm of SGP allows for important elements of flexibility in defining the adjustment path towards the MTO or consenting member states to deviate temporarily from it, most notably the effective implementation of structural reforms capable of underpinning financial stability by strengthening the economy and raising potential growth. The Specifications on the implementation of the SGP stress that only *"adopted reforms"* will be considered for this purpose.[9] Moreover, here too a safety margin with respect to the 3% deficit reference value must be guaranteed at all times, and the budgetary position must return to the MTO within the three-year period covered by the Stability Programme.

The rationale is that structural reforms may bring about long-term expenditure cuts and revenue increases, eg. stemming from improved sustainability of the health and pension system or reduced long-term unemployment following labour market reform, even if they may entail short-term costs for public finances.

Furthermore, due consideration will be given to any other factors which, in the opinion of the member state concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria. Under certain conditions, consideration of *"other relevant factors"* may lead to not placing a member state in EDP, eg. when the deficit ratio has been exceeded but the debt ratio is below the reference value. Similarly, a breach of the debt reduction benchmark may result in the opening of an EDP only after relevant factors have been taken into account; these factors will be considered in the recommendations for correcting the excessive deficit, including the deficit reduction path.

The investment clause

As has been recalled, during the crisis, activity fell more rapidly than expected in countries undertaking tough adjustment

programmes; unfortunately, the easiest target of fiscal consolidation was public investment, which fell dramatically in the crisis years. However, this was member states' choice rather than a result of SGP rules.

Moreover, in June 2012 and again in March 2013, the European Council recognised in their conclusions the need to *"balance the productive public investment needs with fiscal discipline objectives"*; thus opening the door to a specific investment allowance in the SGP preventive arm that would relax MTO deficit convergence obligation while still respecting the 3% constraint.

This intention was transformed into a legal provision in the Two Pack; accordingly, on 3 July 2013 Commissioner Olli Rehn sent a letter to EZ member states stating that the Commission would allow temporary deviations from the structural deficit path towards the MTO, or from the MTO for member states that have reached it, provided that certain conditions were met.[10]

It has been clarified that this investment clause should not be confused with the proposals to exclude growth-enhancing investment from the deficit ceiling (the so-called golden rule of public finance) and that the investment clause was to apply only as long as the current depressed economic conditions continue. The Commission has remained opposed to using this clause, and managed to reject Italy's request to use it in autumn 2013 on the grounds that the country was not compliant with the debt-ratio reduction path.

Conclusions

Our review of the SGP indicates that there is no need to revise the existing rules to introduce greater flexibility, since existing rules are fully capable of meeting cyclical oscillations of the economy or to finance to accommodate the short-term costs of structural reforms undertaken to strengthen debt sustainability in the medium-term. The key condition here is that the structural reforms must have been 'adopted' as explicitly stated in the SGP and not simply announced. ■

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1. IMF (2012) econometric estimates on multipliers – while taking into account many other potentially relevant factors – did not control for the collapse of net foreign financial flows. The key role of the "sudden stop" of net private foreign financing in bringing about the eurozone crisis mainly depends on the EZ peculiar institutional structure, which raised doubts in financial markets about the availability of liquidity support by the ECB for the orderly rollover of distressed sovereign exposure (De Grauwe 2011, De Grauwe & Ji 2013, Pisani-Ferry & Marzinotto 2014). The confidence crisis was exacerbated by the announcement in Deauville (October 2010), and then the application in the second Greek package (summer 2011), of a new policy of private sector participation in sovereign debt restructuring, which triggered the contagion of the sovereign debt and banking crisis to Spain and Italy.
2. To be sure, this does not obviate the potential need for the EZ to act with common policy instruments to strengthen the economic recovery, including a more aggressive use of monetary instruments (as argued by the IMF in 2014), a joint initiative to raise public and private investment (Bassanini & Reviglio, 2014), and possibly also a scheme to directly address the question of debt sustainability (as in Pâris & Wyplosz, 2014). However, these actions must be discussed and brought forward without endangering the results achieved under fiscal consolidation.
3. This is the conclusion reached by the European Council at their recent meeting in June 2014: "... fiscal consolidation must continue in a growth-friendly and differentiated manner. Structural reforms that enhance growth and improve fiscal sustainability should be given particular attention [...] while making best use of the flexibility that is built into the existing Stability and Growth Pact rules".
4. Micossi S and F Peirce (2014), "Flexibility clauses in the Stability and Growth Pact: No need for revision", CEPS Policy Brief No. 319, 24 July.
5. The matter mainly arises with regard to countries that have not undertaken an adjustment programme under the aegis of the Commission (or the Troika), but may also affect countries in excessive deficit procedure (EDP). For countries undertaking an adjustment programme under Commission control, all fiscal requirements are specified and enforced in that context.
6. As amended by Regulations 1056/2005 and 1177/2011.
7. In the original SGP, an economic downturn was qualified as "severe" when annual real GDP had fallen by at least 2%. Following the 2005 reform, it became sufficient to show that there had been a decline in (annual real) GDP or an accumulated loss of output during a protracted period of very low annual real GDP growth relative to potential gauged from the output gap. The text further specifies that any excess over the reference value shall be considered as temporary if the forecasts provided by the Commission indicate that the deficit will fall below the reference value following the end of the unusual event.
8. As amended by Regulations 1055/2005 and 1175/2011.
9. Economic and Financial Committee (2012).
10. That (i) economic growth is negative or well below its potential; (ii) the deviation does not lead to a breach of the 3% deficit ceiling and the public debt rule is respected; and (iii) the deviation from the MTO is linked to national expenditures on projects co-funded by the EU under its Structural and Cohesion policy, Trans-European Networks and Connecting Europe Facility.

Sukuk: an international asset class

Sohail Jaffer is Deputy CEO at FWU Global Takaful Solutions

2014 has been a landmark year for the internationalisation of the market for sukuk, which are increasingly attractive to both issuers and institutional investors in Europe, Asia and the MENA region. Although total issuance in the global sukuk primary market slowed in 2013, growth was restored in the first half of 2014, with 244 sukuk tranches raising $66.3 billion, up by 8.2% on the same period in 2013, according to data compiled by Kuwait Finance House (KFH)[1].

According to the same data, while Malaysia continued to account for the lion's share of global primary issuance, contributing $41.7 billion, or 63% of the total, issuers from 11 jurisdictions came to the market in the first six months of 2014. A process of internationalisation that had passed an important landmark in 2012, when Turkey issued its debut sukuk transaction, has gathered conspicuous momentum in 2014. In June, the UK's Debt Management Office (DMO) issued its long-awaited inaugural sukuk, a £200 million five year transaction which was priced flat to gilts but generated total demand well in excess of £2 billion.

Another key development in the international diversification of the sukuk market was the announcement in early 2014 of Hong Kong's plans to issue its maiden shariah-compliant transaction.

Both transactions were important milestones in the evolution of the global Islamic capital market, however, because they reaffirmed the commitment of two of the world's premier financial centres to shariah-compliant finance. Both also established benchmarks that can be used by a wide range of other borrowers to inject further diversity and liquidity into the sukuk market.

Luxembourg: building its sukuk credentials

AAA-rated Luxembourg presented a revised bill to its Council of State in June 2014, paving the way for the Duchy to launch its debut sukuk. The presentation of this bill was driven by the Council's request for a 'convincing explanation' as to why a sukuk would be a more appropriate form of financing than a conventional bond, given the additional costs of appointing a shariah board to verify the transaction's adherence to Islamic law[2].

The passage of the bill, in July 2014, allows Luxembourg to securitise three government properties to back a €200 million sukuk transaction, which would further enhance the Duchy's role as a key centre for Islamic finance.

The potential of Africa

Other jurisdictions now weighing up the merits of the sukuk market range from Jordan, which in July 2104 passed a long-awaited set of rules allowing for the issuance of sukuk to tiny Malta, which has been reported to be studying the potential of issuing a small shariah-compliant transaction as a means of testing investor appetite[3].

In other regions, Africa is also emerging as an important growth area for Islamic finance in general and for sukuk issuance in particular. The south-western state of Osun launched Nigeria's first sukuk issue in October 2013, and Senegal unveiled its

inaugural sovereign sukuk in July, a CFA100 billion ($208 million) issue. South Africa has indicated that it plans to follow suit, while the Nigerian and Kenyan governments are also said to have government sukuk in the pipeline[4].

In its extensive report on the outlook for the global market in 2014, *Thomson Reuters Zawya* identified the north African quartet of Tunisia, Libya, Morocco and Egypt as being among the most promising sources of new issuance. To date, however, the emergence of sukuk in the Maghreb has seen a number of false dawns. Egypt's sovereign sukuk law remains clogged in uncertainty[5], while Islamic finance has been disappointingly slow to take root in Morocco.

Core sukuk markets

While an expanding list of countries will add to the international diversity of the sukuk market, the lion's share of the volume will continue to be accounted for by the Muslim-majority countries where the growth of Islamic banking has been identified as a priority at a government level. One of these is Pakistan, where shariah-compliant assets accounted for around 10% of the total in the banking system in December 2013. The stated objective of the State Bank of Pakistan's five-year strategic plan is to increase this total to 15% by 2018[6].

Indonesia, which has issued regularly in the global sukuk market each year since 2010, has a similarly ambitious five year plan to increase the penetration of Islamic finance in its domestic financial services industry. Although it is the world's most populous Muslim country, shariah-compliant assets accounted for less than 5% of the Indonesian banking industry's total at the end of 2013[7].

It is Malaysia, however, that continues to lead the way in developing an Islamic capital market, the potential for which has not gone unnoticed among international issuers looking to diversify their global investor bases. In June 2014, for example, leading international banks such as Bank of Tokyo Mitsubishi and France's Société Générale cast an important vote of confidence in Kuala Lumpur's credentials as a hub for the Islamic capital market by setting up multi-currency sukuk programmes in Malaysia. A significant share of issuance from Malaysia will be driven by the banks' capital requirements, according to the Moody's analysis.

Diversity of borrowers, maturities and structures

Depth of demand for sukuk in 2014 has also been reflected in the capacity of borrowers across the credit spectrum to access the market, with the emergence of double-B rated issuers such as Damac Real Estate, which issued a $650 million five year transaction in April.

The growing depth and diversity of the sukuk market has also been reflected in the emergence of longer maturities in a sector that was once concentrated at the short to intermediate area of the yield curve. For example, when Saudi Electricity launched its $2.5 billion, two tranche sukuk at the start of April 2014, it was the borrower's largest ever shariah-compliant transaction, generating demand of $12.5 billion.

> *"Bankers are hopeful that the increasingly deep and liquid Islamic capital market will play an important role in helping to support much-needed investment in infrastructure throughout the Middle East and Africa"*

Sukuk wakalah – adding structural diversity

The global sukuk market is also diversifying structurally, with a number of innovations adding to the depth of the sector over the last 12 to 18 months. A notable example is the $100 million FWU Sukuk Wakalah programme, the first series of which was named as European deal of the year in 2014 by *Islamic Finance News*. Healthily oversubscribed when it was launched in October 2013, this $20 million Salam III issue broke new ground as the first securitisation of shariah-compliant life insurance policies.

A more diversified range of sukuk issues – by geography, sector, credit rating and structure – twinned with a wider range of maturities will clearly support the longer term growth of the Islamic capital market. So too will the continued internationalisation of the investor base, with rising portfolio flows from the Middle East to Asia, and vice versa, adding liquidity to the global sukuk market.

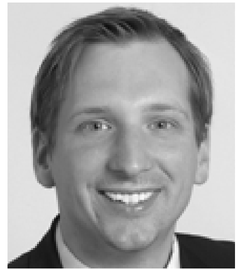
Rising two-way portfolio flows between the Middle East and Asia in the sukuk market have been helped by harmonisation of issuing standards. The establishment of a number of international entities such as the Islamic Financial Services Board (IFSB) has played a key role in homogenising practices across the shariah-compliant capital market.

The role of sukuk in the infrastructure market

Bankers are hopeful that the increasingly deep and liquid Islamic capital market will play an important role in helping to support much-needed investment in infrastructure throughout the Middle East and Africa. Specifically, market estimates have suggested that in the GCC alone, anything from $535 billion to $2 trillion will be required between 2010 and 2020 to overhaul existing facilities and develop new infrastructure. Africa, meanwhile, faces a jaw-dropping infrastructure gap of some $35 billion per year, according to the World Bank.

While much of this requirement will be met by support from official sources and conventional capital markets, the contribution of shariah-compliant funding is likely to be significant. ■

1. Global Sukuk Report 1H 2014, www.kfhresearch.com
2. Reuters, June 20 2014
3. Malta Today, August 6 2014
4. Bloomberg, June 27 2014
5. See www.zawya.com 17 July 2014
6. See Moody's "Pakistani Regulator's Five-Year Strategy will drive Asset Growth and Consolidation in Islamic Banking," August 6 2014, www.moodys.com
7. According to data from the regulator, Otoritas Jasa Kevangan (OJK), www.thestar.com.my May 29 2014



The EU and the City of London

Robert Oulds is the Director of the Bruges Group which published the *City of London in retreat: The EU's attack on Britain's most successful industry* by Professor Tim Congdon, CBE. Robert Oulds is the author of *Everything you wanted to know about the EU: But were afraid to ask* published by Bretwalda Books

For the City of London membership of the European is a double-edged sword.

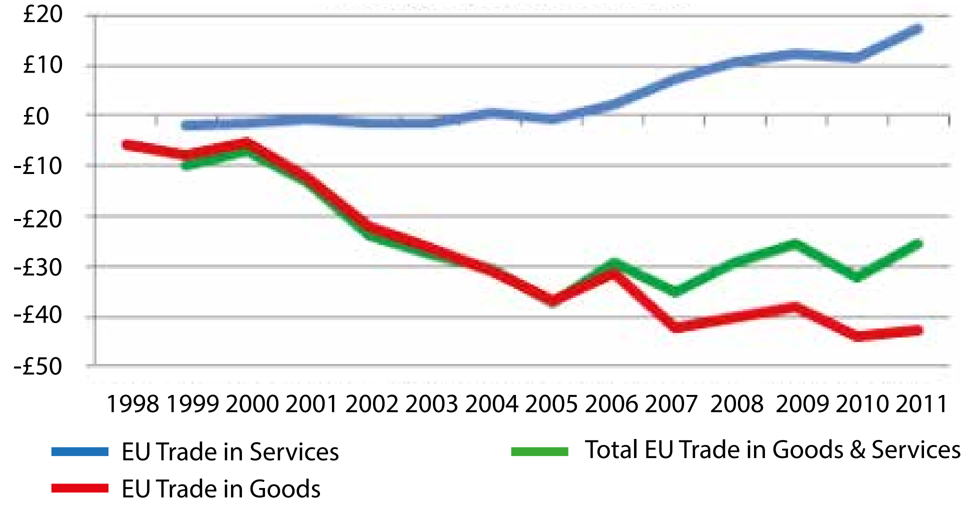
Coming with EU membership is full access to the single-market in services. Whilst this market is far from complete being part of it, also known as the European Economic Area, is the only way to have full unencumbered access for the sale of services into the EU.

The services industry is an especially important part of the UK's economic links with the EU. In 2011 the UK's trade in goods with the EU was in deficit by around £43 billion; however trade in services was in surplus by £16 billion. This reduced the overall deficit to approximately £28 billion.[1]

The UK's entire financial services sector, which supports the resulting and even larger international business services, is however threatened by UK's membership of the EU. These businesses sell their services much further afield than the EU, yet inside the European Union they will still be subject to the whims of EU laws proposed by the Commission and agreed by qualified majority vote without the UK having a veto.

EU regulators, the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities Authority have been established to regulate and standardise. Under the European Systemic Risk Council and the European System of Financial Supervisors control, enforcing the writ of the European Commission, the City of London may face its biggest test. These new bodies have the power to close down a financial institution. The EU bureaucracy has already begun interfering in UK financial institutions.

UK trade with the EU £billion



Source: Hansard

Research by the leading economist Professor Tim Congdon CBE has concluded that this threatens the UK's position as a world leader in international business services. These businesses are highly mobile and can easily relocate to more welcoming climates; taking their tax revenue and employment with them.

Research published by the Bruges Group found that 'in the fourth quarter of 2013 business services accounted for 1,517,000 jobs in London, which was 28% of all London employment. (Their proportion in UK employment as a whole was much lower, 15.7%.)

'These business are based primarily in or around the capital. London-based international business services (ie, both financial and non-financial services) employ about 5% of the UK's working population and produce perhaps 8% - 10% of its national output, with most of that output exported. Continued growth of these activities at above the growth rate of output as a whole would be positive for the UK's average living standards.'

Since the 1960s financial services in Britain have enjoyed stellar growth. It was the most dynamic part of the British economy. This has now ended, and Professor Congdon sees EU regulation as being largely to blame. He argues that the EU's regulatory structure is less efficient than Britain's previous national system and the EU's rules are in effect anti-growth. The 40 years of expansion is now at an end and the industry is in retreat.

If Britain is to remain a prosperous nation then the UK must follow a path that will both protect businesses from the harmful effects of EU regulators whilst preserving full access to the Single Market. What can be done to achieve this?

There is the example of the Swiss, like Britain they have a strong financial services industry. Although they have a series of free trade agreements in goods these do not cover the export of services.

Swiss-based companies do not have the right to sell their services to the EU unless they establish a subsidiary inside the European Economic Area. This is not an insurmountable problem but should be avoided. Multi-national companies by definition can and do establish themselves in different jurisdictions. However, small and medium-sized enterprises will find creating subsidiaries burdensome, restricting opportunities, in the EU's internal market.

The Swiss experience is that rules that would deprive British financial service firms from operating inside the remaining EEA can be sidestepped. A Swiss report found that *'Though extremely cumbersome this does give them full access to the EU market.'*[2] However, if the subsidiaries are based in the EU they will be subject to the same heavy handed bureaucracies.

There is however another way.

The UK can leave the EU, freeing businesses from the European Commission's quangos, and keep full access to the Single Market. The only one way that this can be achieved is for Britain to rejoin the successful and non-authoritarian European Free Trade Association (EFTA) and thus remain a member of the European Economic Area (EEA), also known as the Single Market.

Aligning the UK with EFTA will at a stroke free Britain's financial services industry from control by:

"The UK's financial services industry has a global role and should not be hemmed into little declining Europe. It is time to make the switch"

- The EBA (European Banking Authority)
- European Insurance and Occupational Pensions Authority
- European Systemic Risk Board
- European Securities and Markets Authority (ESMA)
- Community Programme for Financial Reporting and Auditing

EFTA/EEA nations not only enjoy freedom from EU financial oversight, they also have the benefit of being able to run their economies as they see fit. They are free from EU debt risks and are not subject to European Union tax law, an area which the EU law is steadily expanding into. The City of London will also free from an EU Financial Transaction Tax. As a member of EFTA, Britain will also be able to veto the regulations that threaten pay within the financial services sector, such as; 'Recommendation on remuneration the financial sector 32009H0384'.

The City of London brings capital to this country financing wealth creation as well as pubic services throughout the land. It attracts skills and other business supporting the economy as a whole. Yet the EU has become a threat to the future of this industry.

The UK's financial services industry has a global role and should not be hemmed into little declining Europe. It is time to make the switch. ■

1. http://www.theyworkforyou.com/lords/?id=2012-11-14a.1507.0
2. Centre for Swiss Politics, University of Kent, Switzerland's Approach to EU Engagement: A Financial Services Perspective, City of London, April 2013, page 4

Turning innovation into assets

Introduction

The wealth management industry has changed dramatically. Supply-led, product-push distribution models have become increasingly obsolete in an environment where understanding your clients' needs and demonstrating a real and genuine capability to deliver value against them is a critical business success factor which requires more than the simple adoption of a client centric approach.

Parallel to developing relevant client centric processes and dialogues, firms need to broaden as well as deepen their skills and knowledge base. Creating sustainable competitive advantage requires the evolution of structures, processes and systems to promote innovation, enabled by the development of wider knowledge based organisations to promote collaboration, co-ordination and effectiveness. It is in this context we are proud to award Mediolanum Asset Management Limited (MAML) the *World Commerce Review* award for the *Most Innovative Asset Manager in Ireland 2014.*

Mediolanum Asset Management Limited (MAML) is the Dublin, Ireland based asset management arm of the Italian Mediolanum Banking Group, whose operations also act as an open innovation platform for investment products within the Group. They are unusual in the pre-eminence they give to embedding client centricity in their culture as well as their focus on developing the knowledge management systems and processes that underpin their open networked business model. Client solutions are developed, supported and evolved via MedInSynC®, their in-house product development process while their proprietary investment management process Med³® ensures that those same products deliver against the client needs and commercial promise upon which they were originally proposed.

In an industry where retail distribution channels are proliferating and consumer choice is increasing Mediolanum strive for excellence and consistency in terms of their end customer experience throughout the full cycle of customer interactions, not just at specific touch points. From initial client consultation through to clients achieving their specific investment objectives the firm recognises that positive customer experiences provoke strong emotive responses such as satisfaction loyalty and, most importantly, trust.

A measure of this trust is the firms continuing success having experienced positive net inflows every month since inception in 1998 and recording an impressive €3 billion or 15% increase in AUM for the Dublin based business in their most recent audited accounts.

Business model

Adopting and leveraging information technology and systems deployed in other industries particularly the technology industry, the Dublin operation operates a unique networked operating model where an external network of industry partners collaborate to complement existing internal skills and expertise. Frank O Dwyer, CEO of the Irish Association of Investment Managers, says; *"Mediolanum is a big believer in the open innovation model, where firms can and should use external ideas in developing their own products".* External contributions are captured by a cloud based Idea Management System (IMS) used not just to support innovation and product development initiatives but also to supplement its asset management capability. The IMS in turn is just one part of a customised Knowledge Network Platform (KNP) developed to facilitate the rapid transfer of knowledge across functions and geographies as well as capture the tacit knowledge of the firms' internal human resources.

Other components include MedCred™, an internally developed virtual rewards system to promote internal collaboration (virtual system but real rewards!), an on-line virtual library

with audio visual content as well as collaborations with IBM Corporation who state *"The introduction of data warehousing and analytics platforms supports the company's customer-centric strategy – enabling more active, agile product management and faster delivery of information to clients"*.

Creating this collaborative knowledge based network has boosted the firm's available internal knowledge, skills and resources which might otherwise have proven to be a limitation on its product innovation and asset management activities. It allows access to unlimited human capital and market intelligence capabilities delivering Mediolanum an information advantage relative to its size. When optimised via internal processes such as MedInSynC® and Med³® this has a significant impact on the quality of investment decisions and subsequent client outcomes.

This recognition that harnessing technology, not technology of the sort developed to process more and faster, but technology linked to digital media, analytics, big data and cognitive computing is a critical success factor in developing its own retail investment management business has not been lost to Mediolanum. A practical example has been the ability to recognise the value of the web as a source of information. They were recently quoted in a research paper by Eagle Alpha *Discovering the Web's Hidden Alpha; How the buyside can make full use of online information* which looks at asset managers that innovatively use social media within their investment processes.

The Irish connection

Most companies want to set up their R&D centres in a location where the local business culture is dynamic and supportive and it is here that the Irish link has proven critical. Ireland provides an invaluable ecosystem of global intelligence through its unique mix of leading IT companies and financial services organisations.

Dublin is the internet and cloud capital of Europe with a giant cluster of technology names from IBM, Intel and Oracle to Google, Face book, Twitter and LinkedIn. While it was ranked tenth overall of 142 countries in Cornell's Global Innovation Index 2013, it was voted fourth in the 'knowledge and technology' category - trailing only Switzerland, China

"Mediolanum are unusual in the pre-eminence they give to embedding client centricity in their culture as well as their focus on developing the knowledge management systems and processes that underpin their open networked business model"

and Israel. This proximity to centres of excellence is a great accelerator to businesses located in Dublin, especially those companies that have the open innovation systems and culture in place to tap everything the capital has to offer.

This is exactly the case for Mediolanum who are also actively contributing to this growing pool of interconnected skills and knowledge. MedLab® its internal R&D centre charged with promoting and facilitating innovation throughout its entire product and service delivery cycle is actively linked with similar groupings across the capital as well as embedded with academia both on developing specific research projects and contributing to the development of courses specifically promoting innovation as a unique discipline. It is also co-sponsor of the FinTech initiative run by the NDRC (National Digital Research Centre) which aims to identify, support and grow industry innovators with early stage ideas which have the potential to grow into viable businesses.

Summary

While Mediolanum's initial objective was to develop management tools and processes to constantly monitor and deliver real value against client needs the resultant networked knowledge-based organisational structure and innovation-driven culture supported by investment in enabling technologies is none the less very worthy of the recognition bestowed by this award. ■

Can trade credit insurance help your business become more successful?

Christine Gerryn is Director of Group Communications and Commercial Development at Atradius Credit Insurance NV

Trade credit insurance has come into the fore in recent years, making a name for itself on the global business stage as the financial crisis hit, with claims pay outs by trade credit insurers saving many businesses from the knock-on effect of their clients going under.

Finding itself suddenly centre stage has been beneficial for the trade credit insurance industry. Today, it is generally – though not always - better understood than it was prior to the financial crisis. A trade credit insurance policy is unlike any other kind of insurance in that it expands and contracts in tandem with a business' trading activities, reflecting their trading pattern. Each time a company undertakes a new contract, providing goods and services to a new client, they work closely with their trade credit insurer. This is where the key benefit of trade credit insurance kicks in. A good trade credit insurer becomes the eyes and ears on the ground for their client. On a company's behalf, they will check any prospective client's stability, creditworthiness and reputation.

Christine Gerryn comments: *"What many businesses don't necessarily realise is that a good trade credit insurer can offer help and trade intelligence which is virtually impossible for all but the largest businesses to replicate in house. At Atradius for example, we have 160 offices located in 50 countries around the world. The underwriting teams in those locations have live data on over 100 million businesses at their fingertips. But more importantly, their geographical spread and invaluable local knowledge of business culture, payment practices and emerging geopolitical situations around the globe offers a significant advantage to businesses seeking to trade in new parts of the world, or with new customers."*

But this is not the only advantage of using trade credit insurance.

What is less well documented is that trade credit insured businesses are more likely to succeed. The reasons for this are numerous, but not least because of the structured way in which trade credit insurance encourages businesses to engage with best practice in the management of their cash flow.

Gerryn continues *"Trade credit insured businesses are more likely to understand and practice good credit management discipline. A well-structured dunning process is the first step to good credit management. Given that any monies overdue need to be communicated to your insurer at a predetermined time ie. a certain number of days overdue, dunning is a critical part of this process. Further down the line, getting a claim paid requires the same - any notifications of non -payment must be filed within a fixed timeframe for a claim to be valid."*

The other key stabiliser of businesses who use trade credit insurance is that they hold more comprehensive knowledge of their customers than uninsured businesses. An example might be a manufacturer of car exhaust pipes, who is supplying a car manufacturer. The car manufacturer is overdue with their payment, so the exhaust manufacturer notifies their trade credit insurer. At the same time, the trade credit insurer is sent notifications of non-payment by other suppliers to the same car

WORLD COMMERCE
REVIEW

AWARD

Most Innovative Asset Manager in Ireland 2014

World Commerce Review is pleased to announce that Mediolanum Asset Management Limited has been awarded the Most Innovative Asset Manager in Ireland 2014.

The selection panel took into account product innovation, on-going customer support and best practice criteria.

In addition, forward planning and CSR were seen as key areas for the award committee.

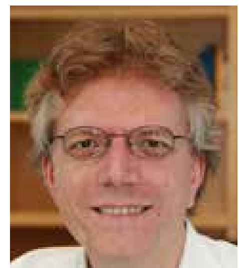
The World Commerce Review awards are recognised as the principal indications of professional conduct and excellence.

"Successful business practice is about taking risks – and we help businesses to select the right ones"

manufacturer – those providing tyres, interiors, paint, electrical fixtures and so on. In circumstances like these, where a number of insured companies have reported the same payment default pattern, the insurer is able to build up a comprehensive picture. The trade credit insurer's next step is to contact the defaulting business and work with them to determine the cause of the situation. This is subsequently reported back to the insured businesses as up-to-date credit risk information. This means that those insured companies are trading, safe in the knowledge that they have access to the most up-to-date picture of their trading partner. The default may be for a good reason – or it may not. Either way, insured businesses can make an informed trading decision.

In the case of on-going non-payment there is the added benefit of debt collection – many businesses are unaware that this is part and parcel of the service offered within certain trade credit insurance policies. With detailed knowledge of local legislation, business practices and so forth, the success rate of an insurer such as Atradius collecting the debt is likely to be higher than that of an individual business attempting the same, particularly in a remote foreign country and as the debt ages. In certain parts of the world, such as China, it is even illegal for a foreign business entity to collect a debt from a Chinese business, so a locally based collections service is critical to the retrieval of monies owed.

To conclude, although the benefits of trading with trade credit insurance are not always fully understood, the advantages are multiple, and ultimately, lead to successful trading, wherever in the world it takes place. As Gerryn sums up, *"As an industry, we still have some way to go to fully educate businesses – particularly SMEs – with regard to the multiple positive facets of trade credit insurance. But in a nutshell, it keeps businesses better informed, better disciplined and better protects them from inherent dangers in the supply chain. Successful business practice is about taking risks – and we help businesses to select the right ones."* ■



Youth unemployment in Europe

What employers and policy makers can do

Werner Eichhorst is the Director of Labour Policy Europe at the independent Institute for the Study of Labour (IZA) in Bonn, Germany, the world's largest research network in labour economics with more than 1,300 economists from over 50 countries.

Youth unemployment has become one of the most pressing and highly discussed issues in Europe in the aftermath of the 2008 recession. However, there is major divergence in youth unemployment rates across European countries, with massive increases in Spain, Greece, Italy, Portugal and France. Some Central and Eastern European countries also report unemployment rates of more than one-third, while the situation is mostly stable in Germany, the Netherlands, Austria or Denmark.

However, youth unemployment rates are not the best indicators available, as the active share of the youth labour force varies greatly due to enrolment in upper secondary and tertiary education. Measuring youth exclusion via the NEET rates, ie. the share of young people not in employment, education or training, shows lower values and more contained increases, but the cross-country divergence is also remarkable.

Cross-national differences highlight the crucial interaction of a macroeconomic shock with the institutional arrangement in place, and in fact youth (un)employment is one of the areas where institutions make a real difference. The recent crisis has once again highlighted the structural problems that already existed in better times. In general, there is a particular vulnerability at the early stage of labour market careers that is typical for young people in many countries. But institutions are crucial in structuring the transition from school or education to work. This holds for:

(i) the regulation of employment protection (fixed-term vs. permanent contracts) that tends to create dual labour markets with very limited possibilities of a transition to stable jobs in many Mediterranean countries,

(ii) minimum wages which can be particularly harmful for young people without particular skills or work experience,

(iii) vocational training, where dual vocational training and apprenticeships appear superior to general education and purely school-based vocational education as the former combine structured learning with early work experience,

(iv) active labour market policies to deal with the prevention of (long-term) unemployment such as preparatory training,

alternative curricula and subsidized forms of employment that are more or less effective in promoting a sustainable access to the labour market.

Countries with high or rising youth unemployment and NEET rates often lack institutional preconditions for a smooth transition from school to work. Youth-friendly labour markets are either flexible (with a low regulatory gap between permanent and temporary jobs, and moderate minimum wages) and/or they have strong vocational training that the raises attractiveness of labour market entrants to employers due to skills acquisition and work experience combined.

Recent initiatives in Europe to promote reforms in that direction are somewhat limited, however, because of the difficulties in implementing vocational training systems. The establishment of (dual) vocational training is one of the most difficult institutional innovations as it requires cooperation between government (training schedules, funding of vocational schools), social partners (committed to promoting vocational training and co-management of the system, including pay agreements), individual employers (hiring apprentices, providing work experience and training by qualified trainers), and, last but not least, young people and their families (accepting vocational training as a reasonable alternative to academic education).

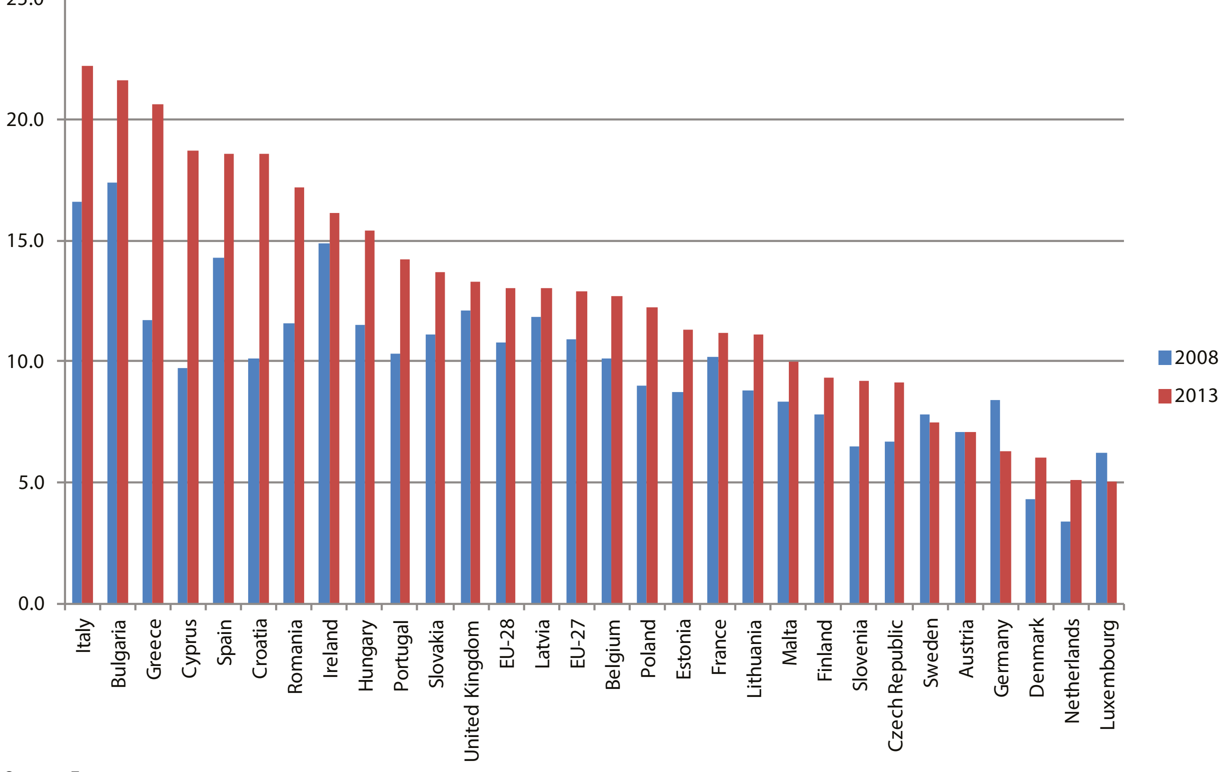
Where they exist at a relevant scale, these systems have major historical and societal foundations that are hard to transplant. However, existing regional or sectoral networks of employers could establish pragmatic versions of structured learning and joint schooling when there are shared interests and a critical mass of firms supporting it as well as backing by regional governments. Experiences with pilot projects, regional or sectoral clusters of employers or traditional apprenticeships can be instructive in this respect.

"... employers in countries with high unemployment are well advised to create better opportunities for young people as a means to ensure their own competitiveness"

The main challenge is to make on-the-job learning more systematic and to bring school-based vocational training or general education closer to labour market needs. To achieve this, employer participation in more effective vocational training is crucial. Hence, 'simplified' versions of dual VET can work, bringing training closer to employers' demand and real work experience. For example, if a number of employers in some region or sector are able to identify a joint interest in dual VET as a way to promote the productivity of their workforce, it could be realistic to start with a dual VET cluster, ideally with the support from the government who would need to take a supporting role with regard to the vocational schooling components. A basic agreement regarding funding, management and curricula could be a good starting point.

Employers in countries with high youth unemployment do not only have a social responsibility, but they have to see that deficits in skill formation with young people will also harm their business performance in the future, particularly with demographic ageing. A lack of skill formation will certainly undermine future attempts at reviving economic activity. In the short run, and at the individual level, mobility to regions or countries with tight labour markets in order to find a job or an apprenticeship can be a beneficial response to avoid

NEET rates in the European Union



Source: Eurostat

unemployment on the one hand and labour shortages on the other.

But employers in countries with high unemployment are well advised to create better opportunities for young people as a means to ensure their own competitiveness. It could also make sense to collaborate across borders to ensure proper vocational training when it takes long to establish such capacities.

It must also be noted that youth unemployment cannot be overcome by targeted publicly sponsored active labour market policies, such as youth guarantees promoted within the EU. These measures require good targeting and well-established implementation capacities. This is particularly difficult in countries or regions with high youth unemployment. Rather, youth employment benefits from macroeconomic improvement and labour market institutions that are conducive to employment growth and labour mobility. Improving VET systems remains relevant even if structural and institutional changes need to interact with attempts to increase certain types of job opportunities. But other elements maybe equally important in order to create labour market conditions that are more conducive to a smoother transition from school to work.

In this context, along with the strengthening of vocational training, the highly dualized structure of labour markets observed in some countries (Italy, Spain or France, for example) needs to be addressed. Where there is a strong divide between employment protection for permanent contracts on the one hand and the regulation of temporary contracts or self-employment on the other, young people typically get stuck in chains of fixed-term employment spells or other forms of flexible employment as employers are very reluctant to hire youths on a permanent basis, especially in the absence of vocational training.

Reducing the rigidity of dismissal protection while increasing employment security for labour market entrants according to tenure could be a solution, and practical work experience and training could then further ease the successful integration of young people into stable jobs.

In this context, employers, while exposed to strong incentives to hire young people on a temporary basis, should definitely be aware of the long-term consequences of having a large segment of a cheap and flexible labour force that lack specific skills. This might undermine more quality-oriented business models. Stronger investment in skills via vocational training, based on some cooperation between employers (and with other actors), can also help make permanent employment more attractive from the employers' point of view. ■

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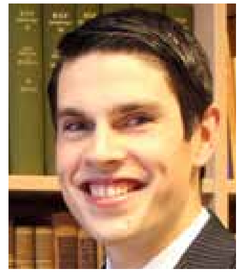

Getting the European energy policy back on track

Stephan de Vries is a scientific analyst at the Telders Foundation, a Dutch liberal think tank affiliated to the liberal political party VVD. This article is a summary of a recently published Telders Foundation report on the Dutch and European energy policies.

Energy, although we are not always aware of it, is used for almost all of our daily activities. Be it a drive in our cars, making a nice cup of coffee, or using our laptops, tablets and smartphones, for all of those applications – and thousands of other ones – we need energy.

In most European countries the supply of energy is reliable. Very reliable even. Nonetheless, measures are needed in order to maintain reliability and quality of such high standard. Meanwhile, the world of energy is in flux. Energy consumption in countries like China and India is rising fast and strong. Unconventional methods to extract oil and gas have created a revolution in the United States, stirring geopolitical shifts. Developments following the disaster in Fukushima leave the future of nuclear energy in doubt. On top of that, the emergence of renewable, partly locally produced energy – among which are wind and solar energy – will very likely prove to be a worldwide game changer.

Climate policy already has become a determining aspect of the energy policies of the EU and many of its member states. On the surface it might even seem that energy policy in some cases has become climate policy and vice versa. For some (maybe many), energy policy these days consists of little more than accomplishing the goal of reaching a carbon neutral energy supply as soon as possible. However, the two are not one and the same thing.

Although it is a fact that carbon dioxide is a greenhouse gas that causes global warming, questions remain about the extent to which humans contribute to the problem and about the consequences. How legitimate is it to spend billions of euros on subsidies for renewable energy, when the outcome of that policy is rather unclear? In addition, such an approach has some serious consequences for the stability and reliability of our energy supply in Europe.

Let us take a look at the Netherlands. Up to this point the Netherlands is not one of the pioneers within the European Union when it comes to increasing the share of renewables in its energy mix. With about 4.5% renewables, mostly biomass and wind, the country finds itself lagging behind many other member states, with countries like Sweden, Latvia, Finland and Austria performing above average. Even so, with the implementation of a new energy deal – signed by the government and some forty organizations – a turning point seems to be reached.

The Netherlands already supported the 2020 climate and energy package with its 20-20-20 goals: a 20% reduction in EU greenhouse gas emissions from 1990 levels; raising the share of EU energy consumption produced from renewable resources to 20% and a 20% improvement in the EU's energy efficiency. It also endorses the Roadmap 2050, with the goal of reducing greenhouse gas emissions to 80-95% below 1990 levels by 2050.

At the end of 2013, these European goals have been given shape at the national level through the new energy deal *'Energieakkoord voor duurzame groei'* (which translates into 'Energy deal for sustainable growth'). Apart from focusing on energy efficiency, one of the main goals of the deal is increasing the share of renewable energy up to 16% by 2023 (14% by 2020). That puts the goal of reducing the risks of global climate change at the forefront of the Dutch energy policy, resulting in rigidity and high expenses. Several adjustments are needed in order to keep the policy tenable.

First of all, the state must show modesty when it comes to claiming a leading role. The practice of allocating operating subsidies has to be abandoned. The goal of 16% renewables by 2023 will cost the Netherlands about €18 billion worth of such subsidies, meant to guarantee a long-term profitable price for renewable energy. These kind of subsidies undermine free-market incentives, which in a normal situation could generate other promising innovations.

The strong influence of climate measures drives up the costs of the Dutch energy policy, at the expense of the taxpayer. If subsidies are deemed absolutely necessary, it is far better to spend them at the front end of the innovation process (Research & Development and pilot testing). Doing so will hardly disturb the free market: when launched innovations will no longer receive funding and only the viable ones will survive. Even better is to provide people and companies space, so that they are able to benefit from opportunities provided by the local production of renewable energy. Regulations should support, rather than hinder the emergence and flourishing of local cooperative movements.

Secondly, the EU and its member states should stop pursuing multiple climate goals simultaneously. Climate policy needs to be concentrated on reducing greenhouse gas emissions. Whether that goal is reached by increasing the share of renewables, improving energy efficiency, or both at the same time, is up to companies themselves. In order to provide them

such freedom of choice, a firm carbon-pricing mechanism is indispensable.

The current EU emission trading scheme is not working properly and must be transformed along the lines of the British system. Besides a cap on carbon emissions, Britain has introduced a guaranteed carbon price floor, putting a minimum price on the emission of greenhouse gases. This 'hybrid system' allows market incentives to guide companies towards a low carbon business process, without sacrificing flexibility and freedom of choice.

Within the energy transition, countries should put a strong focus on the segments in which they have managed to acquire a strong competitive position. For the Netherlands the gas sector is a good example. Around 2025, the country will lose its position as a net gas exporter. That does not imply it will no longer be an important player in the world of natural gas from that moment onwards. If it manages to adapt by shifting from production to trade, storage, transport and knowledge, the Netherlands will most likely be able to hold on to its position. Gas will remain crucial as a back-up capacity for wind and solar energy, which are intermittent. Innovations like power to gas and (small scale) LNG deserve all the space they can get to develop. Finally, the extraction of shale gas must not be restricted unless research confirms that serious objections exist.

Thirdly, it is very undesirable to exclude particular forms of energy production in advance. Being able to rely on a diversified energy mix is important during the entire transition period. That will only succeed with a (slowly) evolving combination of different energy sources. Nuclear energy is a potential stabilizing factor in the energy mix. Safety standards of the new generation reactors have improved and nuclear energy is one of the most important, virtually carbon neutral methods of producing electricity. Therefore, the current deadlock in Europe regarding the development of nuclear energy must be broken.

Last but not least, without losing sight of their own national interest, the member states should commit themselves to further develop a firm liberal European energy policy. Two points are especially relevant here.

"... coordinated measures should be taken by the member states to decrease dependence on large and politically unstable energy producing countries"

Firstly, coordinated measures should be taken by the member states to decrease dependence on large and politically unstable energy producing countries. The solution to that puzzle is to be found in a combination of different steps, among which coordinating supply, diversifying oil and gas pipelines (with the option of reverse flow so that member states can supply each other when needed) and looking for new energy suppliers. Like Winston Churchill said: *"safety in oil lies in variety and variety alone."* To a large extent these words of wisdom still apply to energy in a general sense. Renewable energy can contribute to the reduction of our energy dependence as well, although only in the long run.

Secondly, the EU must send out an unequivocal signal and take action against the policies of member states in case they infringe the rules of the internal market. The German energy transition, or *Energiewende*, is a good example of a member state's policy disrupting the energy markets of other countries and the internal market of the Union. Surpluses of subsidized energy are 'dumped' on the energy markets of neighbouring countries at such low prices that it causes distortions of the smooth functioning of those markets.

To conclude, climate policy and energy policy are not one and the same and should not be regarded as such. Besides clean and sustainable, our energy supply has to remain affordable and reliable. Without the implementation of a realistic climate policy, that goal will soon be out of sight. ■

Bermuda

The gold standard in international commerce

Known around the world for its beautiful pink sand beaches, stunning turquoise water, world-class golf, and friendly people, Bermuda has been a favourite destination of vacation travellers for generations. For business travellers, however, Bermuda is also a jurisdiction that enjoys an international reputation as a premier financial centre - one of the largest offshore locations for multinational companies since the 1930s.

International business is the island's largest economic sector and that comes as no surprise: beyond its advantageous geographical location, Bermuda provides a sophisticated technical infrastructure and significant support to local and international companies, all within a robust regulatory framework.

Significant geographical advantage

A benefit to establishing a business presence in Bermuda is its proximity to the US, UK and Canada, and many of the *Fortune 500* companies that have a Bermuda presence have capitalized on that. The island is ideally positioned between North and South America and Europe, with excellent air links to the East and West.

Indeed, the island is only a 90-minute flight from New York, 2 hours to most East Coast gateway cities, and 3 hours from Miami. Just as importantly, there are regularly-scheduled direct flights to Toronto and London. Bermuda's time zone and location are also a plus for in-person or virtual interactions with stakeholders on both sides of the Atlantic, only one hour ahead of New York and four hours behind London.

The Wired Island

Bermuda has been known as the wired island for over a decade and that is not solely based on the abundance of wi-fi hot spots in the country. Indeed, the island provides a full complement of IT services and support, redundancy capability, cloud and digital certificate services, and disaster recovery services. None of this is as important as when it comes to ICT, which is the basic and fundamental tool that allows business to be securely and successfully transacted locally and overseas.

Bermuda has fostered a booming e-business environment. The country boasts local success stories in e-business, both in security and payment processing, and these local companies have gone on to become recognised leaders providing services to global customer bases, including some European governments.

On a similar note, 100% of medium and large companies have a disaster recovery and business continuity plan, an indication that even Bermuda's SMEs are embracing technology.

Another local success story is the Bermuda Stock Exchange (BSX), the world's largest offshore, fully electronic securities market that lists over 350 Bermuda and international fund structures. With its new and unique Launch and List program, time to listing, and ultimately time to market, is significantly reduced. The BSX, a member of the World Federation of Exchanges, also offers a Mezzanine Market which is a unique, pre-IPO market listing for start-ups and companies with high-growth potential.

On the macro level, Bermuda's first-rate ICT infrastructure includes four (4) redundant fibre optic cables that link the island directly to international markets, and boasts a proliferation of mobile and data providers offering 3G, 3G+, and 4G networks, (and LTE is coming) and high speed connections.

Supportive to the business sector

Global companies continue to choose Bermuda as a hub for their operations because the Government, in partnership with the financial sector, continuously reviews, updates, and improves the Bermuda model, strengthening the island's value proposition. As an international financial centre, Bermuda provides a business-friendly environment with a commitment to

best practice and to upholding standards, without sacrificing innovation and nimbleness.

Firms locating on the island can find assistance from the Bermuda Business Development Agency (BDA), a public-private partnership tasked with attracting new business while continuing to support existing businesses as they continue to make a meaningful contribution to the economy and community overall. In an effort to make doing business easier and more efficient, the BDA has launched a Concierge Service which helps international companies establish a presence in Bermuda by assisting with government policies and procedures and engaging with key contacts within the community.

For companies who are interested in locating and doing business in Bermuda, the full complement of traditional ICT services and support is available right on our shores. International companies also find levels of banking, trust, accounting, custodial, and legal services in Bermuda that are equivalent to those to which they are accustomed around the world.

What's more, Bermuda's business sector is a tight-knit community in which professional associations keep their members updated on the latest developments. When it comes to ICT, it maintains strong ties with the major IT service organisations globally and commonly works with offices in multiple jurisdictions.

A robust and regulatory framework

Bermuda takes security and intellectual property (IP) protection very seriously and the island's legal and regulatory framework is designed to support business, whether electronic or brick-and-mortar.

The country's legal system is based on English common law, with final appeal to the Judicial Committee of the Privy Council in London. Corporate law is largely derived from that of the United Kingdom. The Companies Act 1981 is the principal corporate legislation and is amended regularly to ensure that it appropriately reflects modern standards and international corporate developments. With the Electronic Transactions Act and its Code of Conduct, and with the Certification Service Provider Regulations, the island continues to ensure that standards are met, and that security and authentication are reliable. In addition, Bermuda is developing a unique privacy model that aims to facilitate and secure the transnational flow of data, providing an additional comfort level for international users whose data is hosted in a Bermuda cloud.

"... the island provides a state-of-the-art regulatory and technological infrastructure that facilitates e-business and provides a sophisticated, nimble, and supportive environment for businesses and other entities, both on- and off-island, to thrive"

Bermuda is also a leader in tax transparency with more than forty Tax Information Exchange Agreements and was the first offshore jurisdiction to be placed on the OECD's white list as a result of substantially implementing its internationally agreed tax standard. In fact, the OECD's most recent assessment rated Bermuda on the same level as the US, the UK and Germany.

Local financial activity is regulated by the Bermuda Monetary Authority (BMA), which operates independently from the Government and ensures that the island's financial services businesses are licensed, regulated, and monitored to international standards. The BMA is internationally recognised for the intelligent balance in its approach to regulation. The high standard of conduct it ensures of businesses is endorsed by the International Monetary Fund and by a number of international regulatory and standard-setting bodies.

In addition, the independent Regulatory Authority enhances the telecommunications landscape through its supervisory role, fostering a more competitive and agile industry, and supporting Bermuda as a robust launch pad for further ICT innovation.

The gold standard in international commerce

Bermuda offers breath-taking scenery and a comfortable, mild sub-tropical climate. It enjoys a high standard of living and is supported by a highly skilled population.

Importantly, the island provides a state-of-the-art regulatory and technological infrastructure that facilitates e-business and provides a sophisticated, nimble, and supportive environment for businesses and other entities, both on- and off-island, to thrive. Its seasoned and tight-knit network of support services, together with a world-class telecommunications infrastructure, position it as the perfect 'test bed' business environment in this era of big data and cloud computing. It is the Gold Standard in international business. ■

Bermuda

A WORLD CLASS INTERNATIONAL BUSINESS CENTRE

Since being settled in 1609 by the British, Bermuda's connections with the West and Europe have evolved considerably. In the Age of Discovery, when mariners crisscrossed the Atlantic to search for New World riches, they black-marked the reef-encircled archipelago as a cursed 'Isle of Devils.' Today's entrepreneurs and venture capitalists hold no such qualms about the 21-square-mile British Overseas territory that is now recognised more for its reputation as a world-class international business centre than for its trademark pink beaches, 'Triangle' and shorts.

Bermuda's advantages for the business world are both obvious (stable social and political environment, breathtaking beauty, subtropical climate, physical proximity and enviable standard of living) and intangible (tax-neutrality, pragmatic regulation, sterling reputation and robust, high-tech infrastructure). These features provide a uniquely sophisticated business ecosystem for corporate entities ranging from global (re)insurers and captives to investment funds, trusts and cutting-edge insurance-linked securities (ILS) vehicles. Almost 900 captive companies are domiciled on the island with assets of more than $85.3 billion, while nearly half of the world's top reinsurers and more than 100 risk-management companies call the City of Hamilton home.

"As an international financial centre, Bermuda is particularly well positioned for European companies looking to add an international component" says Ross Webber, CEO of the Bermuda Business Development Agency (BDA), which has been pro-actively engaged in assisting start-ups, multinationals and other corporate ventures since it was established in 2013.

"Bermuda is a British overseas territory with a Westminster-style government. We have a legal system based on British common law, a mid-Atlantic business friendly time-zone - one hour ahead of EST and four hours behind GMT (only 3 hours behind GMT during daylight savings time) - and daily direct flights to Gatwick and major US East Coast cities. We have significant intellectual capital with a wealth of mind and management physically on the island," he says.

There has never been a better time to choose Bermuda as an offshore domicile, according to the BDA. Notably, the past 18 months have seen moves by the Bermuda government and the Bermuda Monetary Authority (BMA) to increase the island's appeal after several years of declining GDP during the global recession. Regulatory and legislative amendments have reduced bureaucratic red tape, streamlined the process for fund setups and encouraged the influx and retention of intellectual capital via progressive changes like work-permit reform.

Recent initiatives aimed at cultivating the international business sector include the abolition of term limits on work permits for expatriate employees, as well as the introduction of new work permit categories. Under the amended system, an operation establishing on the island automatically receives five work permits for senior employees, while a 'global' permit allows a

Bermuda operation to move key executives on to the island without advertising their positions.

In addition, Bermuda's 'Incentives for Job Makers Act' allows firms to apply for work-permit waivers for senior staff and even permanent residency for certain long-time resident employees.

"As a public-private partnership, the BDA works with all parties, including the Bermuda government, the BMA and the Bermuda Stock Exchange (BSX), as well as all sectors of the international business community," says Webber, whose organisation is advised by an impressive array of focus groups comprising locally-based experts from fields as varied as banking to e-commerce to cat bonds.

Business and lifestyle infrastructure is another bonus. Bermuda offers deep expertise via a long-established pool of service providers that includes the leading accountancy firms, as well as high-calibre legal, telecommunications, banking, insurance and e-commerce professionals.

One of Bermuda's biggest attractions is its tax-neutral jurisdictional status, with zero tax on profits, income, dividends or capital gains. Bermuda is a highly respected jurisdiction and a leader in global tax transparency. The island has negotiated 41 bilateral Tax Information Exchange Agreements (TIEA), most of which are also signatories to the Council of Europe's Multilateral Convention on tax issues. Bermuda was the first offshore jurisdiction elevated to the 'White List' category of the Organisation for Economic Co-Operation and Development (OECD), which rates the island at the same level of tax transparency as the UK, US and Germany (as several other G8 and G20 nations). Bermuda has also signed intergovernmental accords with the US for foreign reporting (FATCA) conditions, and is on schedule to meet Europe's Solvency II requirements. The fact that Bermuda has been at the forefront of Solvency II equivalence has not gone unnoticed by EU investors who see Bermuda as a well regulated, reputable, and efficient jurisdiction.

Concerning capital markets, Bermuda has a clear advantage. The BSX is the world's largest offshore, fully electronic securities market offering a full range of listing and trading opportunities for international and domestic issuers of equity, debt, depository receipts, insurance securitisation and derivative warrants. The BSX is a member of the World Federation of Exchanges and recognised by the SEC in the US, the UK's FCA, and Canada's Finance Ministry. The BSX carries numerous dual listings in Europe and Bermuda. BaFin (the German regulator) allows BSX listed companies to dual list automatically in Frankfurt with the Bermuda prospectus being sufficient for those purposes.

Regarding AIFMD (Alternative Investment Fund Managers Directive), the EU and the BMA have signed a Cooperation Agreement. These agreements are a pre-condition in allowing non-EU AIFMs access to EU markets or to perform fund management activities on behalf of EU managers. As part of its AIFMD compliance initiatives, the BMA is developing an opt-in regime to enable Bermuda-based AIFMs to maintain seamless operations across the European market.

Bermuda's regulatory reputation owes much to the efforts of its regulator, the BMA, which, established in 1969, is now a full member of the International Organisation of Securities Commissions (IOSCO) and a founding member of the International Association of Insurance Supervisors (IAIS).

"Now is a perfect time to come to Bermuda and we are continuing to build on our success and well-deserved reputation as a jurisdiction that caters superbly to the global marketplace."

While Bermuda ticks such tactical boxes for facilitating global business, a trump card is that the island also happens to be a very desirable place to live.

For companies contemplating Bermuda as a domicile, the BDA provides a concierge-style resource, providing pertinent information and connecting inquiring firms with market professionals. The agency has several business development managers to complement the work of island industry leaders to actively assist companies seeking to add the appropriate offshore structure to their businesses model.

Specifically, the BDA has structured its business development into four strategic pillars - risk solutions, asset management, trusts and wealth management, and international commerce - exploring opportunities Bermuda offers for each. Corresponding corporate entities within those sectors will find an abundance of support from the agency.

"We are committed to keeping international business here" says Webber. *"We are pro-actively advising the sophisticated international business community about our conducive business environment and we are continually refining, augmenting and simplifying the process to start, relocate or grow a business here.*

"Now is a perfect time to come to Bermuda" he adds, *"and we are continuing to build on our success and well-deserved reputation as a jurisdiction that caters superbly to the global marketplace."* ■

For more information about Bermuda, please visit www.bda.bm

Ross Webber is the Chief Executive Officer of the Bermuda Business Development Agency

Securing the future of the European defence industry: a 'mission possible' for the EU?

Andrea Frontini is a Junior Policy Analyst at the European Policy Centre (EPC), in Brussels, Belgium

The perils of a 'defence de-industrialisation' in Europe: state of play, recent trends and emerging challenges

The European defence industry plays a vital role in providing Europe's armed forces with the equipment and services needed to perform fundamental security tasks, both at home and in 'out-of-area' operations, notably in the framework of both the Common Security and Defence Policy (CSDP) of the European Union (EU) and the North Atlantic Treaty Organization (NATO).

As such, the defence industry represents a key pillar of the wider European Defence Technological and Industrial Base (EDTIB), here meant as *"the set of infrastructure, institutions and ideas ensuring [military] security of supply"*[1], thus being a truly strategic enabler to protect the interests and values of EU member states in a transforming, yet still 'hard power-intensive', international security outlook[2] – one marked, inter alia, by continuing instability at Europe's Southern and Eastern neighbourhoods, the United States' (US) 'Asian pivot' and the rise (or return) of militarily prone non-Western powers.

Furthermore, the European defence industry provides a much-needed source of innovation, growth and jobs for local communities across Europe. According to recent data by the AeroSpace and Defence Industries Association of Europe (ASD)[3], in 2012 Europe's military industry generated a turnover of €96 billion, contributing 400,000 direct and 960,000 indirect jobs, and investing around €3 billion in defence research and development (R&D).

Being divided into three main segments (aeronautic, land and naval), with sector-specific technological and commercial features, Europe's current defence industrial landscape is the outcome of a decade-long, and still unfinished, transformative process following the end of the Cold War. Indeed, while European governments have increasingly tackled the progressive shrinking of defence budgets since the early 1990s via multinational armament cooperation programmes[4] (eg. the Eurofighter consortium), Europe's defence industry has undergone various waves of productive specialisation and business concentration, notably on a domestic basis, but also via cross-border operations, as witnessed by the creation of the (then) European Aeronautic Defence and Space Company (EADS) in 2000.[5]

Nonetheless, in the past few years Europe's defence industry has faced a number of significant challenges. According to the European Commission[6], European defence spending has declined by almost 10% in real terms between 2005 and 2010, with a forecasted additional 10% decrease between 2010 and 2013, due to the impacts of crisis-induced austerity measures. Budgetary cuts have also affected military R&D (-14% between 2006 and 2010), as well as procurement (with many future programmes either being delayed or reduced in size), with wide-ranging impacts on the very effectiveness and mid-term sustainability of European armed forces.

This comes on top of a still fragmented European Defence Equipment Market (EDEM), characterised inter alia by demand, supply and regulatory frameworks still predominantly defined on a purely national basis, and also affected by inefficient equipment duplications and industrial overcapacities.[7] For instance, the European Defence Agency (EDA) and the Commission estimate that around 80% of defence procurement expenditure in Europe is being spent outside cooperative projects, with a relatively low degree of openness to suppliers from other EU member states.[8]

Such a persistently domestic approach in turn prevents European defence companies from reaching the productive and financial critical mass often enjoyed by their international competitors, especially in the US. This pushes many EU businesses to diversify globally by exploiting the dual-use features of their technologies, and/or resorting to emerging export markets in Asia, the Middle East and South America, despite expected competitiveness losses due to local requirements like technology and know-how transfers or production reallocations.[9]

All this can easily result in an ineluctable 'defence de-industrialisation' of Europe, with worrisome consequences for the paraded, and globally stretched, security responsibilities of EU and NATO member states.

An embryonic EU 'governance system' for the EDTIB? Exploring a decade-long evolution

Against this background, the policy response by EU institutions and actors followed a decade-long, and incrementally ambitious, evolution. While an early step was made back in 1996 by the Commission in its Communication on *The Challenges Facing the European Defence-related Industry – A Contribution for Action at European Level*[10], highlighting for the very first time the manifold challenges affecting the sector's sustainability and exploring the potential contribution of Community instruments and activities, bolder actions were taken in the following years.

These included the Commission's Communication on *European*

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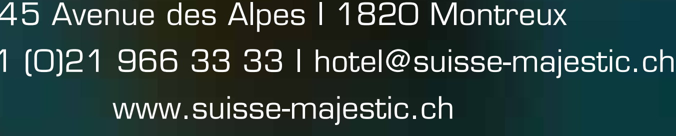
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"Will the EU accomplish the 'mission (im) possible' of securing the future of Europe's defence industry? Only time can tell"

Defence Industrial and Market Issues – Towards an EU Defence Equipment Policy[11] in 2003 and its *Green Paper on Defence Procurement*[12] in 2004, paving the way to a more systematic and structured policy on the integration of EDEM by the EU's executive, as well as the creation in 2004 of EDA, tasked with supporting EU member states throughout the whole 'capability development cycle', including by defining requirements, promoting defence research and technology, supporting armaments cooperation, creating a competitive EDEM and strengthening the EDTIB.[13]

More importantly, the mid-2000s were marked by three major initiatives. In 2006, the Commission issued the rather ground-breaking *Interpretative Communication on the Application of Article 296* [now Article 396] *of the Treaty* [Treaty on the Functioning of the European Union] *in the Field of Defence Procurement*[14], aiming at clarifying the conditions for EU member states to resort to an often over-exploited legal exception to the application of the standard EU procurement legislation to the defence sector.[15]

A year later, in 2007, EDA released its *Strategy for the European Defence Technological and Industrial Base*[16], whose stated objective is to achieve a capability-driven, competent and competitive EDTIB by clarifying priorities, consolidating demand, increasing investments, ensuring security of supply and increasing competition and cooperation.

Also in 2007, the European Commission launched what can be considered as its most significant achievement in defence industrial matters so far: the so-called 'Defence Package'. This included the Communication on *A Strategy for a Stronger and More Competitive European Defence Industry*[17] and two Directives on, respectively, transfers of defence-related products within the Community, and defence and security procurement, both adopted by the Council of the EU and the European Parliament two years later. The former establishes the principles for certifying defence companies in the EU, encourages EU member states to replace individual licences with general licences for those intra-Community transfers having a 'safe destination' (eg. to other EU member states) and introduces a global license covering most of the remaining intra-community transfers, which groups multiple transfers to several recipients by one supplier.[18]

The latter sets Community rules adapted to the procurement of arms, munitions and war material, as well as related works and services (but also for certain particularly sensitive non-military security procurements), allowing for instance the use of the 'negotiated procedure' with publication as the standard procedure, and foreseeing special provisions to safeguard security of supply and security of information.[19] In parallel, a specific Commission-funded civilian security research programme has been running since the 2007 Seventh Framework Programme, generating potential benefits for the defence industry through the development of innovative dual-use technologies.

The past few years have been marked by the slow, and sometimes difficult, consolidation of the above-mentioned policy initiatives, especially given the still limited implementation of the Commission's 'Defence Package' and the persisting reluctance by several member states to politically and (thus) financially back the EDA as a key enabler of demand consolidation. Moreover, the persisting risks of a 'defenceless Europe' have recently been emphasised by episodes such as Europe's military capability shortages during the 2011 Libyan crisis, as well as by the prospects of a disorderly industrial restructuring, following further drops in the demand of military equipment and services by crisis-hit European capitals.

Increasing political awareness of the need to support Europe's endangered defence industry contributed to the decision in December 2012 by the EU Heads of State or Government, facilitated by the European Council's President Herman Van Rompuy, to discuss the much wider state of play of European defence one year later. This, in turn, triggered a year-long reflection, both inside and outside EU's corridors, on the ways to safeguard Europe's defence industrial assets.

Preparatory actions have included the Commission's Communication *A New Deal for European Defence: Towards a More Competitive and Efficient Defence and Security Sector*[20] in July 2013, following the innovative inter-service exercise of the Defence Industry and Markets Task Force, the Final Report by the High Representative/Head of the EDA on *The Common Security and Defence Policy*[21] in October 2013, including most of the Commission's earlier recommendations, as well as the ancillary but significant contributions made by the European Parliament and the European Economic and Social Committee (EESC) through, respectively, a Report on *The Impact of the Financial Crisis on the Defence Sector in the EU Member States*[22] and an Opinion on the *Need for a European Defence Industry: Industrial, Innovative and Social Aspects*.[23]

As a result, in December 2013 the European Council adopted a number of Conclusions on CSDP[24], among which some specifically devoted to the EDTIB. In addition to endorsing four capability projects having direct industrial returns, ie. the development of Remotely Piloted Aircraft Systems (RPAS) (or drones), air-to-air refuelling capacities, governmental satellite communication and a roadmap and concrete projects on cyber defence-related training and exercises, EU leaders also invited member states to increase investment in cooperative research programmes and maximise synergies between national and EU research, welcomed the Commission's intention to evaluate how the results under Horizon 2020 could benefit defence and security industrial capabilities and invited the Commission and EDA to work closely to develop proposals to stimulate further dual-use research together with EU member states, including via a Preparatory Action on CSDP-related research.

Moreover, the Council tasked EDA and the Commission to prepare a roadmap for the development of defence industrial standards by mid-2014, while asking EDA to develop options for lowering the costs of military certification by the same time. Finally, the Summit underlined the importance of small and medium-sized enterprises (SMEs) for the sector, supported the Commission's proposals to promote greater access by SMEs to EU markets and funding opportunities, and welcomed EDA's *Framework Arrangement on Security of Supply* while tasking the Commission with the development of a roadmap for a comprehensive EU-wide security of supply regime.

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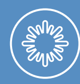

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The outcome of the December European Summit has, in many respects, disappointed those who hoped for bolder actions in support of the EDTIB, notably due to the lack of a mature reflection on controversial issues such as industrial consolidation, or to the reluctance by EU capitals to mobilise enough financial resources to kick-off additional industrial projects.[25]

However, the Council's Conclusions have empowered, at least to some extent, both the Commission and EDA to carry out a series of essential yet delicate exercises to be politically reviewed by member states according to detailed deadlines, also by 'gently forcing' the two EU actors to maximise the synergies between their respective work strands. The follow-up of the Council's Conclusions has been recently marked, among other things, by the release of an Implementation Roadmap by the European Commission last June[26], as well as by EDA's progress in the development of common capability projects, notably but not exclusively drones.[27]

Overall, although the copious initiatives above cannot be regarded (yet) as the pillars of a solid and fully-functioning 'policy architecture' for Europe's defence industry, in a way reflecting the apparent lack of a truly common vision for CSDP[28], a somewhat embryonic 'governance system' for the EDTIB seems to be slowly emerging - one which will however require appropriate political will, financial resources and organisational fine-tuning to deliver durable achievements.

Towards a more integrated, efficient and innovative European defence industry?

In conclusion, the EU's involvement in European defence industrial matters has witnessed a series of encouraging but admittedly challenging developments in the past few years, while slowly introducing and eventually operationalising the logic of 'European defence interdependence' in a still heavily sovereignty-centred policy area.

However, the future prospects of the EU-led integration process of Europe's defence market and industry will need to tackle (at least) two overarching challenges: the necessity of persuading EU member states of the benefits of a truly shared and comprehensive vision for the EDTIB, and the need to match EU's still-developing activities and tools with the rather immediate risks affecting the defence industrial outlook in Europe.

Indeed, divergent political perceptions, military ambitions and defence industrial capacities and strategies among national capitals still very much hinder the rationalisation of Europe's defence industrial and technological outlook, as witnessed by the failed merger between BAE Systems and EADS (now Airbus Group) in summer 2012 – an outcome which is believed by many observers to have pushed the latter to revert predominantly to the civilian aerospace market. At the same time, EU's role as a truly critical player in European industrial defence matters is still at a relatively early stage, considering the current impossibility for the Commission to directly fund research into military capabilities, or given EDA's limited financial and organisational resources in support of common European projects.

While such constraints will likely require further (and long) discussions among Europeans on the desirable level of ambition for EU's defence industrial policies, significant actions need to be put in place in the near future. Among other things, EU member states should strive to make much-needed collaborative investments in the next generation of multinational projects, adding to the few already approved, as a vital stimulus for industrial competiveness and rationalisation (including in the largely duplicative naval and land sectors[29]), while making fuller use of EU's existing tools and mechanisms, multiplying the current 'pooling and sharing' exercises with the aim of stronger national and sub-regional specialisation, and exploring innovative funding methods and sources at regional and international level.[30]

Last but not least, a credible and sustainable EU 'policy architecture' for the EDTIB should also be underpinned by a more robust CSDP planning process, notably in terms of strategic ambitions and military requirements, in a pragmatic spirit of complementarity with NATO.

Will the EU accomplish the 'mission (im)possible' of securing the future of Europe's defence industry? Only time can tell. ■

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The great TRANSFORMATION

We are at the beginning of a set of gigantic changes in society – for better or for worse. The future is open; nobody knows what it will hold. One thing we know says **Richard Straub:** on this stage, managers will surely be of pivotal importance for shaping it

In his landmark book *Innovation and Entrepreneurship*, Peter Drucker quotes Thomas Jefferson: *"Every generation needs a new revolution."* But Drucker quickly makes clear that, as much as he admires Jefferson, this particular comment is off the mark.

In truth, Drucker notes, most of the revolutions that we have witnessed in recent history failed to deliver on what they had promised. As Alexis de Tocqueville, the French philosopher and political theorist, pointed out, revolutions do not demolish the prisons of the old regime; they tend to enlarge them.

The conditions that lead to revolution in the first place are typically oppressive leadership, the bankruptcy of ideas and institutions and, above all, a failure by society to renew itself. Achieving large-scale social change without going through the upheaval of a violent revolution is obviously the better option. The term 'transformation' well describes this preferable path.

Hence, a key question that faces us today is whether we have the regenerating capacity in the Western world to achieve a transformation for regaining growth and prosperity as opposed to moving inexorably toward social and economic decline – and, quite possibly, facing the wrenching trauma of a citizens' revolt along the way.

Dangerous trends

Evidence of the need for change is strong. A number of factors have converged to make the picture especially daunting. Taken together, they indicate that we are heading towards decline rather than prosperity:

- **Economic stagnation and financial instability**

  Even though some indicators have improved since the global financial meltdown of 2007/2008, the structural problems that are bogging down our economies are by no means resolved. American economist Larry Summers talked in a recent interview about the probability of secular stagnation as a 'base case' for decision makers. In addition the debt crisis in developed economies severely limits the ability of governments to provide further stimulus.

- **Growing income inequality**

  The French economist and academic Thomas Piketty argues in his much-discussed book, *Capital in the 21st Century*, that capital has essentially won in a fight over labour. With returns on capital growing faster than the economy overall, the share of capital is increasing at the expense of labour, resulting in widening income disparities. Piketty's profound fact-based analysis points to a long-term trend. Henry Mintzberg, a leading management thinker, comes to a similar conclusion when he analyses the imbalance in our society in his recent online pamphlet *Rebalancing Society*.

- **Unemployment and underemployment**

  Unemployment and underemployment are at stubbornly high levels. Youth unemployment remains a huge concern. Some Western trade unions make things worse by opposing flexibility within labour markets (though Drucker, for one, believed that unions represent an important *"countervailing power"* to that of large corporations and thus *"modern society... needs an organ such as the labour union"*).

- **An ageing population in Western countries combined with low birth rates**

  One billion people around the globe, demographers tell us, will be above the age of 65 by 2035. At the same time, falling birth rates in developed economies have meant a decline in the number of people who can support this older population. The implications for funding retirement and social protection systems are striking. The financial burden for those in the workforce is on a course to becoming unbearable.

- **Untamed Leviathan**

  The state almost everywhere is big, inefficient and broke, *Economist* editor John Micklethwaite remarked in 2011. Since then, things have only got worse. With a suffocating bureaucracy, the state too often deprives advanced economies of the oxygen they need for innovation and growth.

- **Increasing corporate autism**

  Since the 1980s, corporations have increasingly set aside concerns for a broader set of stakeholders – customers, employees and communities – in favour of the supposed interests of shareholders. This trend has accelerated after the financial crisis and led to a significant reduction in value-creating investments with a long-term horizon.

Will these steadily worsening trends be tomorrow's reality or do we still have an opportunity to shape a better future? How to escape the vicious cycle we seem to be caught in?

Obviously, levers need to be pulled at both the macro and the micro levels.

At the macro level, monetary and fiscal policy, labour markets, social security, tax regimes and rules governing competition all need to be addressed. Policymakers should be focused on removing obstacles and creating incentives in the right direction.

"The conditions that lead to revolution in the first place are typically oppressive leadership, the bankruptcy of ideas and institutions and, above all, a failure by society to renew itself"

65

One billion people around the globe, demographers tell us, will be above the age of 65 by 2035

This approach can be summarised, at least in part, as 'Management by Getting Out of the Way,' which means refocusing regulations in fields where they are essential and otherwise enabling productive forces to act without artificial and counterproductive burdens.

The micro level is, of course, the heart of management – where actual value is created and destroyed. It is where specific decisions are taken that lead into world-changing innovations or a waste of productive resources.

Before growth figures for a country are calculated, the actual growth happens in individual organisations that are successfully 'managed'. While politicians and other experts are obsessed with aggregations and ratios, they tend to forget that the action happens in real life and not in the abstractions of economics.

Management is a real-world practice dealing with people and organisations. Managers can make all the difference in the world with their knowledge, their creativity, their emotions and their values. Management, in this broad (and very Druckerian) sense includes commercial players, non-profit organisations and public-sector bodies. Each has the mandate to create value and to achieve its mission.

Management, the American author and journalist Walter Kiechel wrote in *Harvard Business Review*, has come to *"shape the world in which we work"* amid *"an era of global triumph, measured by agreement on certain key ideas, steadily improving productivity, the worldwide march of the MBA degree and a general elevation of expectations about how workers should be treated"*.

Drucker was a key figure in the rise of management as a discipline. He *"laid out a vision of the corporation as a social institution – indeed, a social network – in which the capacity and potential of everyone involved were to be respected,"* Kiechel asserted.

Management – a track record with big question marks

Once we accept the importance of good management for the economic and social wellbeing of today's world, it is legitimate to ask a critical question: are managers equipped – in terms of skills, competencies and courage – to lead us towards the Great Transformation[1]?

We have indeed learned a lot about management. It has become a focus of education, research and practice. Great thinking has gone into the development of the discipline of management, into tools and methodologies and, increasingly, into specialised fields such as marketing, operations, finance and human resources.

Thousands of books proclaim the latest breakthroughs and show the progress of management thinking and research. For example, Julian Birkinshaw, a professor at London Business School in the UK, suggests in his book *Reinventing Management* four main dimensions along which management has been steadily, if slowly, evolving:

(1) co-ordinating work with a shift from bureaucracy to emergent practices
(2) making decisions by drawing on collective wisdom
(3) setting objectives that rely on the principle of obliquity rather than direct alignment
(4) motivating employees by intrinsic rather than extrinsic methods

Yet a reality check shows that, despite considerable progress in making management more effective, many fundamental challenges remain. Bureaucratic hierarchies, in the form of control-oriented, top-down structures, are still highly prevalent.

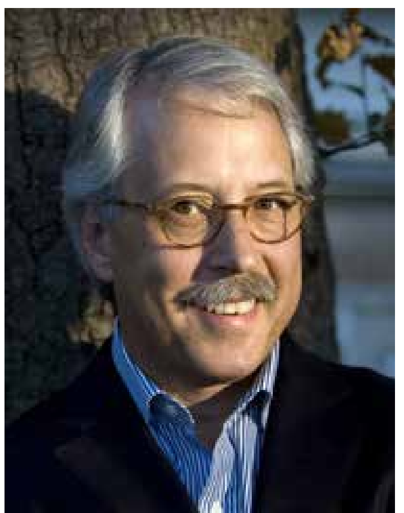
In his book *What Matters Now*, American management thinker Gary Hamel argues that innovation, particularly disruptive innovation, is unlikely to flourish when a few executives have a chokehold on resource allocation.

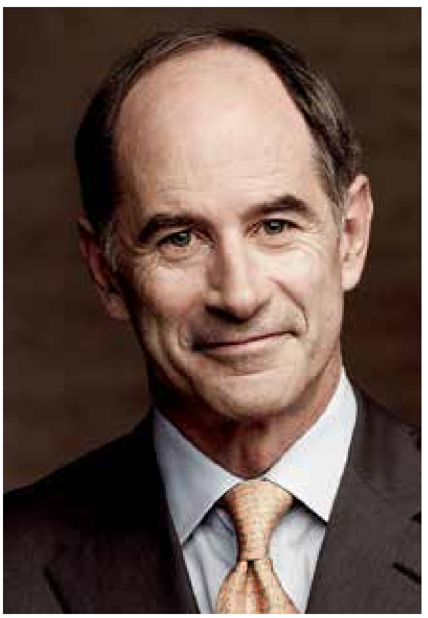
The overwhelming internal complexity of large organisations causes a tendency to focus internally rather than taking the outside-in perspective. This brings a loss of customer focus and, as a consequence, more energy is spent on resolving internal issues rather than finding new ways of delighting customers.

The overemphasis on short-term gains at the expense of long-term prosperity has become the new normal despite its negative consequences.

A recent McKinsey survey of 1,000 corporate board members and C-suite executives found that 63% of respondents claim that the pressure to generate strong short-term results has increased over the past five years. This was despite the fact that 86% declared that using a longer time horizon to make business decisions would positively affect corporate performance in a number of ways, including strengthening financial returns and increasing innovation.

Regrettably the shareholder value creed still has a tight grip on corporate executives and their governance.





Pictured clockwise from top left:

Clay Christensen, Gary Hamel, Roger Martin and John Hagel III

And when one looks behind the gadgetry of corporate finance, the results are not nearly so impressive. The rates of return on assets and on invested capital of US firms in 2011 was only one-quarter of what they were in 1965. And the effectiveness of management to win the hearts and minds of the workforce is even worse. According to the latest global *Gallup State of the Global Workplace* survey only 13% of employees are engaged in their jobs. That is, they are emotionally invested in and focused on creating value for the organisation every day. They are outnumbered by those who are negative and potentially hostile to the organisation at a rate of nearly 2:1.

Clayton Christensen, an HBS professor and recognised as number one Management Thinker in the *Thinkers50* ranking, has maintained that management's misallocation of capital is putting capitalism itself at risk.

With a constant drive to achieve short-term cost reductions, most corporate innovations have centred on improving efficiency. Yet the capital freed up by increasing efficiencies is not being used to generate what Christensen calls *"empowering innovations"*, which would create new business or even whole new industries, spurring growth and jobs.

Instead, corporations are hoarding cash on their balance sheets like never before and some of the capital generated by efficiency innovation is reinvested in even more efficiency innovation.

The picture is not rosy, either, in the management of mega-scale initiatives initiated by political decisions. Government leaders may be good at communication and managing the pure political process. However, when it comes to execution and the ultimate value creation for the citizens, things easily get out of control.

High-profile projects such as the German energy transition (*Energiewende*) show deep management flaws ranging from strategy to execution. Everyday projects, which do not typically capture the headlines, are also mismanaged.

A recent report in the US, for example, found that the federal government has 77,000 empty or underutilised buildings across the country, costing taxpayers more than $1.5 billion a year.

Such troubles may be related to the fact that those in the political class have not yet embraced management skills as a success factor for their political careers. Yet the damage that flawed management of such initiatives can produce is huge.

To sum up, the overall track record of management effectiveness and leadership is rather mixed. But there are enough bright spots to give us confidence that managers can still form the basis upon which we forge the Great Transformation.

The Great Transformation for the better is within our reach

It is an exceptional moment in history. We are at the beginning of a set of gigantic changes in society – for better or for worse. The future is open; nobody knows what it will hold.

However, it is not destiny. Myriad actors will shape the future and some of them will have more impact than others. One thing we know: on this stage, managers will surely be of pivotal importance.

"Management and managers are the central resource, the generic, distinctive, the constitutive organ of society... and the very survival of society is dependent on the performance, the competence, the earnestness and the values of their managers," Drucker wrote in his 1993 book *The Ecological Vision*. *"What managers are doing is therefore a public concern"*.

This seems to be the moment to take Drucker's statement seriously, to live up to our responsibility as managers and leaders. To do so will require courageous and decisive action.

The Great Transformation starts with revisiting the fundamental commitment of managers towards society – namely, innovation and value creation. Of course, done well, this is also good for the company and its bottom line over the long term.

Failing to invest in innovation means putting the future of the whole organisation at risk. No company that goes out of business can be a good neighbour, good employer and a good citizen. Even worse – by failing to keep its business viable it creates significant damage due to the human suffering it causes and the need to kick-in social programs at the expense of society.

"Management is a real-world practice dealing with people and organisations. Managers can make all the difference in the world with their knowledge, their creativity, their emotions and their values"

At the same time, it cannot be acceptable that CEOs continue to earn 300 times or more the income of their average employee. Trust must be rebuilt.

From scalable efficiency to scalable learning

Despite great new management ideas and concepts, the issue of scalability and broad-based application of innovative management practices is far from resolved. Instead of liberating the creative and innovative energy of employees as well as those of supply-chain partners and others who are part of a corporation's overall ecosystem, blind processes and rigid hierarchies still hold them down.

In effect, the emergence of a Taylorism of a sort in non manufacturing business operations has been enabled by digital technology. However, we can do much better than that…

John Hagel III and John Seely Brown (Co-Chairmen of the Deloitte Centre for the Edge and authors) have described the shift toward a massive transformation from institutions designed for scalable efficiency to institutions designed for scalable learning.

This relates not so much to formal, classroom-based learning but learning from the ongoing experiences, projects and initiatives that are occurring in various parts of an organisation. The key is to foster learning by connecting minds for value creation and knowledge sharing for innovation across the organisation. Enterprise social media along with traditional means of communication provide a new infrastructure for scalable learning.

Towards a human-centric paradigm

Digital technology is an unprecedented game changer due to its continuous exponential development. As such, it can lead either further down the efficiency-enhancing and cost-cutting route or up the innovation path. It can replace brawn via robotics or augment brains with artificial intelligence.

And many organisations will undoubtedly be tempted to use technology to replace human beings wherever and whenever possible. But this would be a terrible mistake, leading to a certain downward spiral for both society and economy.

63%

A recent McKinsey survey of 1,000 corporate board members and C-suite executives found that 63% of respondents claim that the pressure to generate strong short-term results has increased over the past five years

Instead, the emphasis should be on educating and empowering workers so they can leverage new technologies, while it is understood that technology is always meant to serve people and enhance their capabilities.

The leader of a prominent gaming company put it to me this way: the primary task of management in his organisation is to eliminate obstacles and provide tools for his workers so that they can improve their access to knowledge and collaborate across functions and even beyond the company's walls.

Great talent engaged in organisations will make the difference between stagnation and growth. Attracting and developing talent will be the basis for competitiveness of companies, regions and states. Focusing on people and leveraging their strengths for the organisation remains a fundamental management responsibility, despite all the great technology that becomes increasingly available to our fingertips.

Management as a liberal art

For this kind of vision to be realised, the humanists must be given prominence alongside the technologists. The grossly reductionist idea that almost any expert can be replaced by an 'expert system' does not take into account profound human capabilities like intuition, creativity and empathy. It is also naïve to assume that knowledge is objective and in a way disconnected from the human condition; in fact, it is largely determined by the values of those producing and applying it.

10%

In terms of people's ideas, creativity, motivation and engagement, releasing just 10% of this latent value would mean a jump in innovation, value creation – and, in turn, the world's prosperity

Drucker had this in mind when he called management a liberal art: it is 'liberal', he explained, because it deals with the fundamentals of knowledge, self-knowledge, wisdom and leadership; 'art' because it is practice and application.

Managers draw upon all of the knowledges and insights of the humanities and social sciences on psychology and philosophy, on economics and history, on the physical sciences and ethics. But they have to focus this knowledge on effectiveness and results.

This is something that management education institutions should seriously consider if they do not want to become ever-more specialised engineering-type schools for management techniques.

A second Renaissance?

In a time where technologists and technocrats dominate much of the conversation, the rediscovery of the essence of being human is more important than ever. Indeed, in order to benefit from what MIT's Erik Brynjolfsson and Andrew McAfee have dubbed *"the Second Machine Age,"* we also need a Second Renaissance powered by humanities and knowledge across disciplines as posited by Drucker.

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“High-profile projects such as the German energy transition (Energiewende) show deep management flaws ranging from strategy to execution. Everyday projects, which do not typically capture the headlines, are also mismanaged”

Otherwise we run the risk of ending up in a technocracy, where technology becomes the new faith and the top technocrats are the new masters who determine the fate of those subject to their technology-driven world. What financial technocrats might do in such a world does not need further comment.

Equally, the Transhumanists and Kurzweills Singularity adepts seem to have lost the connection to the roots of human existence and uniqueness.

When Roger L Martin, former dean of Rotman School of Management in Toronto, Canada, talks in his book *The Design of Business* about the knowledge funnel and shows the progress from mystery to heuristics and then to algorithms he does not imply that the world is going algorithmic. As scientific progress has demonstrated – each new discovery and each new algorithm opens up new mysteries. The deeper we drill the more mysteries we seem to unlock.

A tsunami of innovation

Done right, a new marriage between the human spirit and the most powerful technology that humanity has ever developed (and that is still in the early stages of deployment) could produce truly incredible results. Just think about the unbelievable waste that is created in today’s organisation in terms of people’s ideas, creativity, motivation and engagement.

Releasing just 10% of this latent value would mean a jump in innovation, value creation – and, in turn, the world’s prosperity. Gallup estimates that the actively disengaged workers in the US alone cost the economy half a trillion dollars each year.

With a human-centric approach, serviced by the best that technology has to offer and supported by smarter government policies and regulations, our organisations can create new infrastructures enabling knowledge, communication and collaboration. And we can trigger a tsunami of innovation and value creation.

Luckily we can see already today cases that show the tremendous potential for achieving massive and deep transformation in short time-spans.

India’s Aadhaar project led by former Infosys CEO Nandan Nilekani is such an example: a project aimed at providing a fake-proof ID to each of the 1.2 billion people who reside in India. Five years after its inception 650 million people have enrolled for the unique online-authenticated Aadhaar biometric ID, potentially giving access to social benefits, bank services and the labour market.

The implications are enormous – for India and potentially the whole developing world. It is the classic example of advanced technology serving fundamental human needs (500 million Indians live below the poverty line). It also shows how the application of sound management practice can bring the two streams together – leading-edge technology and the deep commitment to improving the human condition.

2:1

Only 13% of employees are engaged in their jobs – every day emotionally invested in and focused on creating value for the organisation. They are outnumbered by those who are negative and potentially hostile to the organisation at a rate of nearly 2:1

In transition towards the Great Transformation

The Great Transformation will not happen overnight. However, we are already in a state of transition where sound, existing management knowledge can be applied. We find a lot of this in the legacy of great management thinkers whose ideas are based on a human-centric worldview: Peter Drucker, Henry Mintzberg, Charles Handy and CK Parahald among them.

Based on these foundations, many new concepts and methods are being introduced that fit our time even more precisely.

We don’t know what the future will be. But we can determine the direction in which we want to go. We can, that is, take purposeful steps toward the Great Transformation, creating a world that embraces technology but that keeps the human being at its core, conscious of our culture, our history, our spirituality and our unending quest for self-realisation. ■

1.2 billion

A project aimed at providing a fake-proof ID to each of the 1.2 billion people who reside in India, saw within five years after its inception 650 million people enrolled for the unique online-authenticated Aadhaar biometric ID

ABOUT THE AUTHOR

Richard Straub is Director of Corporate Services and EU Affairs at EFMD and President of the Peter Drucker Society Europe.

1. The Great Transformation will be the theme of the 6th Global Peter Drucker Forum to be held in Vienna from November 13 to 14, 2014.

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With executive education in full swing, opportunities and competitors emerge

Insight and analysis provided by the AACSB International Research Team

Executive education provides businesses with an intriguing option for developing their c-suite executives. This educational format, often taught during weekends and composed of students with ample work experience, is now offered around the world by a variety of institutions of higher education (and even some businesses) with the intent of developing senior level professionals. Many of these programs have expanded their presence in regions around the world, leveraging technology to reach more potential students. Yet, there had been some degree of concern when executive education program growth totals began to plateau a few years ago.

In January 2013, The International Consortium for Executive Education (UNICON) released findings from its annual membership survey. This survey included participation from nearly 100 educational institutions that offer executive education programs around the world. The 2013 survey's results suggested that the growth of executive education were stymied for a time due to the global economic downturn, but had seen an impressive 81 percent spike in growth, suggesting that a rebound might be underway. A year later, with new data in hand, it's safe to say that this has been further validated. The new data released by UNICON shows an impressive 69 percent global growth in executive education programs.

"In general, this survey suggests that the university-based executive education industry continues to recover from the economic downturn at about the same pace as the global economy," said UNICON Chair Rochelle Weichman, Associate Dean for Executive Education at MIT's Sloan School of Management.[1]

Melanie Barnett, the Chief Executive Education Officer of the University of Michigan's Stephen M Ross School of Business, has said that executive education is in *"full swing now."*[2]

The Association to Advance Collegiate Schools of Business (AACSB) has been active in being inclusive of executive education programs, making modifications to the AACSB Accreditation Standards to encompass them more wholly. AACSB is an accrediting organization, which accredits many schools that are currently pushing the boundaries in the realm of executive education, offering high-quality programming around the world. Known and respected as the leading accrediting body of business schools, AACSB accredits schools in nearly 50 countries and territories and connects a network of more than 1,400 educational institutions, businesses, and other entities devoted to advancing quality management education.

Following over two years of study and collaboration with the global management education community and employer organizations, the AACSB Accreditation Standards were revised as of April 2013. The revised Standards centre around 'three pillars' – innovation, impact, and engagement – which serve as a foundation for AACSB schools to strive for in their programs and various activities. Part of the revision included the adoption of a standard pertaining specifically to executive education. This standard was designed to ensure that AACSB-accredited schools providing executive education have 'appropriate processes to ensure high quality in meeting client expectations and continuous improvement in executive education programs.'[3] This standard comes at an opportune time, as AACSB-accredited schools continue to expand their executive education offerings in light of the growth of demand within the business community.

AACSB collects data on business schools worldwide and offers the world's most comprehensive database to its membership through its DataDirect service. Using data from AACSB's *Business School Questionnaire*, there has been a 34 percent growth over the past five years in executive education programs worldwide. Also of interest, innovative new ways of offering these programs have gained steam, as the number of executive education programs offered online has more than doubled. Additionally, there has been an 86 percent increase in the number of executive education programs offered jointly by two or more partnering institutions.

Need for continuous innovation

Despite the recent successes for executive education, there is still a need for providers to continue to innovate and consider their value propositions due to the much heralded arrival of potential disruptors of executive education (and higher education in general), including the growth in popularity of online alternatives. New technologies have presented executive education providers with opportunities for continued expansion, but with this opportunity are up-and-coming new players. These ongoing developments within higher education may challenge the continued growth of these offerings. In particular, some believe that the growth in online offerings may disrupt the manner in which businesses may wish to educate their top level executives.

Richard Lyons, the dean of the University of California, Berkeley's Haas School of Business, shared a rather dire forecast for business schools, including executive education, stating that *"Half of the business schools in this country could be out of business in 10 years - or five."*[4] The rise in online degree programs plays a critical role in shaping the future of business schools, and higher education at large. To some, executive education platforms are prime for being impacted, as they often tout flexibility of schedules

INCEIF - The Global University of Islamic Finance, is set up by Bank Negara Malaysia (Central Bank of Malaysia) to develop human capital for the global Islamic finance industry.

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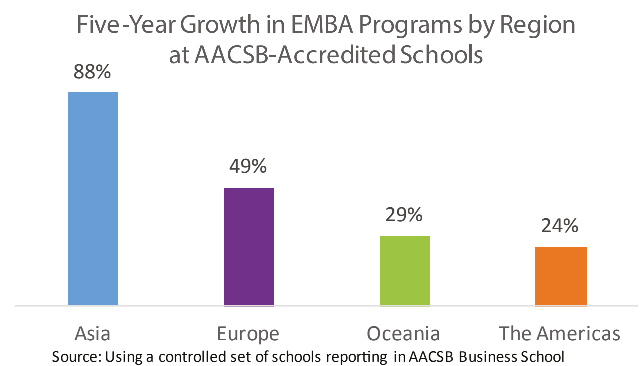
"AACSB expects for executive education programs to become more innovative, as business schools continue to work outside the box"

and customization as some of their driving benefits. With an asynchronous online program, students can take courses on their own time, pick and choose a customized set of classes, and save some money in the process.

At this time, there are not a great deal of fully online programs which directly compete with executive education in its traditional form, but as schools begin experimenting more with online delivery and introducing new platforms into their programs, this could change.

Michael Desiderio, the executive director of the Executive MBA Council, commented on the subject, stating that *"[w]e're not saying it's a threat or this is the end of the EMBA space... It's stimulating a discussion: how do we adapt to continue to serve a population that has changing needs?"*[5] Desiderio goes on to note that hybrid degree programs, such as the one offered by the University of California at Los Angeles's Anderson School of Management, which combines online components with in-person courses, is one way schools are adapting.



Source: Using a controlled set of schools reporting in AACSB Business School Questionnaire in all years between 2008-2009 and 2012-2013

IE Business School based in Madrid, Spain also offers one such hybrid executive degree program, which provides students with the opportunity to attend class online with supplemental, concise face-to-face sessions. Hybrid and online options should not be confused for easier versions of executive education, however. The hybrid IE EMBA program requires an average time commitment of twenty-five hours per week from each of its students.[6]

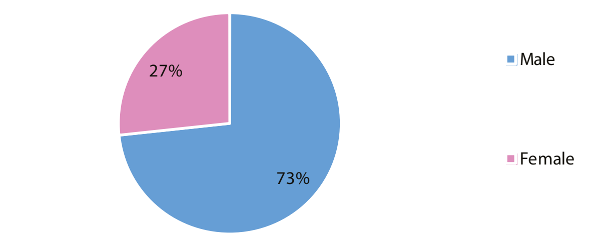
Online and hybrid EMBA programs represent one means of building in more flexibility for their students. For a course with an online component, a business trip would not necessarily prevent a student from attending their class, even if the lesson is taught synchronously. Executive education providers may need to consider these options, including expanding their own online operations as a means of remaining competitive and in tune with prospective student needs.

What the future holds

AACSB expects for executive education programs to become more innovative, as business schools continue to work outside the box, and potentially find additional ways of delivering executive education programs to remain up-to-date in the coming years. Such developments will become even more pronounced as more AACSB schools begin implementing the 2013 Accreditation Standards, which include emphasis on the importance and benefits of executive education.

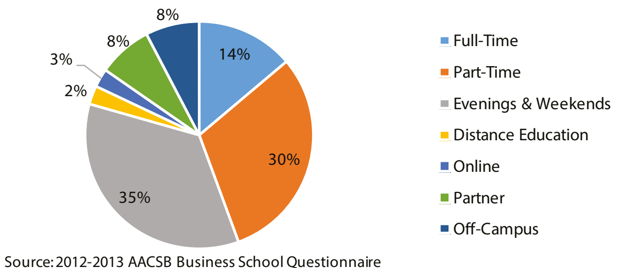
Executive education serves a critical role in encouraging business schools to follow the 'three pillars' by engaging with their stakeholders, particularly in industry, and finding ways to promote innovation and positive impact in the business community. The overall growth in executive education programs continues to be positive, which indicates a growing interest and demand for this type of education. As the value of lifelong learning becomes more apparent among employers, executive education has the opportunity to play an even more important role in meeting such needs, and using recent developments in technology and educational delivery to its advantage in serving a greater number of candidates. ■

EMBA Enrollment By Gender, at AACSB-Accredited Schools



Source: 2012-2013 AACSB Business School Questionnaire

EMBA Programs by Format at AACSB-Accredited Schools



Source: 2012-2013 AACSB Business School Questionnaire

1. *http://www.ceibs.edu/media/archive/118586.shtml*
2. *http://www.crainsdetroit.com/article/20140202/NEWS/302029998/back-to-school-schools-see-exec-education-resurgence-from-doldrums*
3. *http://www.aacsb.edu/accreditation/business/standards/2013/academic-and-professional-engagement/standard14.asp*
4. *http://www.businessweek.com/articles/2014-03-14/online-programs-could-erase-half-of-u-dot-s-dot-business-schools-by-2020*
5. *http://www.emba.org/embacnews/2014_winter_newsmag_council.htm*
6. *http://www.ie.edu/es/business-school/programas/executive-mba-espanol/*

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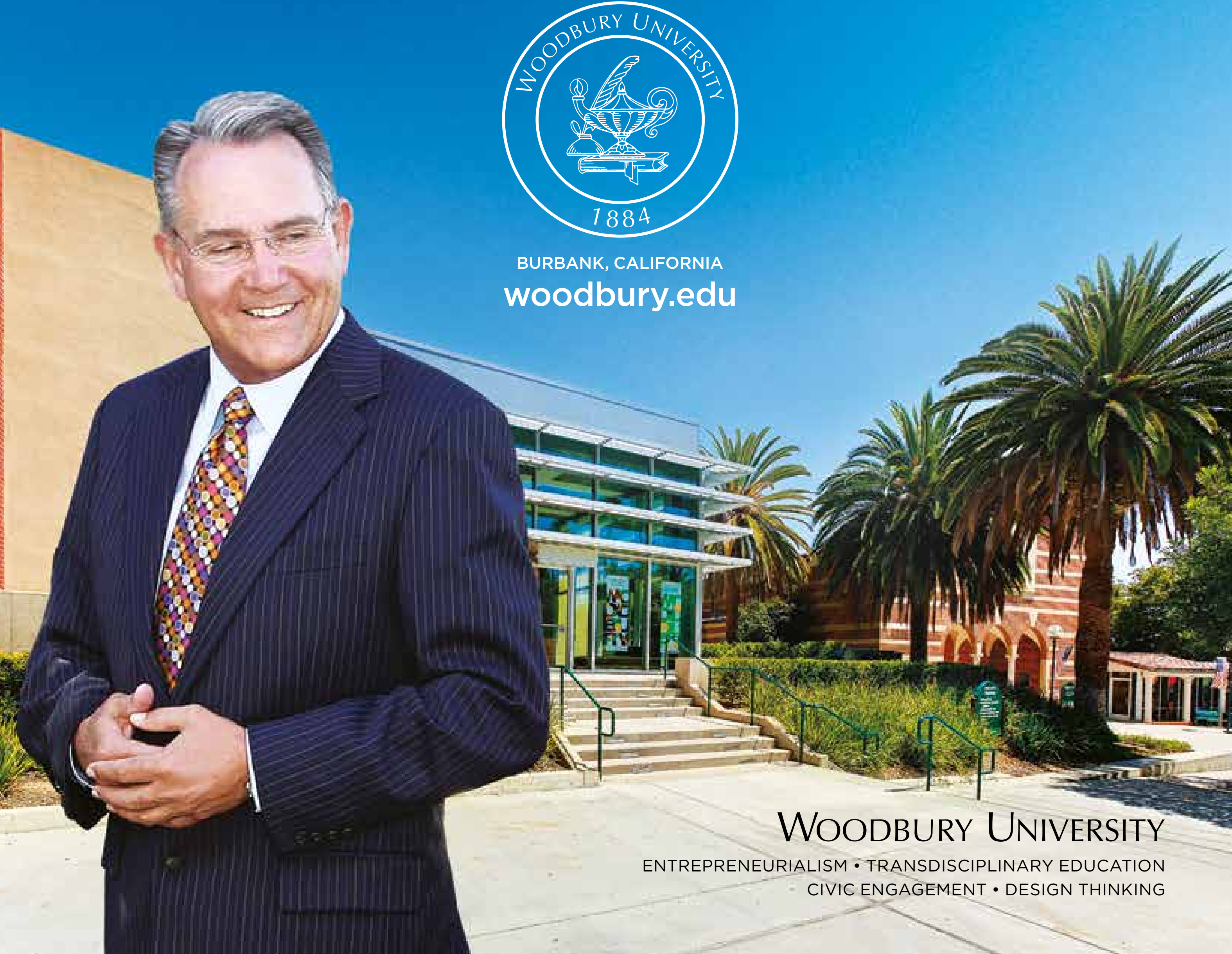

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If you are considering studying for an MBA, how do you decide which of the thousands upon thousands of business schools around the world is right for you? Find out how to uncover that genuine diamond among the pale imitations, that MBA programme that is perfect for you, and for your future aspirations.

Starting your search is straightforward. Naturally, you're going to ask the opinion of your peers, you're going to look at a school's global ranking (readily provided by the likes of *Forbes*, the *Financial Times*, and *The Economist*) and you're going to factor in location, cost, value for money and reputation. But make sure you are not missing one essential aspect: a key question you need to ask is 'Is the business school I'm considering accredited?'

Accreditation by AMBA, the Association of MBAs, is a hard-won honour only earned (at the time of writing) by 216 business schools in the world. To achieve accreditation, a school must promote a developmental philosophy and a commitment to continual improvement. This means the school will readily invest in improving its facilities, its staff, and the opportunities its students get, therefore offering you the best business education available.

AMBAs assessors base their judgement on the overall context of the MBA provision under review, taking into account the quality of the institution offering the MBA. The assessment process is thorough and spans across previous years the programme has been in existence and across multiple campuses. As an assurance of continuity and sustainability of quality provision, an accredited business school's MBA portfolio will have conformed to the Association's criteria for a minimum of three years prior to assessment. Programmes offered at multiple campuses should each undergo an on-site assessment to ensure the equivalence of experience for students at each site.

The tough accreditation process doesn't stop there. AMBA's portfolio assessment includes all programmes delivered at the institution, outreach programmes, franchises, and programmes delivered in conjunction with partner institutions. The institution must be able to provide relevant evidence of the quality of teaching. The school should also be able to demonstrate high

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levels of quality across its faculty – as evidenced by relevant management research, scholarships and consultancy. The majority of the MBA teaching team should be actively involved in all three of these activities. Furthermore, faculty teaching at MBA level must be appropriately qualified and credible, with a minimum of 75% of them possessing a relevant postgraduate degree (the majority holding a Doctorate).

Even the MBA programme itself comes under strict scrutiny. Each individual MBA programme should have clearly stated aims, objectives and outcomes. Learning outcomes should be clear and explicit in describing what participants are expected to know and be able to do as a result of the programme. They should make clear the ways in which the institution recognises and assesses intellectual, analytical, personal and entrepreneurial qualities.

It's highly likely that you're considering an MBA in the hope of career progression, and an MBA from an AMBA-accredited school is always going to have added value. An accredited school is able to provide evidence that its programme consistently employs in-depth knowledge and understanding (based on previous work experience and advanced study) in order to apply strategic management skills at a senior level in changing business environments. An AMBA-accredited MBA will transform organisations through strategic leadership, will enhance intellectual rigour and professional ethical values, and graduating from such a programme will arm you with well-developed interpersonal and communication skills.

Ask yourself: can your school of choice offer all that, can it demonstrate a system to regularly monitor student interaction and progression, will it be able to show the use of a platform to encourage and monitor peer group interaction across key elements of the course? Do the institutions on your shortlist provide an effective means for group work and networking, a robust and secure assessment system, while allowing for formative and summative feedback?

If you have answered yes to all of the above, your chosen school would qualify to warrant AMBA accreditation. Check carefully for this internationally-recognised seal of approval, and only then you will have peace of mind that the MBA you are going to sign up for is a true diamond, certified by the experts. ■

AMBA Employers Forum 2014

Employers need specialist MBAs and graduates with soft skills

Employers now increasingly seek graduate hires with sector-specific specialist MBAs in a variety of fields. 'Hard' skills of analytical and strategic thinking are still important, but soft skills such as oral and written communication, presentation skills, adaptability and the ability to negotiate are becoming increasingly important. Recruiters still do not consider job seekers from online business programmes to be of the same calibre as those that have graduated from a face-to-face MBA programme.

Industry is seeking specialist MBAs - and business schools are reacting to this increased demand. The Dean of Imperial Business School, Professor G Anandalingham, emphasised that an MBA is *"the premium, flagship programme – hence schools should partner with corporates to produce the kind of graduate they are looking for"*. Due to a changing landscape for employers, graduates and business schools, employers do not necessarily want staff to possess a financial services MBA, but now seek graduate hires with sector-specific specialist MBAs in a variety of fields. This was reinforced by GMAC (the Graduate Management Admission Council) data of *"64% of Deans expecting MBA programmes to increasingly specialise"*, while for Johnson & Johnson, *"specialist masters come into play for specialist skills"*.

A recurring theme throughout the event was that employers are in desperate need for MBA graduates with 'soft' skills. As the 2014 GMAC Employer survey demonstrates, the days when the 'hard' skills of analytical and strategic thinking dominated are over, and it's oral and written communication, presentation, adaptability and the ability to negotiate that industry are asking the schools to teach their students. Accenture, for example, introduced a 'soft' skills measurement technique which combines *"defined critical characteristics for success, which are assessed by behavioural questions"*.

A discussion of the future of learning covered the topics of moving towards a blended model of MBAs and experiential learning replacing classroom based learning, and how both can be of benefit to employers. Yet the evidence is that corporate recruiters are still immensely reluctant to consider MBA graduates from online business programmes.

The Association of MBAs' annual Employers Forum, held at Imperial Business School in August, attracted 24 leading multi-nationals (including KPMG, Goldman Sachs, Bloomberg and BP) and recruitment and career managers from 22 AMBA-accredited business schools. ■

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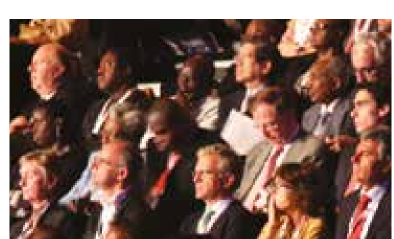

With a population of more than 13 million, the capital of Japan and the seat of Japanese government is one of the largest metropolises in the world. A city of enormous creative and entrepreneurial energy that enjoys a long history of prosperity, Tokyo is often referred to as a 'command centre' for the global economy, along with New York and London. Not only a key business hub, Tokyo also offers an almost unlimited range of local and international culture, entertainment, dining and shopping to its visitors, making it an ideal destination for the International Bar Association's 2014 Annual Conference.

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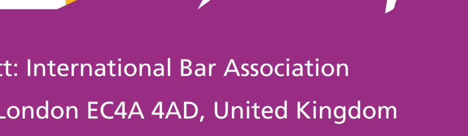

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OFFICIAL CORPORATE SUPPORTERS

THE POWER OF CORPORATE CULTURE—

AND HOW TO HARNESS IT

Culture change is hard to do. Just look at Ron Johnson's attempted transformation of JCPenney in 2012. Or go back a few thousand years to the pharoah Akhenaten, who transformed Egypt's religious system during his 17-year reign. He had statues and other symbols altered to reflect monotheism, destroying every reference to multiple deities, including public inscriptions. But the change did not survive. A few years after his death, polytheism was back, and all traces of the new religion were gone.

Participants in Wharton's Executive Development Program[1] hear Akhenaten's story at the University of Pennsylvania's Museum of Archaeology and Anthropology, where anthropology professor Greg Urban leads a session called *The Power of Corporate Culture - and How to Harness It*.

Urban explains, *"Akhenaten's story is a cautionary tale. When you make cultural changes, you have to have some evidence of continuity with the past. If it seems dramatically different, change will fail. One way to do that is to deploy symbols that help you produce the results you want. What we see with Akhenaten is a use of symbols that simply reinforced dramatic change. People weren't ready for it."*

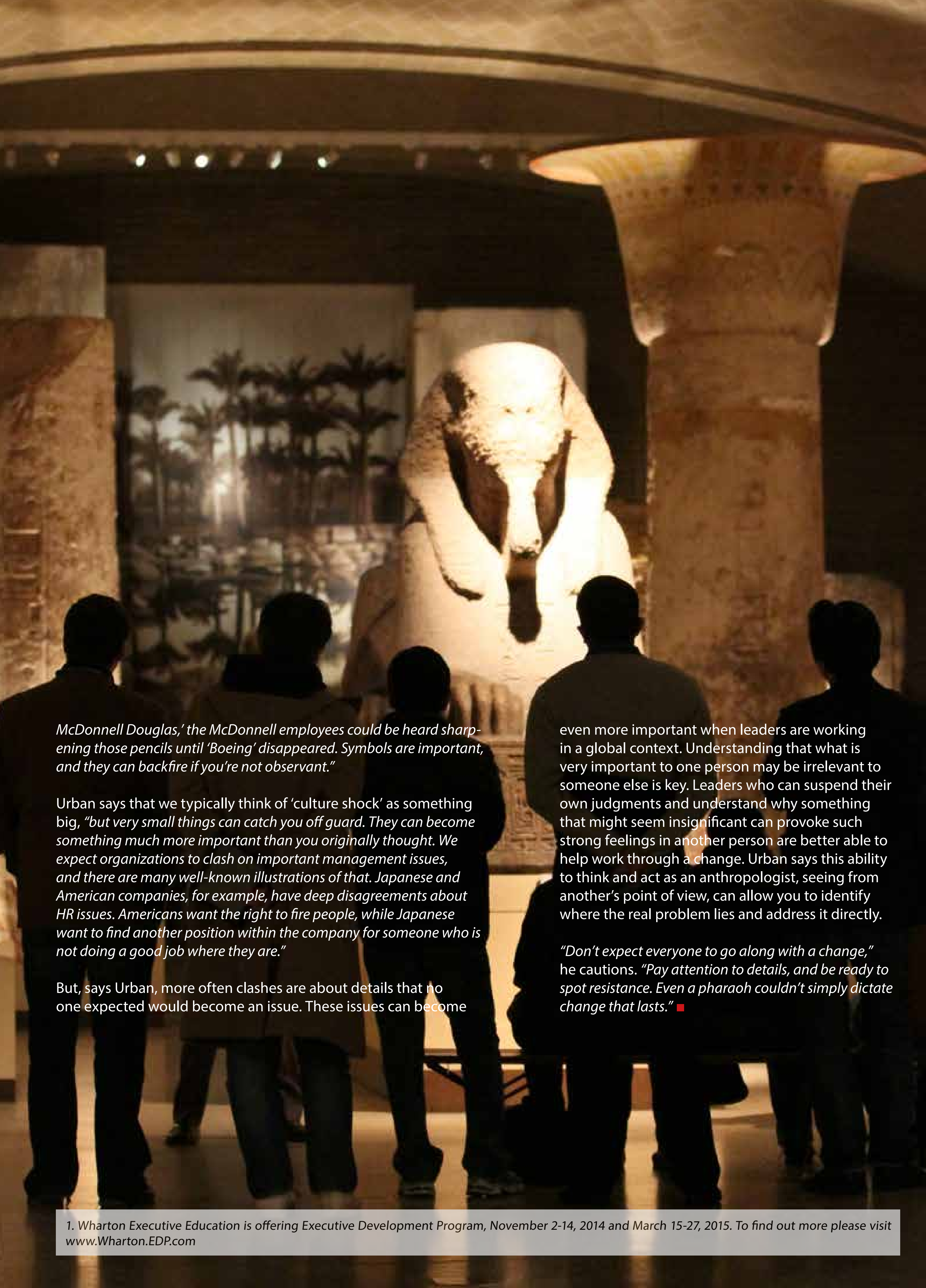
The museum session is one example of the Executive Development Program's multidimensional approach, which provides in-depth knowledge of core business areas for leaders who are transitioning into a larger role in their organizations. Specifically, participants strengthen their ability to build and lead teams, make decisions, negotiate; and deepen business acumen in the areas of leadership, marketing, finance, strategy, and operations management.

Regarding culture change, perhaps one of the most difficult leadership undertakings, Urban notes that it is often the small things that make people most uncomfortable. *"The things you think are going to have the greatest effect, probably the things you will spend the most time working through, may not bother anybody.*

A classic example comes from the Boeing-McDonnell Douglas merger. After management handed out pencils that read 'Boeing

"We expect organizations to clash on important management issues, but very small things can catch you off guard. They can become something much more important than you originally thought."

Greg Urban, PhD, The Arthur Hobson Quinn Professor, Professor of Anthropology, University of Pennsylvania



McDonnell Douglas,' the McDonnell employees could be heard sharpening those pencils until 'Boeing' disappeared. Symbols are important, and they can backfire if you're not observant."

Urban says that we typically think of 'culture shock' as something big, *"but very small things can catch you off guard. They can become something much more important than you originally thought. We expect organizations to clash on important management issues, and there are many well-known illustrations of that. Japanese and American companies, for example, have deep disagreements about HR issues. Americans want the right to fire people, while Japanese want to find another position within the company for someone who is not doing a good job where they are."*

But, says Urban, more often clashes are about details that no one expected would become an issue. These issues can become even more important when leaders are working in a global context. Understanding that what is very important to one person may be irrelevant to someone else is key. Leaders who can suspend their own judgments and understand why something that might seem insignificant can provoke such strong feelings in another person are better able to help work through a change. Urban says this ability to think and act as an anthropologist, seeing from another's point of view, can allow you to identify where the real problem lies and address it directly.

"Don't expect everyone to go along with a change," he cautions. *"Pay attention to details, and be ready to spot resistance. Even a pharaoh couldn't simply dictate change that lasts."* ■

1. *Wharton Executive Education is offering Executive Development Program, November 2-14, 2014 and March 15-27, 2015. To find out more please visit www.Wharton.EDP.com*

Meeting the human capital challenge through coaching

If human capital development tops your list of current concerns, you're not alone: According to findings from The Conference Board's *CEO Challenge 2014*, a report based on a survey of CEOs, presidents and chairmen from more than 1,000 companies around the world, human capital—how best to develop, engage, manage and retain talent—was identified as the leading challenge faced by global leaders.

A growing number of organizations are responding to this challenge by incorporating professional coaching into their human capital development plans. Defined by the International Coach Federation (ICF) as partnering with clients in a thought-provoking and creative process that inspires them to maximize their personal and professional potential, coaching is used to help individuals dramatically improve their outlook on work and life, while improving their leadership skills and unlocking their potential.

According to ICF Global Board of Directors member and Professional Certified Coach Hilary Oliver, the reason for coaching's growing popularity in organizations is simple: coaching gets results.

"Organizations are realizing that training alone will not support people to realize their full potential," she explains. *"Providing coaching as a complement to training or as an independent intervention ensures that people learn in their own style and at their own pace. Coaching can be used to pinpoint what will maximize an individual's potential and performance, rather than providing a one-size-fits-all solution."*

Professional coaching is also a tangible investment in your employees, reinforcing their value and putting your dedication to human capital growth in action. As awareness of professional coaching has increased, the stigma attached to it as a remedial intervention has diminished. *"Coaching is no longer seen as a way to 'fix' people,"* Oliver says. *"Instead, more and more people and organizations see it is a valuable tool for accelerating the skills and growth of already-high-performing individuals and teams."* An organization's investment in coaching does not go unnoticed by its employees. *"Providing coaching is a wonderful way of showing staff that they are valued, in turn heightening engagement and retention,"* Oliver adds.

Choosing your coaches

Many organizations contract with external coaches in service of achieving their human-capital goals, using a variety of evaluative criteria to identify the best coach or coaches for their needs. According to the 2013 *ICF Organizational Coaching Study*, confidentiality and ethical practice are top priorities for organizations' coaching decision-makers. These are values that the ICF shares: This is why all ICF Members and Credential-holders are trained in and obliged to uphold the ICF Code of Ethics; it is also the impetus behind ICF's stringent Ethical Conduct Review process. The ICF Code of Ethics and Ethical Conduct Review process promote ethical practice within the profession and provide an assurance to consumers that ICF-affiliated coaches keep integrity and ethical conduct at the forefront of their practice.

Coaching is a significant investment for an organization, and coaching decision-makers need to know what to expect of a prospective coach. The ICF encourages prospective purchasers of coaching to interview three coaches before making a decision, making sure to request at least two references per candidates.

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Because the coaching relationship is such an important one, prospective consumers are encouraged to interview at least three candidates before choosing a coach

Hilary Oliver is an ICF Professional Certified Coach and a member of the organization's 2014 Global Board of Directors

The ICF's membership eligibility requirements empower purchasers of coaching to make an informed decision. In addition to adhering to the ICF Code of Ethics, ICF Members must commit to coach-specific training; as a result, consumers can have confidence that ICF Member coaches are well-trained and well-prepared to offer their services.

Other questions the ICF encourages prospective coaching consumers to ask include:

- What is your coaching experience (number of individuals coached, years of experience, types of coaching situations, etc.)?
- What is your coach-specific training (an ICF approved training program, other coach-specific training, etc.)?
- What is your coaching specialty or areas in which you most often work?
- What types of businesses do you work with most often? And, at what levels (executives, upper management, middle management, etc.)?
- What is your philosophy about coaching?
- What types of assessments are you certified to deliver?
- What are some of your coaching success stories (specific examples of individuals who have succeeded as a result of coaching)?

"... the reason for coaching's growing popularity in organizations is simple: coaching gets results"

Possession of an ICF Credential is another clear sign of a coach's commitment to professionalism. Currently, more than 14,000 individuals worldwide hold one of three ICF Credentials distinguishing themselves as consummate professionals and supporters of ICF's mission of advancing the art, science and practice of professional coaching. An ICF Credential-holder has fulfilled rigorous education and experience requirements and demonstrated a strong commitment to excellence in coaching. To be eligible for an ICF Credential, a coach must complete coach-specific training; achieve a designated number of coaching experience hours; partner with a Mentor Coach; and demonstrate the appropriate understanding and mastery of ICF's definition of coaching, Code of Ethics and Core Competencies.

It's also important to know that coaches much apply for the renewal of their ICF Credentials every three years. Renewal of an ICF Credential is contingent upon a coach completing at least 40 hours of ICF-approved continuing education. The continuing coach education required of ICF Credential-holders is crucial, Oliver says. *"Coaches need to be continually developing themselves and their skills in order to provide the best service and keep up to date with new thinking."* (Find an ICF Credential-holder well-suited to your organization's needs by visiting the Coach Referral Service, a free, searchable database of practitioners housed at Coachfederation.org/crs.)

Finally, Oliver stresses that the 'fit' between coach and coachee must be a good one for the coaching engagement to be a success. *"Many organizations select the coach for the coachee. It's a suggested practice for coaching decision-makers to give the prospective coachee a chance to meet with candidates and ask questions."*

Increasingly, many organizations are choosing to use in-house coaches to achieve their talent-development goals. According to the *2012 ICF Global Coaching Study*, 14 percent of professional coaches self-identify as internal coaches; ie. professional coaches who are employed within an organization and who have specific coaching responsibilities identified in their job description. (This does not account for the percentage of professional coaches in private practice who are contracted to provide coaching services to one or more organizations.) Respondents to the *2013 Organizational Coaching Study* identified several benefits to using a pool of internal coaches, including the inherent knowledge and understanding of organizational culture, their accessibility, and their ability to add value to the organization by using and disseminating coaching skills on a daily basis.

If you plan to utilize internal coaches as part of your organization's talent development program, the ICF recommends that they obtain their training through an ICF-approved coach training program. This will ensure that they receive real-time instruction around the ICF Core Competencies and Code of Ethics, as well as valuable opportunities to practice coaching skills under a qualified observer. Furthermore, training through an ICF

ACTP or ACSTH program provides a strong foundation for your organization's coaches to pursue an ICF Credential, as these training hours can be counted toward the coach-training requirements of an ICF Credential. You can find an accredited program that meets your organization's needs by using the ICF's free Training Program Search Service at Coachfederation.org/tpss.

Crafting the agreement

All coaching agreements, whether they involve an internal or external coach, should be governed by a coaching agreement. In addition to defining the guidelines, parameters and key goals of the engagement, Oliver says the coaching agreement should include a confidentiality statement and a copy of or link to the ICF Code of Ethics.

A well-crafted coaching agreement will outline what information from the coaching engagement is reported back to the coaching sponsor (usually, the human-resources department or board of directors) and the coachee's manager, as well as who is doing the reporting (this should be the job of the coachee, Oliver says), how information is reported and the frequency of the reports.

The agreement should also help clarify the extent to which the coaching sponsor and the coachee's supervisor are involved in conversations around coaching. Says Oliver, *"In organizational settings, a three- or four-way meeting involving coach, coachee, sponsor and supervisor is recommended, at the very least, at the beginning of the coaching engagement. A suggested practice is to schedule additional group meetings midway through (to discuss progress toward goals) and at the end of the engagement."*

Beginning the journey

If you're ready to build an impactful coaching program at your organization, begin your journey today. For more information about how coaching can benefit your organization, visit ICF's 'Need Coaching?' resource at Coachfederation.org/need. This information-packed booklet will help make the case for coaching within your organization with a concise explanation of what coaching is (and what it isn't), and a host of compelling data showing that, in organizations of all sizes and across all sectors, coaching works.

Organizations that are implementing coaching programs can also acquire valuable success strategies and suggested practices from ICF International Prism Award-winning organizational coaching programs. Developed at the local level by ICF Toronto and adopted on a global scale by ICF in 2005, the International Prism Award honours organizations that have achieved a standard of excellence in the implementation of coaching programs fulfilling rigorous professional standards, addressing key strategic goals, shaping organizational culture, and yielding discernible and measureable positive impacts. To learn more about the award and read case studies of past Prism Award honourees, visit Coachfederation.org/prism. ■

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An organizational coaching agreement should provide for at least one meeting that includes the coach, coachee, coaching sponsor and coachee's supervisor

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Equipping next generation managers to take the lead

Intersectoral collaboration is no longer optional for managers. In order to effectively tackle today's management and governance issues, managers need innovative leadership skills coupled with an international and intersectoral network. The Executive Master of Public Administration (EMPA) programme at the Hertie School of Governance in Berlin is designed to meet these needs and equip managers to take their careers and organisations to the next level.

Major global forces and trends such as demographic change, enabling ICT, increasing economic interconnectedness, climate change, high resource stress and public debt increasingly have a significant impact on public and private sector leadership. The traditional notion of hierarchical, top down and national state government is becoming obsolete and superseded by an emerging understanding of a networked and often multi-level governance with new forms of collaboration and coordination between public, private and third sector at its heart. Be it more traditional forms of social partnership, new notions of big society, public governance, co-production or public sector innovation, social entrepreneurs or public private partnership, we observe an increasing demand for new leadership competencies and better intersectoral cooperation in such a context of networked governance.

For the new generation of managers intersectoral competencies such as managing stakeholder relationships, strategic thinking and innovating, achieving results within multi-actor networks, mobilising people, organisations and partners, and acting with integrity have become vital. A recent survey among top public sector executives led by the Hertie School clearly proves this. With answers from more than 8,000 senior officials across 20 European countries it has become the largest high-level survey of this kind ever conducted in European public administrations (for more see www.cocops.eu). Inter-organisational collaboration and coordination is regarded as the most relevant reform trend. At the same time only 12.4% of executives observe clear improvements with regard to policy coherence and coordination over the last five years and about 31.7% regard

the quality of coordination between government and private and third sector rather low. The results also confirm that with regard to management capacity coordination is the uttermost important factor for better government performance.

Traditional legal, technical, or business training is no longer capable of meeting the demands for intersectoral cooperation and collaboration. *"In the past, the traditional rules of public administration worked quite well, but now you increasingly have to coordinate, to negotiate, to partner with other sectors, which are characterised by different rationalities and often have a very different understanding of what is going on,"* says Professor Gerhard Hammerschmid, Director of the Executive Master of Public Administration (EMPA) programme at the Hertie School. *"We need professionals and leaders who understand management, both in the public and the private sector, who are able to establish cooperative arrangements beyond sectoral boundaries, and who are willing to contribute to shaping and implementing societal change."*

Equipping a new generation of leaders

Located in central Berlin, vibrant hub of European public dialogue, the EMPA programme is addressing these challenges of networked governance. Bringing together an excellent group of leaders from all sectors and from over 20 countries, the executive degree programme is designed to increase the knowledge, skills and competencies of professionals who seek to enhance their public service careers or to move to a leadership position in a non-governmental organisation or to a the private body with strong links to the public sector. It focuses on current leadership challenges and combines expertise in public administration with public policy knowledge, as well as management concepts and leadership skills.

Interdisciplinarity, interactivity, and an international approach are central pillars of the programme. Participants benefit from a rich variety of experts from academia and practice, dissecting case studies, working in groups, considering decision-making situations from different perspectives, along with the constant exchange and pooling of experience between participants and lecturers. The EMPA is especially tailored to the busy working schedules of professionals, offering full-time or part-time enrolment over 1 or 2 years. Participants may design their studies according to their individual needs and interests and choose their own Area of Concentration ('Leadership and Management', 'Economics, Finances, and Methods', or 'Intersectoral Management'). Only a short flight from anywhere in Europe, the Hertie School's EMPA is also a convenient option for professionals from abroad who can follow the programme while only making 4-5 trips to Berlin per year. Full-time EMPA participants profit from the numerous research activities and events at the school and have the unique opportunity to delve deep into the rich culture and history of an ever-transforming Berlin.

"Interdisciplinarity, interactivity, and an international approach are central pillars of the programme"

EMPA participants come from all over Europe and beyond with diverse institutional backgrounds: they work for national ministries, for UN and EU bodies and agencies, as well as for international firms and consultancies and in the non-profit sector. The intersectoral, international and interdisciplinary blend of participants, faculty and experts makes the programme a unique forum for professional exchange and networking. Participants also profit from the international network of the Hertie School which includes partnerships and exchange programmes with ESCP Europe, London School of Economics and Copenhagen Business School.

"EMPA participants are united in the desire to think critically and originally, and in their wish to hone their behaviour and enhance their leadership performance", says Hammerschmid. *"The programme enables them to critically reflect their respective roles and working environments, to find ways to modernise the institutions that they serve, to work within a large network of organisations, and to take the next step in their careers."*

More information on the EMPA programme is available at www.hertie-school.org/empa ■

The application deadline for the next cohort which starts in September 2015 is 15 March 2015. The Hertie School also offers Executive Seminars and Certificates as well as customised formats. All credits earned in the certificate programme can be recognised for the EMPA.

Think differently

Established in 1959, Ashridge is one of the world's leading business schools, with an international reputation for world-class executive education and management development. Activities include open and custom executive education programmes, graduate programmes, organisation consulting, virtual learning and applied research. On the Ashridge MBA you will discover how to find real answers to the real challenges that you will face in business today. Our insights, gained from research and hands-on experience as business owners and leaders, will enable you to see the bigger picture, so you make better decisions, even in unpredictable circumstances.

In a Q&A with World Commerce Review, Kai Peters, Chief Executive of Ashridge, outlines how an MBA can make a real difference, both to yourself and your organisation

You have the 'triple crown' of accreditations from AMBA, EQUIS and the AACSB, a great honour and something that less than one per cent of management schools worldwide can lay claim to. What does this mean for your participants?

These accreditations are rigorous processes that involve assessment of numerous aspects of the school and its programmes. Typically, this involves the business school submitting an in-depth self-analysis report for scrutiny to these bodies, followed by a visiting panel and the consequent interviewing of current students, staff, alumni, corporate clients and employers. Together, these accreditations demonstrate the high quality of our activities – both in the UK and worldwide.

For example, AMBA accredits programmes of study, chiefly MBAs. AACSB looks at all academic programmes and is now also looking at Executive Education. EQUIS looks at all programmes as well as executive education.

Benefits arise in a variety of ways. The self-assessment process brings Ashridge's academic community together to reflect on our performance, and to define targets for coming years. Peer reviews allow us to benchmark our programme against other high quality programmes. Finally, the actual accreditation communicates the quality of our MBA programme portfolio to candidates around the world and tells employers of the high standards at Ashridge.

As competition for the best students intensifies, endorsement by accreditation bodies is a must if a business school wants to be known as a leading institution that delivers excellence.

Ashridge Business School aims to develop managers' knowledge, skills, behaviours and practices in order to enhance their leadership potential, personal success, that of their organisations and of wider society. How is this implemented in the classroom?

Through the Ashridge MBA and our other programmes, our programme participants learn how to make changes and get results. We are focused on helping our participants discover how to find real answers to the challenges they face in business today.

Our MBA has been recently redesigned to provide an integrated approach to learning. The programme is centred around four key themes of the global business environment: managing globally, creating value, embedding sustainability and leading change.

All our MBA programmes go beyond theory by giving participants the opportunity to put into practice all they have learned via a real-life consulting project, where participants work with a client organisation to deliver a major strategic consulting assignment.

The insights of our faculty, gained from research and hands-on experience as business owners and leaders, enable participants to see the bigger picture and make better decisions, even in unpredictable circumstances.

What would you say are the key features of Ashridge that make you stand out from other business schools?

We are a business school for practising managers, and provide a unique blend of practical application and academic rigour. Ashridge works with 6,450 managers and 850 organisations every year, which means we have broad insights into the issues that impact on business leaders and managers today. Ashridge focuses on teaching the critical thinking that equips participants for a successful and rewarding career.

Our faculty and consultants have real business experience so that they understand present challenges. Most of our teaching staff have ten or more years of business experience in addition to academic qualifications.

Ashridge is a truly international business school. Over 60% of our clients are headquartered outside the UK. In addition, 25 % of our faculty are from outside the UK and 95% have international work or teaching experience – Ashridge faculty have taught/consulted in more than 60 countries. Plus, those who take part in our programmes also benefit from our global alumni network of over 12,000 people.

Our location also makes us stand out from the crowd. Providing one of the world's most stunning campuses, Ashridge House, the home of Ashridge Business School, is a Grade I listed 19th century neo-gothic mansion set within one of England's most beautiful and historically significant gardens. Ashridge House is a world-class venue that provides an inspiring setting for learning, just 30 minutes from London.

Our students also have access to Ashridge intellectual capital online via Virtual Ashridge which provides learning guides, book summaries, industry analyses, and online databases.

The Ashridge Business School MBA value proposition

Students who wish to study their MBA at Ashridge are able to consider your one-year MBA or your two-year EMBA programmes. For whom are each of these programmes designed?

Our MBAs are for managers who want to think differently and to feel confident taking brave decisions. Our focus is on making a real positive difference, both to individuals and their organisation.

Our Full-time MBA students are usually looking for a career change, to develop entrepreneurial skills to set up their own business, or to quickly gain strategic management or

"Organisational leaders, who are in a position to affect other people's lives through their actions and decisions, have a particular responsibility to ensure their behaviour is ethical"

consulting skills to further their career. Live case studies and consultancy projects expose students to new industries, skills and experiences.

50% of the programme is shared with the EMBA class to enhance the learning experience and networking for both groups. The other 50% is delivered in teaching blocks that incorporate out-of class learning activities, such as consultancy projects and company visits.

Executive MBA (EMBA) students are usually aspiring to achieve the next level in their career but wish to continue working and applying their knowledge as they learn. Assignments are designed to provide return on investment to employers as well as participants' future careers.

On average, our MBA and EMBA students have 11 years of work experience, which means that our students themselves bring a wealth of experience into the classroom.

What are the benefits of Ashridge's two optional professional development streams: Effective Engagement and the Employability Programme?

The **Effective Engagement** module has been designed with the assumption that the participant will be responsible for managing the performance of others and delivering results individually and through teams as part of their professional life. It aims to ensure that on completion of this module they have the skills and abilities to contribute to the success of their team and organisation.

This highly interactive module focuses on developing their personal credibility and capability in their professional life, as part of the MBA focuses on developing a general management skillset. They will be given the opportunity to practise and receive feedback to raise awareness of their personal impact and the impression they create with others. The module will introduce a range of tools and techniques, and provide the opportunity to apply them to a variety of situations during the course of the programme, and it will culminate in the opportunity to apply these skills, tools and knowledge during the MBA project phase.

The overall aim of the **Employablity Programme** is to ensure the employability of students, through the development of self-awareness and career skills. It builds on psychometric assessments used in other modules of the programme and contributes to work with students to gain greater self-awareness.

It is designed to help students build their future career plans by reflecting on their current and past situations. Through a process of self-discovery and understanding, the students will then move from personal reflection towards identifying their career interests and exploring the steps involved in achieving personal career goals.

Students will be encouraged to consider how the MBA project they undertake during their studies can assist them in their career journey. Online resources, Ashridge faculty, Ashridge learning resources and external speakers help build the students' self-marketing skills and resources in preparation for securing a project. The project is a foundation for building future career opportunities through networking relationships, referrals and experience.

There is an expectation from the market that business schools should be creating responsible leaders. How much emphasis do you place on this, and on dynamics such as CSR and sustainable development?

Business schools don't just have a role in helping leaders develop a personal blue-print to guide their ethical behaviour – they also have a responsibility to do this.

Organisational leaders, who are in a position to affect other people's lives through their actions and decisions, have a particular responsibility to ensure their behaviour is ethical. Their role is to define the ethical compass for their organisations and set a clear example from the top for others to follow.

Teaching ethics can help as many people as possible to make as thoughtful decisions as possible. Educational interventions can also help managers develop a better understanding of the stumbling blocks that get in the way of ethical behaviour.

In-depth personal development – of the type that is ingrained on all Ashridge's leadership programmes – can do much to help managers cope with these kinds of dilemmas. It can heighten their self-awareness, for example, giving them a clear understanding of their personal values so that they are in a better position to stand their ground when necessary.

Ashridge Business School offers a selection of programmes dedicated to sustainability and corporate responsibility, or which include sustainability as core subjects.

The Ashridge MBA contains a module on embedding sustainability. This module aims to ensure that students have a firm grasp of the changing nature of the wider societal context within which organisations operate. It aims to ensure that participants understand the implications for corporate governance, organisational purpose, strategy and leadership.

The module further provides an opportunity for students to develop skills in leading change for sustainable outcomes. Students are encouraged to reflect on these issues and articulate their personal position on how organisations and the people who lead them should relate to the wider society. ■

For further information:

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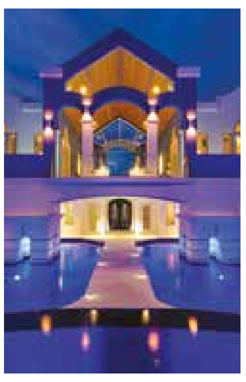

Award-winning architecture firm RA Shaw Designs has created some of the most sophisticated and technologically advanced luxury properties in the Caribbean. Recently voted **"The Best Architecture & Design Company of the Year - 2013"** by *Caribbean World Magazine*, our team specializes in creating a unique sense of place by integrating building techniques and architectural details with the surrounding culture so that you too can love your home.

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LUXURY TRAVEL SWITZERLAND

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Patric Collet is Managing Director of LUXURY TRAVEL SWITZERLAND

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As a client of LUXURY TRAVEL SWITZERLAND you can expect a first class ten day round trip full of luxury and exclusivity. You will visit world famous cities such as Zurich and Geneva – prestigious destinations such as St Moritz, Gstaad and Zermatt. The spectacular daily excursions include among others a visit to Lucerne's famous Chapel Bridge, a trip to the Jungfraujoch – Europe's highest railway station at 3,454 meters above sea level – or the journey in a first class panorama wagon on the Glacier Express train (UNESCO World Heritage Status) through the Swiss mountains from Zermatt to St. Moritz. Not to be missed of course are highlights such as a helicopter flight around the majestic Matterhorn, a visit to one of the renowned Swiss watch manufacturers or a trip on a historic steam ship on one of the numerous crystal clear lakes.

© Michael Portmann

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So much to see and do

There is also enough time for exclusive shopping, a romantic drive in a horse drawn carriage or dog sled as well as a leisurely stroll through one of the lovely, old, historic Swiss town centres. Private ski or snowboard lessons are possible both in summer and winter thanks to the technical installations on glaciers. You can even make your own cheese during a trip with LUXURY TRAVEL SWITZERLAND. After four or five months, as soon as the cheese is ripe, it will be sent to your home as a culinary souvenir.

© Luzern Tourismus

Tailor-made

A round trip with LUXURY TRAVEL SWITZERLAND has been designed for two persons and promises to be an unforgettable experience – thereby offering plenty of private space, room and flexibility to be able to tailor the daily programme to the individuals' personal wishes. The summer tour will be offered from end-June until mid-October. A winter round trip can be booked from mid-January until mid- April. ■

Further information

To find out more please visit: www.lt-switzerland.com

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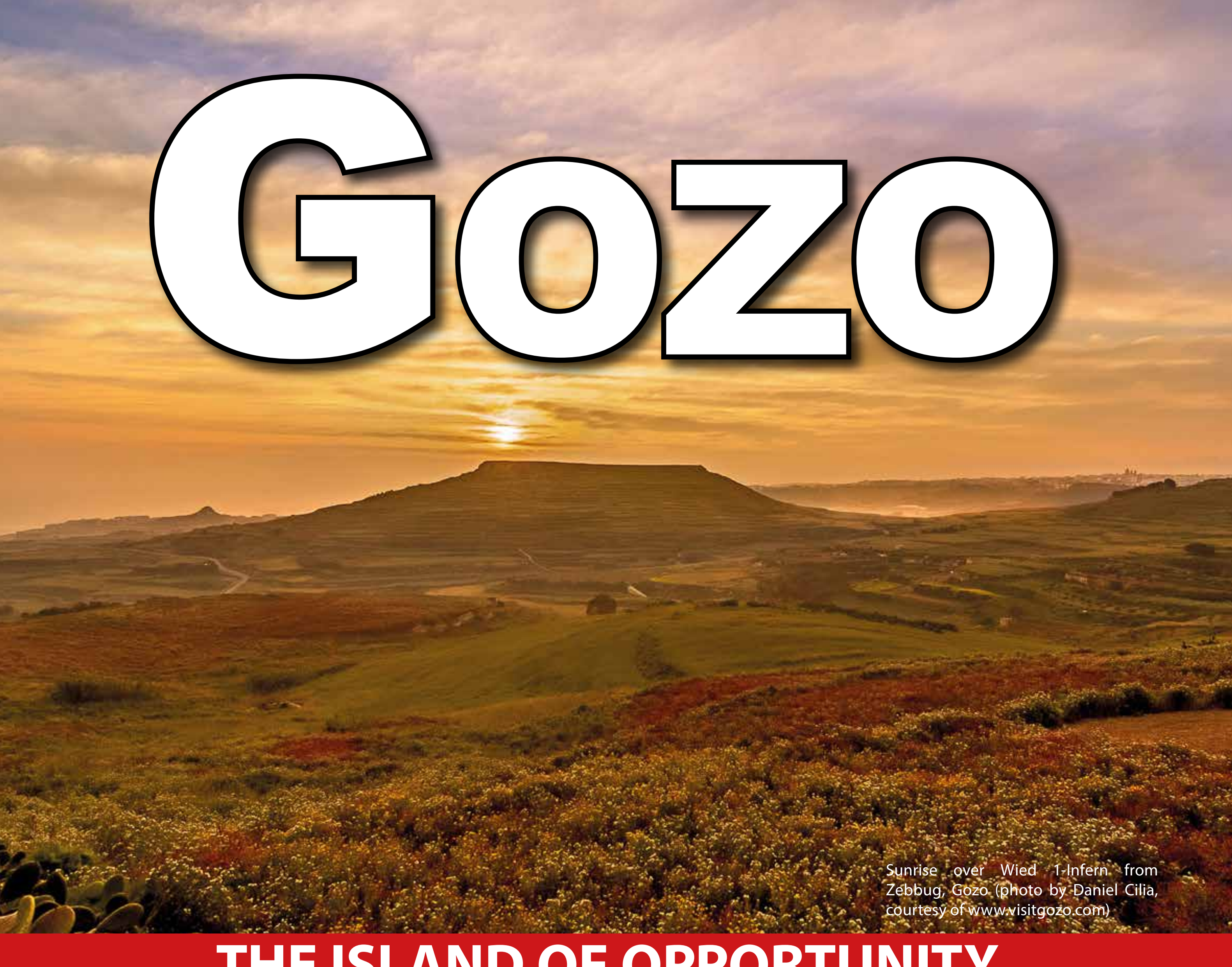
Gozo



Sunrise over Wied 1-Infern from Zebbug, Gozo (photo by Daniel Cilia, courtesy of www.visitgozo.com)

THE ISLAND OF OPPORTUNITY

Have you ever imagined living and working in a tranquil Mediterranean island? A stone's throw away from the main island of Malta, and covering a land area of just 67 square kilometers, Gozo demonstrates considerable diversity due its more rural and tranquil nature.

A 45 minute drive from the Malta International Airport leads you to the Ċirkewwa ferry terminal. Connected by an hourly ferry service, the 25 minute crossing offers an interesting opportunity to savour the breathtaking views of the island of Comino and the Mġarr Harbour, which welcomes you to Gozo. The route between Malta and Gozo is busy and picturesque. Nearly 4 million passengers cross annually between the two islands, a flow that is facilitated by modern ferries, the new terminals on the two islands and the frequency of trips.

Gozo has ambitious targets of becoming an eco-island by 2020. After the first action plan which marked the implementation of this vision from 2010, the Ministry for Gozo is now working on the second action plan. The eco-Gozo vision focuses on all spheres of life in Gozo. Quality investments for more sustainable jobs; a better quality of life; a society exerting less pressure on the environment; a wholesome natural and cultural environment; a caring society for all; and sustaining the island's identity, are the main pillars of this vision. The Government is the leading actor in its implementation, cooperating with and involving all the stakeholders representing diverse interests within the Gozitan society. These stakeholders contributed also to the formulation of this vision.

Tourism is one of the main pillars of the Gozitan economy. In 2013, there were nearly 1 million foreign visitors to Gozo and the Ministry for Gozo is intent to reach its targets of attracting quality tourists for longer stays. Gozo has a distinct tourism product which is also reflected in the accommodation sector. Collective accommodation establishments (hotels, aparthotels, and guesthouses) make up 26.8% of the total bedstock in Gozo, the major supply is represented by converted farmhouses, villas and self-catering apartments. Gozo s rural and distinct nature, coupled with its mild Mediterranean climate during the winter season, make it ideal as a year-round destination for outdoor activities such as diving, kayaking and climbing.

Gozo has some of the most stunning diving locations in the Mediterranean. The Blue Hole is one of the most popular shore diving sites on the island. Government has invested heavily in this important niche with the scuttling of a number of wrecks along the island's shore and the development of important

Michele Crider and Juan Pons in Tosca, October 2011 (photo by Anthony Grech, courtesy of Aurora Theatre)

facilities on the island, such as the hyperbaric chamber at the Gozo General Hospital. The private sector has moved alongside this development with the establishment of a number of professional diving schools in Gozo, run by both locals and foreigners.

Apart from diving, Gozo is also generating considerable interest among other sport enthusiasts. A number of climbing routes have been established, and have also been tried by some world renowned climbers. Despite not having mountains, Gozo s rock formations especially along its coastline provide a challenge for enthusiasts of this sport.

The Government is intent on developing other niches, such as the hosting of high level meetings, conferences and events. Government is aware of the potential of Gozo, spurred by the island s deep-rooted culture of hospitality. Homer's Odyssey recounts Gozo as the island where Ulysses spent seven years, under the enchantment of the nymph Calypso. Calypso Cave in Xaghra village is a scenic destination for thousands of tourists who are awed by the beauty of the surrounding nature, sea and red sand of Ramla bay spread far below in the valley.

Another strongpoint for the island is its active cultural calendar distinguished by its traditional festas marking the whole summer season, and activities such as the two operas held in October, in the two main theatres of the town of Victoria. This year will see the performance of the Nabucco and Il Trovatore. Other important annual festivals include the Mediterranea, and the Gaulitana music festival.

Gozo's scenery and breathtaking views have also contributed extensively to its economy. The Azure Window in Dwejra has been the backdrop for film and television series, including the 'Clash of the Titans', the 'Count of Monte Cristo', and the 'Game of Thrones'. The secluded bay of Mġarr ix-Xini is presently the location for the film 'By the Sea', scripted and directed by Angelina Jolie.

The future looks exciting as the Government is also aware of Gozo's investment potential. An international call for expression of interest for the development of a cruise liner terminal and yacht marina was issued by the Government in 2013. The Government is also looking at other potential projects, including the development of an air link for the island.

The success of the national educational strategy, has translated itself in the availability of the required human resources for new ventures to be set up in Gozo. The recent signing of an agreement for the setting up of an established software company, specialised in payment systems, in Gozo, is evidence of the fact that today's globalised and interconnected world has provided renewed opportunities for locations such as Gozo.

Companies, taking advantage also of Malta Enterprise's specific investment benefits, can invest and work from Gozo whilst savouring the tranquil lifestyle that this Mediterranean island can offer. The future surely looks bright for Gozo, as a number of projects, targeted at sustaining and enhancing Gozo's economic progress, will be undertaken during the next European Union programming period between 2014–2020. ■

Kayaking in Gozo (photo by Gozo Adventures, courtesy of www.visitgozo.com)

Ta' Cenc Cliffs, Sannat, Gozo (photo by Daniel Cilia, Courtesy of www.visitgozo.com)

LUXURY RETREATS

The islands of the Turks and Caicos are a series of alluring gems scattered along the edge of the Caribbean Sea. 344 days of sun per year, a stable economy based on the US dollar, friendly English-speaking local population, and a well-developed infrastructure complete with a modern healthcare facility make the Turks and Caicos Islands a perfect destination for anyone interested in true paradise.

Once the domain of celebrities, intrepid explorers, and eccentric trust-funders, these islands are now more accessible than ever. Eight of the 40 islands are inhabited on a year-round basis, though thanks to a careful approach to development many are so sparsely populated that much of the year you may feel like the only soul present.

Providenciales is the most well known of the islands and is the centre for tourism and business, it is home to the international airport which receives daily direct flights from many cities in North America as well as a regular direct flight from Heathrow. Just a 90-minute hop from Miami, Provo (as those lucky enough to be 'in the know' call it) is an idyllic spot for a vacation. But... it's an even better spot for a vacation home; because the real secret to enjoying paradise is in knowing you don't have to leave after the standard 'six-days, seven-nights' holiday.

Ron Shaw knows this better than anyone. Shaw and his wife made their home in the Turks and Caicos, building his architectural design practice, RA Shaw Designs, on Providenciales. The business has since expanded out to several other tropical islands in the Caribbean and beyond and although he's been to many destinations, Shaw maintains his home and business base in the Turks and Caicos, and he understands why so many of his clients choose to build their dream getaway on Provo, *"It becomes very familiar and personal. When you fly back to the Turks and Caicos and you catch the first glimpse of Provo out of the window, it's more than coming home. It's like the island is a part of your soul."*

Next to the stunning location, the best thing about a vacation home on Providenciales is the investment opportunity. When you're not able to tear yourself away from reality, your home can become the destination of choice for other travellers eager to spend some time soaking up the sun on those beaches. From the perspective of a smart investor, the Turks and Caicos is almost too good to be true, not only are property values on a steady increase but the short-term rental market is booming with many Shaw designed villas renting well in 2016. *"Managed properly, your investment can bring very attractive returns, but with the added benefit of personal use opportunities."* Says Shaw, *"Most other investments, you get no pleasure other than financial gain. Investing in real estate in TCI allows you to enjoy paradise at someone else's expense."*

So what do you do if you want to make Provo a more permanent part of your life?

"Our company name is Turks and Caicos Property," says island resident and real estate agent Bernadette Hunt, *"We incorporated in 2000 and I worked as an Agent and Attorney from 2000 to 2007 when I retired from law to focus on my real estate business. I continue to be the top performing sales agent in volume for the past 8 years."*

Hunt tells me that the biggest appeal to investors looking to buy into real estate is the island's stability. *"We have no capital gains taxes, property taxes or income taxes payable on island."* She goes on to advise that investors should work with an experienced attorney and investigate their tax liability in their home jurisdiction prior to making a purchase.

Shaw's advice is before purchasing land, seek opinions on alternative sites from someone who has lived and designed in this environment for a long time. *"Check out the available sites extensively. Each shore of Provo is dramatically different. An experienced designer can quickly assess the differences and point out the features and benefits of particular sites and how they may suit the client's ideals."*

Although he acknowledges that building on a small Caribbean island can be challenging, Shaw reminds us he's been building award-winning luxury homes for discerning clients in the Turks and Caicos for a number of years. His experience in the region means he can navigate easily for his clients. *"For me Provo is manageable in that it is a small market and you easily develop relationships in the community."*

Shaw's homes are each unique to the client for whom they were built, but like the work of any artist, they share some hallmarks of his style. The seamless transition from interior to exterior living space is something his clients and fans are passionate about. *"When creating a home here it's important to take advantage of the beauty and climate of the Turks and Caicos."* When you move through an RA Shaw Designs home you may not immediately notice whether you are indoors or out. The blending of nature and structure, and Shaw's ability to create intimate spaces that capitalize on the gorgeous turquoise sea, pure white sand and the clear skies is mesmerizing.

From concept to completion many of Shaw's clients find themselves standing inside the home of their dreams after just 12 months, this is astonishing considering the attention to detail exhibited in each of his designs. With the strength of the investment opportunity, the allure of the location, and the experienced professionals available to work with you, why not visit the Turks and Caicos Islands and find out how to make paradise work for you. ■

"Our average home is in the 3,000 to 6,000-square-foot range. Our largest is the Emerald Cay project at 30,000 square feet. I discovered that maintaining a reasonable level of quality construction is very difficult on a small island, so I created Design Build Associates Ltd. We have a staff of 8 in the design office, but many of our detailers serve as site managers overseeing the construction. Aside from the benefits of continuity, this instils tremendous pride and dedication from the staff." - Ron Shaw, RA Shaw Designs

RA Shaw Designs & Design Build Associates Ltd

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Telephone: *1-649-941-4394*
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The headquarters of Formex Watch SA are located in the heart of the Swiss watchmaking industry in Lengnau Biel/Bienne.

Founded in 1999, Formex Watch SA ranks among the 'now-generation' watchmaking companies. Instead of imitating the past, we are focused on the here and now with innovative, trailblazing approaches.

We are globally recognized as the inventor of the patented suspension system that is integrated in all of our 4SPEED models. We are pioneers in testing the limits of feasibility and thrill our customers with extraordinary watches that stand out with amazing technical design features.

Our philosophy 'INSTRUMENTS FOR SPEED'

Comfort on the wrist, convenient operation, and unmistakable styling are the motivating factors that inspire us in the development of our timekeeping instruments. All of our watches are developed, engineered, and designed at our headquarters in Lengnau, Switzerland. We combine high-grade materials (mainly titanium and stainless steel) with high-quality finishing processes (such as physical vapour deposition PVD or galvanized coatings) to achieve rugged, durable surfaces. Our watches are very lightweight due to the use of carbon and titanium.

The watch with the suspension system

A telescoping separation of the inner and outer case components enabled us to develop a suspension system that allows the watch to adjust to active environments. Be it in sports or everyday situations, the patented suspension system not only enhances wearing comfort but also protects the movement inside against extreme vibrations and shocks.

Tachymeter-display with double second hand

The dial also reflects technical refinement and motor sports excitement:

A double seconds hand makes it possible to shift the tachymeter index at the 120-km marker precisely to 12 o'clock. The upper, straight-cut part of the seconds hand is used for the chronograph function. The lower, wedge-shaped part of the seconds hand indicates the average speed measured for a distance of one kilometre (tachymeter function). The tachometer-style seconds hand prevents confusion and assures correct readings for each measurement.

Our professional timepieces are characterized by their unique design concepts and the movements integrated in their cases.

Future-oriented

The accuracy of quartz movements developed in the 1970s can hardly be further enhanced. Mechanical movements, true wonders of technology that established the reputation of Swiss watches, can be improved only at the detail level. This is why, looking to the future, we are on a permanent quest for new technical solutions. Currently, we are developing a new, mechanically inspired ecological drive system whose accuracy can be compared with that of a quartz movement.

Formex Watch SA is the brainchild of watch designer and CEO Hans Peter Grädel.

"It has always been my ambition to create a watch with motor sports appeal. Everything began with the patented suspension system that we developed in-house. Quite simply, it is part of every Formex 4SPEED watch. Features like these and superior technology combined with sporty styling characterize our collections. I am sure that our timepieces are more than just extraordinary. They are literally ahead of their time."

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